

# ROYAL ORCHID HOTELS LIMITED

Annual Report 2006 - 07

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## **BOARD OF DIRECTORS**

Mr. Chander K. Baljee	:	Managing Director
Mr. Naresh K. Malhotra	:	Director
Mr. Jaithirth Rao	:	Director
Mr. R. V. S. Rao	:	Director
Mr. Sunil Sikka	:	Director

## **COMPANY SECRETARY**

Mr. A.Someswara Rao

## **COMMITTEES OF THE BOARD**

### **Audit Committee**

Mr. Naresh K. Malhotra	:	Chairman of the Committee
Mr. Jaithirth Rao	:	Member
Mr. R. V. S. Rao	:	Member

### **Investors' Grievances & Share Transfer Committee**

Mr. R. V. S. Rao	:	Chairman of the Committee
Mr. Naresh K. Malhotra	:	Member
Mr. Chander K. Baljee	:	Member

### **Remuneration Committee**

Mr. Jaithirth Rao	:	Chairman of the Committee
Mr. Naresh K. Malhotra	:	Member
Mr. R. V. S. Rao	:	Member

<b>STATUTORY AUDITORS</b>	:	M/s. Walker, Chandio & Co. Chartered Accountants L 41, Connught Circus New Delhi – 110 001, India
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<b>INTERNAL AUDITORS</b>	:	M/s. P. Chandrasekar Chartered Accountants S-616, Manipal Centre No. 47, Dickenson Road Bangalore – 560 042
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<b>BANKERS</b>	:	State Bank of Hyderabad UTI Bank Limited ICICI Bank Limited Oriental Bank of Commerce Corporation Bank
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<b>REGISTERED OFFICE</b>	:	No. 1, Golf Avenue Adjoining KGA Golf Course Airport Road, Bangalore - 560 008
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<b>REGISTRAR &amp; SHARE TRANSFER AGENT</b>	:	Alpha Systems Private Limited, 30, Ramana Residency, 4 <sup>th</sup> Cross, Sampige Road, Malleswaram, Bangalore – 560003. Tel No. : 080 - 23460815 – 818 Email ID : alfint@vsnl.com
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## DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Twenty First Annual Report of the Company together with the Audited Accounts for the year ended 31<sup>st</sup> March 2007.

### Financial Results :

The performance of the Company for the financial year ended 31<sup>st</sup> March 2007 is summarized below:

(Rupees in Crores)

Particulars	2006 – 07	2005 – 06
Total Income	91.19	62.48
Gross Operating Profit	50.47	32.53
Less: Interest	2.16	1.57
Less: Depreciation	3.33	2.61
Add: Impact of change in accounting policy	-	-
Less: Prior Period Expenses	-	-
Profit before Tax	44.98	28.35
Less: Provision for Taxation		
- Current	11.15	6.10
- Deferred	0.22	0.93
- Excess provision written back	-	(0.02)
- Fringe benefit	0.14	0.14
Net profit after tax	33.91	21.20

### Performance :

During the year 2006-07, your Company has achieved a 45.95% increase in turnover at Rs. 91.19 Crores compared to Rs. 62.48 Crores of previous year. The Gross Operating Profit was higher by 55.15% at Rs. 50.47 Crores from the previous year Rs. 32.53 Crores and the Profit before tax is higher by 58.66 % in the current year at Rs. 44.98 Crores compared to Rs. 28.35 Crores of the previous year.

During the year 2006-07, your Company and its subsidiaries (consolidated) has achieved a 44.42% increase in turnover at Rs. 124.16 Crores compared to Rs. 85.98 Crores of previous year. The Gross Operating Profit was higher by 48.65% at Rs. 57.14 Crores from the previous year Rs. 38.44 Crores and the Profit before tax is higher by 48.65% in the current year at Rs. 50.21 Crores compared to Rs. 33.81 Crores of the previous year.

Your Directors are also pleased to inform you that the operating margins have also improved compared to the previous year due to better room realizations and various cost control measures undertaken by your Company.

The Audit Committee of the Company reviewed the audited financial statements for the year 2006-07 at its meeting held on 15<sup>th</sup> June 2007 and recommended the same for the approval of the Board of Directors.

### Dividend :

Your Directors have recommended a dividend @ 60% on the paid-up equity share capital of Rs. 27, 23, 39,650 for the financial year 2006-07, considering the excellent financial results of the Company. The outflow of funds on account of declaration of dividend would be Rs. 19.12 crores including tax on dividend.

Your Directors propose to transfer an amount of Rs. 3.39 crores to General Reserves and carry the balance of profits to next year.



**Future outlook :**

**The growing economy :**

Over the last few years, the country has witnessed a large influx of business travelers in the country owing to relaxation of the Government's stand on Foreign Direct Investments (FDI) for most of the sectors in the country. The hotel industry has greatly benefited from opening up of the aviation industry in the country. With the growth of the economy expected to continue, the hospitality industry is bound to expand provided it is able to overcome the hurdles and meet the growing expectations of the immensely interested tourists and travelers.

**The growing hospitality industry :**

India is not only a growing hospitality market but profitable as well. Over the last three years, the hospitality industry has witnessed active interest and has transformed the country as a huge development destination. The Industry is growing at a rate of 15% annually. The current supply of 110,000 rooms is inadequate either to meet the demand of 4.4 million tourists who visited India last year – a figure that, according to the tourism ministry, will touch 10 million in 2010.

**Hospitality Industry in Bangalore :**

The Hospitality Industry in Bangalore is upbeat, with increase in average occupancies of the hotels and the city is emerging as International Business destination. With Industrial growth (including the Hospitality Industry) likely to remain strong, your Company's overall performance and operating results are expected to further improve in the current year. With the various expansion plans and the expectation of improvements in the business and tourism growth, the outlook for the company promises to be brighter in the coming years.

**Expansion & Renovation :**

**Existing Properties : Bangalore**

During the year your Company has completed its plans for renovation of existing property, viz., Royal Orchid Central and Royal Orchid Harsha in Bangalore.

**New Properties: Mumbai, Jaipur, New Delhi and Hyderabad.**

During the year, your Company has acquired 99% share in M/s. Royal Orchid Hyderabad Private Limited and M/s. Royal Orchid South Private Limited. Also during the year M/s Royal Orchid East Private Limited became the subsidiary of your company. Further during the year, M/s. A B Holdings Private Limited and M/s Royal Orchid Jaipur Private Limited became wholly owned subsidiary of your Company.

Your Company has entered into a Management agreement with Royal Orchid Golden Suites (Pune).

The new hotel – Royal Orchid Central at Pune is scheduled to commence its operations by October 2007.

**Listing :**

Your Company's shares are listed in the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). There are no payments outstanding to the said Stock Exchanges towards listing fees etc.

**Change of Registrars and Share Transfer Agents :**

Registrars and Share Transfer Agents of your company for both physical and demat segments have been changed from M/s. MCS Limited, Mumbai to M/s. Alpha Systems Private Limited, Bangalore with a view to provide better service to the shareholders. Transfer of data and records are completed.

**Term Loans:**

Your Directors are happy to report that the overall interest on the term loans has been reduced during the year due to continued low cost debt. Your Company got the benefit of reduction in interest rates during the year.

**Subsidiary Companies :**

As per requirement of Section 212 of the Companies Act, 1956 the Profit and Loss Account for the year ended 31<sup>st</sup> March 2007 and the Balance Sheet as on that date and the reports of Directors and Auditors of M/s. Icon Hospitality Private Limited,

M/s. Maruti Comforts & Inn Private Limited, M/s. Royal Orchid Hyderabad Private Limited, M/s. Royal Orchid South Private Limited, M/s. Royal Orchid East private Limited, M/s. Royal Orchid Jaipur Private Limited and M/s. A B Holding Private Limited, statement of the holding company's interest in the subsidiary companies are attached to the Balance Sheet of the company.

As per the requirement of Accounting Standard – 21 issued by the Institute of Chartered Accountants of India, the Consolidated Financial Statements and the Auditors' Report thereon are annexed.

**Directors :**

In accordance with the Companies Act, 1956 read with the Articles of Association of the Company, Mr. R.V.S.Rao and Mr. Sunil Sikka, Directors, retire by rotation and are eligible for re-appointment. Your Board recommends the above re-appointment of Directors as it is in the best interest of the Company.

Mr. R. V. S. Rao, Independent Director of your Company, is acting as a Director on the Board of M/s. Icon Hospitality Private Limited (material non-listed Indian subsidiary company) to comply with the requirements of Corporate Governance as per Clause 49 of the Listing Agreement of Stock Exchanges.

During the year, Mr. Arjun Baljee was co opted as additional director and holds his office up to this Annual General Meeting. Your Board recommends the above re-appointment of Directors as it is in the best interests of the Company.

**Auditors and their Report :**

M/s. Walker, Chandiok & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for re-appointment. Your Directors propose the re-appointment of M/s. Walker, Chandiok & Co., Chartered Accountants, as Statutory Auditors of the Company to hold office until the conclusion of the Next Annual General Meeting of the Company.

**Reply in respect of Para no. (iv) of Annexure of the Auditor's Report**

The Internal Control Procedures were put in place for the purchase of fixed assets and sale of services. However, in view of the growth in the scale of operations, new measures have been initiated and implemented to strengthen the existing Internal Control Procedures.

**Public Deposits :**

During the year under review, your Company has neither invited nor accepted any deposits from the public.

**Directors' Responsibility Statement :**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31<sup>st</sup> March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iv. It has prepared the annual accounts on a going concern basis.

**Management Discussion and Analysis and Corporate Governance:**

A report on Management Discussion and Analysis, a report on compliance of Corporate Governance and a Certificate from Practicing Company Secretary to that effect are annexed and forms part of this report.

**Employees :**

The details of Employees as specified under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed and forms part of this report.


**Human Resources :**

The company assigns a great deal of importance to this most precious resource. It has a full-fledged Human Resource Department that seeks to attract and recruit the best possible talent and groom it to fulfill its vision for the future. The directors wish to acknowledge the efforts of all employees in raising the performance of the company. Industrial relations throughout the year continued to remain cordial.

**Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo :**

Energy conservation efforts in the Company are being pursued on a continuous basis. Close monitoring of power consumption is maintained to minimize wastage and facilitate optimum utilization of energy. Regular maintenance and repairs of all the equipments and machineries are carried out to ensure optimum efficiency.

The Company continues to absorb and upgrade modern technologies and advanced hotel management techniques in various guest contact areas, which includes wireless Internet connectivity at all the hotels.

During the year 2006-07, your Company earned Foreign Exchange of Rs. 4,242.43 Lakhs as against Rs. 3,235.27 Lakhs in the previous year. The outgo on account of commission and others is Rs. 9.54 Lakhs as against Rs. 2.13 Lakhs in the previous year.

**Acknowledgments :**

Your Directors acknowledge with gratitude and wish to place on record their sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, investors, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors also thank all the stakeholders for their unstinted support and confidence reposed by them in the Management and look forward to their continued support.

**For and on behalf of the Board of Directors**

Place : Bangalore  
Date : 15.06.2007

**Chander K. Baljee**  
Chairman

**ANNEXURE TO DIRECTORS' REPORT**

Information as required under Section 217(2A) of the Companies (Particulars of Employees) Rules 1975 and forming part of Director's Report for the year ended 31<sup>st</sup> March 2007.

Sl. No.	Name of the Employee	Designation/ Nature of duties	Age (yrs.)	Qualification/ Experience	Remuneration (Rs. In lacs)	Commencement of Employment	Last Employment
1	Mr. Chander K. Baljee	Managing Director	56	MBA (IIMA)	138.66	22.06.2000	NA
2.	Mr. Arjun Baljee	President Projects	28	Management graduate from Brisbane Schools (Australia) and IIM (Bangalore)	26.4	01.05.2006	Oberoi Group
3	Mr. Anil Kaul	Senior Vice President - Operations	58	Graduate from Oberoi School of Hotel Management	14.81	14.08.2006	Oberoi Group

Remuneration includes all allowances, perquisites and commission.

Place : Bangalore  
Date : 15.06.2007

**Chander K. Baljee**  
Chairman

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Indian Economy

India is the world's 6th largest economy growing at a strong rate of 8% a year. Both the manufacturing and service sectors are performing well. India's total exports registered a growth of 21.6% in 2005-06 as compared with 2004-05 and imports registered a growth of 31.8% in 2005-06 as compared with 2004-05. India's foreign exchange reserves during the first week of April 2007 reached US\$ 200 billion for the first time (US\$ 145 billion as on March 2006).

India is now among the fastest growing economies in the world, exhibiting strong performance during 2006-07, led by sustained growth in the industry and the service sectors. The GDP composition is well diversified across different sectors with robust growth in agriculture, industry and services sector. This is mainly due to good monsoon, impressive growth of manufacturing and service sectors and a higher share of service sector (at 54%) in the GDP.

### 2. Industry Outlook

#### *Tourist arrivals remain healthy:*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of the "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.3% surge in foreign tourist arrivals in calendar year 2006 over the previous year.

#### *The increasing demand:*

In 2006-07, hotels across India benefited from higher demand from the commercial travel segment. As demand continues to be higher than supply in most of the cities with stable occupancies, the demand base has been substituted with increased rates to augment the performance of the hotels. India is currently seen as a huge growth market, with demand for hotel rooms far outstripping the supply. Key cities, such as Bangalore, have seen major investment from foreign destinations with many companies introducing or re-locating their operational offices into the country. With the demand from IT, ITeS and the financial service sector in cities such as Bangalore and Hyderabad growing, the demand for rooms in these cities is on a rise.

#### *The growing hospitality industry:*

India is not only a growing hospitality market but profitable as well. Over the last three years, the hospitality industry has witnessed active interest and has transformed the country as a huge development destination. The industry is growing at a rate of 15% annually. It is gathering steam and is poised for a boom not only in terms of tourist arrivals but also with regard to GDP as the direct and indirect contribution of the tourism sector to the total GDP is 5.83%. The tourist arrivals in the country grew by 13.3% to 4.4 million during the year 2006 compared to the last year.

#### *The outlook:*

Thanks to the relaxing Foreign Direct Investments (FDI) policy for most of the sectors, the country has witnessed a large influx of business travelers. The hotel industry has greatly benefited from opening up of the aviation industry in the country. With the growth of the economy expected to continue, the hospitality industry is bound to expand provided it is able to overcome the hurdles and meet the growing expectations of the immensely interested tourists and travelers.

### 3. Market Review

#### *Bangalore the booming city:*

In line with the trend in hospitality industry in the country, Bangalore has witnessed a major demand for hotel rooms, augmenting the average room rates, with the city becoming a host for various national and international events. The





overall occupancies in the city have been increased as compared to the previous year. New international Airport situated at Yelhanka in Bangalore will be commissioned by 2nd April 2008, Vendors movement already started. Your company will expect better room realizations by 2008.

*Foreign Business travelers:*

Foreign currency is pumping big time into the Bangalore hotels because of increased overseas traffic. Bangalore has left Mumbai and Delhi behind in this regard. Foreign Business travelers were increased during the year 2006-07. The high influx of Foreign Business travelers is helping the industry and keeping the average room rates high. Business travelers have really boomed in the recent past with Bangalore continuing to attract big companies.

*The demand supply mismatch:*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next year. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.

#### **4. Financials**

During the year your Company has achieved turnover of Rs. 91.19 crores as against Rs. 62.48 crores in the previous year and recorded Profit after Tax of Rs. 33.91 crores as against Rs. 21.20 crores in the previous year.

Highlights of the year are as follows:

- Increase in room revenues by 30%.
- Increase in ARR by 16.65%.
- F & B revenues increased by 47.12%.

#### **5. Risks and Concerns**

Hotel business in general is sensitive to fluctuations in the economy. The hotel sector may be unfavourably affected by changes in global and domestic economies, changes in local market conditions, excess room supply, reduced international or local demand for hotel rooms and associates services, competition in the industry, government policies and regulations, fluctuations in interest rates and foreign exchange rates and other natural and social factors. Since demand for hotels is affected by world economic growth, a global recession could lead to a downturn in the hotel industry. The Hotel industry faces risk from volatile socio-political environment, internationally as well as within the country.

India, being one of the fastest growing economies in the world in the recent past, continues to attract investments. However, any adverse events such as political instability, conflict between nations, terrorist attacks or spread of any epidemic or security threats to any countries may affect the level of travel and business activity.

Your Company earns its entire revenues from Indian operations. Moreover, your Company's operations are currently concentrated more in Bangalore, making it susceptible to domestic socio-political and economic conditions. Your Company aims to increase its presence nationally to reduce its over dependence in one market. Continuing its efforts in that direction and to mitigate this risk to an extent, your Company is also looking at various other locations for expansions.

The hotel industry needs quality employees and with demand for the same improving across the industry, the Company feels that wage inflation would be a critical factor in determining costs for the Company. Thus, your Company will continue to focus on improving manpower efficiencies and creating a lean organization, while maximizing effectiveness in terms of customer service and satisfaction, which is an area of great importance for your Company.



**6. Internal Control Systems and adequacy**

Your company is committed to maintain high standards of Internal Control & Procedures. The Internal Control System is an essential element of the Corporate Governance and plays a key role in identifying, minimizing and managing risks that are significant for the Company, contributing to the safeguarding of stakeholders investments and the Company's assets. Your Company has established and is maintaining adequate controls within the system to ensure the completeness, accuracy, and authority of all financial information and of all other information that forms the basis for calculation of financial information or is used for management control and accountability. The adequacy and effectiveness of internal controls are monitored regularly by the Internal Auditors and remedial measures are adopted, wherever necessary.

The Audit Committee of the Company meets periodically to review and recommend quarterly, half yearly and annual financial statements of the Company. The Audit Committee reviews the important findings of the Internal Auditors during their audits, periodically. The Committee also holds discussions with the internal auditors, statutory auditors and the management on the matters relating to internal controls, auditing and financial reporting. The Committee also reviews with the statutory auditors, the scope and results of the audits.

**7. Human Resources**

Your company assigns a great deal of importance to this most precious resource. It has a full fledged human resource department that seeks to attract and recruit the best possible talent and groom it to fulfill its vision for the future. The directors wish to acknowledge the efforts of all employees in raising the performance of the company.

Your Company believes that employees are the key to achieve goals and are the primary source of competitive advantage. Your Company believes that training is the important tool to enhance the capabilities of people and performance of the organization. Therefore on and off the job training programs are organized through internal and external resources. To achieve high levels in guest satisfaction, your Company has been consistently investing in training and developing the employees to surpass the expectations of the customers. Further, the Company has stable and experienced middle and senior level management team.

The Industrial relations during the year under review, continued to remain cordial with no interruption of the operations of the company.

**Cautionary Statement**

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable securities laws and regulations.

As 'forward looking statements' are based on certain assumptions and expectations of future events over which the Company exercises no control, the Company cannot guarantee their accuracy nor can it warrant that the same will be realized by the Company. Actual results could differ materially from those expressed or implied. Significant factors that could make a difference to the Company's operations include domestic and international economic conditions affecting demand, supply and price conditions in the hospitality industry, changes in government regulations, tax regimes and other statutes.



## CORPORATE GOVERNANCE

Your company strongly believes that corporate governance is a framework to encourage the efficient use of resources and have accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of all stakeholders.

Your company is firmly committed to continue to excel in its journey towards best Corporate Governance practices prevailing in the industry and adhere to the highest standards of corporate values and ethics. The company has been consistently striving towards enhancement of value for all its stakeholders.

Your company always seeks to attain its performance rules with integrity and is dedicated to increase value by maximizing returns to investors, being transparent and maintaining high degree of disclosure levels. Your company would continually endeavour to further refine the existing systems to place stakeholder's interest as its foremost priority.

The mandatory requirements as per the Listing Agreement under Corporate Governance as complied by the Company are given as under;

### 1. Company Philosophy on code of Governance:

The basic philosophy of corporate governance is to enhance the value of all stakeholders. In this regard the company is committed to transparency in its dealings, efficiency & quality in services, utmost integrity in its conduct and total compliance with regulatory norms.

### 2. Board of Directors:

The Board consists of 5 Directors (one managing director, three non-executive independent directors and one non-executive director). The Independent Directors take active part at the Board and Committee meetings, which adds value in the decision making process. More than two-thirds of the Board comprise of non-executive directors. As on 31st March, 2007, the composition of the Board is given herein below:

- One Promoter, Executive, Non-Independent Director
- One Promoter, Non-Executive, Non-Independent Director
- Three Non-Executive, Independent Directors

### 3. Board Meeting :

During the year 2006-07, the Board met 5 times on 27.04.2006, 12.06.2006, 28.07.2006, 27.10.2006, and 30.01.2007. The maximum time gap between any two meetings was not more than four calendar months.

The names and categories of directors, their attendance at the board meetings, number of Directorships and Committee memberships held by them in other companies are given hereunder:

Name	Category	Board Meeting attendance	AGM attendance	No. of other Directorship	No. of other Committee positions held	
					Member	Chairman
Mr. Chander K. Baljee	Promoter– Managing Director	5	Yes	12	-	-
Mr. Sunil Sikka	Promoter– Non-Executive Director	4	No	-	-	-
Mr. Naresh K. Malhotra	Independent Director	5	Yes	10	2	2
Mr. Jaithirth Rao	Independent Director	2	No	13	1	1
Mr. R. V. S. Rao	Independent Director	5	Yes	5	-	-

None of the Directors is a member in more than ten committees and acts as a chairman in more than five committees across all companies in which he is a director.

**4. Details of Directors seeking appointment / re-appointment as required under Clause 49 of the Listing Agreement.**

Pursuant to the requirements of the Listing Agreement of Stock Exchanges on Corporate Governance, the information about the Directors proposed to be appointed / re-appointed is given as an Annexure.

**5. Audit Committee**

The Audit Committee presently consists of Mr. Naresh K. Malhotra, Mr. R. V. S. Rao and Mr. Jaithirth Rao, all Non Executive Independent Directors and is headed by Mr. Naresh K. Malhotra. The Vice President-Finance is a permanent invitee for the meetings. The Statutory Auditors and the Internal Auditors are also invited to the meeting. The Company Secretary functions as Secretary to the Committee.

During the financial year 2006-07, the Audit Committee has met 4 times, i.e., on 12.06.2006, 28.07.2006, 27.10.2006, 30.01.2007, During these meetings, the Committee, inter alia, reviewed the financial statements including changes in accounting policies and practices before submission to the Board, recommended the appointment of statutory and internal auditors including fixation of audit fee, discussed the internal auditors findings and reviewed the company's financial and risk management policies.

The attendance details for the Committee meetings are as follows:

Name	Designation	Attendance
Mr. Naresh K. Malhotra	Chairman of the Committee - Independent, Non-Executive Director	4
Mr. Jaithirth Rao	Independent, Non-Executive Director	1
Mr. R. V. S. Rao	Independent, Non-Executive Director	4

The Remuneration Committee comprises of Mr. Jaithirth Rao, Mr. Naresh K. Malhotra and Mr. R. V. S. Rao and is headed by Mr. Jaithirth Rao, all three of whom are Non-Executive and Independent Directors. The Committee met once during the year 2006-07.

Details of remuneration/commission to the Directors for the year 2006-07:

Sl. No.	Name of Director	Salary	Benefits	Commission	Total
1.	Mr. Chander K. Baljee	72,00,000	17,04,827	44,10,217	1,45,91,050
2.	Mr. Sunil Sikka	-	-	11,02,554	11,02,554
3.	Mr. Naresh K. Malhotra	-	-	11,02,554	11,02,554
4.	Mr. Jaithirth Rao	-	-	11,02,554	11,02,554
5.	Mr. R. V. S. Rao	-	-	11,02,554	11,02,554

**5. Investors' Grievances and Share Transfer Committee**

The Investors' Grievances & Share Transfer Committee comprises of Mr. R. V. S. Rao, Mr. Naresh K. Malhotra and Mr. Chander K. Baljee and is headed by Mr. R. V. S. Rao. The responsibilities of the Committee include redressal of all shareholders complaints and grievances. The Company has received 154 complaints during the Quarter ended 31.03.2007, all were redressed and none were pending as at 31.03.2007.

Mr. A. Someswara Rao, Company Secretary is the Compliance Officer of the Company and is the Secretary to all the above Committees.



## 6. Code of Conduct

The Company has a Code of Conduct for Prevention of Insider Trading in place, as prescribed by the Securities and Exchange Board of India. The Board monitors the implementation of the Code and takes on record the status reports detailing the dealings in securities by the Specified Persons.

The Board of Directors has already adopted the Code of Conduct for Directors and Senior Management Personnel. This Code is a comprehensive code applicable to all Directors, Executives and members of the Senior Management. A copy of the Code has been put on the Company's website [www.royalorchidhotels.com](http://www.royalorchidhotels.com).

The Code has been circulated to all the members of the Board and Senior Management Personnel and compliance of the same has been affirmed by them. A declaration signed by the Managing Director in this regard is given below:

I hereby confirm that:

The Company has obtained from all the members of the Board and Senior Management Personnel of the Company, affirmation that they have complied with the Code of Ethics and Business Conduct framed for Directors and Senior Management Personnel in respect of the financial year 2006-07.

**Chander K. Baljee**  
Managing Director

## 7. General Body Meetings

### Annual General Meetings

Year	Date	Time	Venue
2003-04	30.09.2004	11.00 A.M.	Registered Office
2004-05	28.09.2005	11.00 A.M.	Registered Office
2005-06	13.09.2006	11.00 A.M.	Registered Office

During the year 2006-07 no Extraordinary General Meetings were held.

## 8. Disclosures

- There were no transactions of material nature with its promoters, the Directors or the Management, their subsidiaries or relatives, etc. that may have potential conflict with the interests of the company.
- There were no instances of non compliances nor have any penalties/ strictures been imposed by any stock exchange or SEBI or any statutory authority during the last three years on any matter related to the capital markets.

## 9. Means of Communication

Quarterly results

Half yearly results

Any website where displayed:

The Quarterly results of the company is published in news papers

The Half yearly results of the company is published in news papers

<http://www.royalorchidhotels.com>:

Annual financial statements, Quarterly reports and the Shareholding pattern etc., of the company are also posted on the Company Website.

Further, the Securities and Exchange Board of India (SEBI) has made it mandatory for companies to file information through the internet on their website <http://www.sebidifar.nic.in/> vide the Electronic Data Information and Retrieval System (EDIFAR) which is an automated system for filing, retrieval and dissemination of price sensitive corporate information. Accordingly the company applied for EDIFAR registration during the year and awaiting registration.

Whether website also displays official news Releases and the presentations made to Institutional investors or to the analysts

The financial results and official news releases are also displayed on the website of the company

Newspapers in which results are normally Published

Economic Times  
Udayavani.

Whether Management Discussion and Analysis is a part of the Annual Report

Yes

#### **GENERAL SHAREHOLDER INFORMATION**

##### **1. Annual General Meeting :**

Date and Time : 08.08.2007 at 11:00 am  
Venue : Hotel Royal Orchid  
No. 1, Golf Avenue  
Adjoining KGA Golf Course  
Airport Road  
Bangalore - 560 008

##### **2. Book Closure Dates :**

1. Demat Shareholders - Friday 03.08.07 at the end of business hours.  
2. Physical Shareholders - 06.08.2007 - Monday to 08.08.2007 -  
Wednesday (Both days inclusive)

##### **3. Dividend Payment Date :**

The dividend at 60%, if approved, at the ensuing Annual General Meeting will be paid to the eligible shareholders within 30 days from the date of declaration.

##### **4. Financial Calendar 2007-08**

###### ***Financial Reporting***

For the quarter ended 30.06.2007 : July 2007  
For the quarter ending 30.09.2007 : October 2007  
For the quarter ending 31.12.2007 : January 2008  
For the quarter ending 31.03.2008 : April/May 2008

##### **5. Listing of Equity Shares on :**

National Stock Exchange of India Limited  
Exchange Plaza, 5th Floor  
Plot No. C/1, 5th Block  
Bandra-Kurla Complex, Bandra (E)  
Mumbai - 400 051  
  
Bombay Stock Exchange Limited  
Phiroze Jeebhoy Towers,  
Dalal Street,  
Mumbai - 400 001


**6. Stock Code**

National Stock Exchange of India Limited : ROHLTD  
 Bombay Stock Exchange Limited : 532699  
 ISIN Numbers in NSDL & CDSL : INE283H01019

Listing fees for and up to the year 2007-08 have been paid to both the above Stock Exchanges where shares are listed.

**7. Market Price Data**

The following is the data of high and low closing quotations of Equity Shares of the Company during April 2006 to March 2007. The Equity shares of the Company got listed with Stock Exchanges on 06.02.2006.

Month	National Stock Exchange (NSE)		Bombay Stock Exchange (BSE)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2006	215.95	182.25	219.85	175.25
May 2006	191.55	141.80	209.90	140.00
June 2006	139.65	99.45	148.50	96.30
July 2006	141.45	124.70	146.00	119.50
August 2006	172.25	138.65	176.00	135.30
September 2006	178.65	167.20	183.20	164.00
October 2006	193.20	177.05	203.80	174.50
November 2006	191.55	178.25	193.95	176.45
December 2006	202.05	182.65	204.50	181.00
January 2006	217.90	196.30	220.00	190.50
February 2007	213.35	188.85	215.70	185.00
March 2007	208.55	187.45	210.25	180.05

**8. Share Transfer System**

About 99% of the equity shares are held in dematerialized form. The share certificates in physical form are generally processed and returned within 30 days from the date of receipt, if the share transfer documents are clear in all respects.

**9. Secretarial Audit**

Secretarial Audit is being carried out every quarter by a Practicing Company Secretary and the Audit Report is placed before the Board for its perusal and filed regularly with the Stock Exchanges within the stipulated time.

**10. Distribution of Shareholding as on 31<sup>st</sup> March 2007**

No. of shares held	No. of shares	% of share capital	No. of shareholders	% of total No. of shareholders
Up to 500	1245980	97.49	19788	4.58
501 to 1000	215594	1.29	262	0.79
1001 to 2000	189361	0.59	119	0.70
2001 to 3000	87352	0.17	34	0.32
3001 to 4000	56885	0.08	16	0.21
4001 to 5000	90276	0.09	19	0.33
5001 to 10000	117888	0.08	17	0.43
10001 and above	25230629	0.21	42	92.64
<b>TOTAL</b>	<b>27233965</b>	<b>100.00</b>	<b>20297</b>	<b>100.00</b>

**11. Dematerialisation of Shares & Facility of simultaneous transfer**

Approximately 99% of the paid-up equity share capital of the Company has been dematerialized as on 31st March 2007. Trading in equity shares of the company is permitted only in dematerialized form as per notification issued by SEBI. Shareholders interested in dematerializing their shares are requested to write to the Registrar & Share Transfer Agent through their Depository Participants.

**12. Unit Locations :**

- i. **HOTEL ROYAL ORCHID**  
No. 1, Golf Avenue  
Adjoining KGA Golf Course  
Airport Road, Bangalore – 560 008
- ii. **ROYAL ORCHID CENTRAL**  
No. 47/1, Manipal Centre  
Dickenson Road  
Bangalore – 560 042
- iii. **ROYAL ORCHID HARSHA**  
No. 11, Park Road, Shivajinagar  
Bangalore – 560 051
- iv. **ROYAL ORCHID RESORTS**  
(Doddi's Resorts)  
Allasandra, Bellary Road, Yelahanka  
Near Jakkur Flying Club  
Bangalore – 560 065
- v. **ROYAL ORCHID METROPOLE**  
5, Jhansi Lakshmibai Road  
Mysore – 570 005
- vi. **ROYAL ORCHID BRINDAVAN GARDEN**  
Brindavan Garden, Krishna Raja Sagar  
Mysore, Karnataka.
- vii. **ROYAL ORCHID CENTRAL JAIPUR**  
A/2 Bani Park,  
Jaipur 302 016, India.

**13. Registrar & Share Transfer Agent**

Alpha Systems Private Limited,  
30, Ramana Residency,  
4<sup>th</sup> Cross, Sampige Road,  
Malleswaram,  
Bangalore – 560003.  
Tel. No.080 - 23460815 – 818  
Fax No.080 – 23460819  
Email ID: [alfint@vsnl.com](mailto:alfint@vsnl.com)  
Contact person & designation :  
S Guruswamy Babu  
Company Secretary

Note: Shareholders holding shares in electronic mode should address all correspondence to their respective depository participants.

**14. Address for Correspondence :**

Company Secretary & Compliance Officer  
Royal Orchid Hotels Limited  
No. 1, Golf Avenue  
Adjoining KGA Golf Course  
Airport Road, Bangalore – 560 008





## **CERTIFICATE ON CORPORATE GOVERNANCE**

### **To the Members of Royal Orchid Hotels Limited**

I have examined the compliance of conditions of corporate governance by ROYAL ORCHID HOTELS LIMITED ("the Company"), for the year ended on 31 March 2007, as stipulated in clause 49 of the listing agreement of the said Company with stock exchange(s).

The compliance of conditions of corporate governance is the responsibility of the management. My examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In my opinion and to the best of my information and according to the explanations given to me, I certify that the Company has complied with the conditions of corporate governance as stipulated in the above mentioned listing agreement(s).

I state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the investors' grievance committee.

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

**G Shanker Prasad**  
Practicing Company Secretary  
CP.No - 6450

Bangalore  
15<sup>th</sup> June, 2007

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## **CERTIFICATE BY CEO/CFO**

Pursuant to the provisions of Clause 49 of the Listing Agreement with the Stock Exchanges, it is hereby certified that for the financial year ended 31st March 2007:

1. I/we have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief, these statements:
  - (i) do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - (ii) together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year that are fraudulent, illegal or violative of the Company's Code of Conduct.
3. I/we accept responsibility for establishing and maintaining internal controls for financial reporting and that I/we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and I/we have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which I/we are aware and the steps I/we have taken or propose to take, to rectify these deficiencies.
4. I/we have indicated to the Auditors and the Audit Committee:
  - (i) significant changes in internal control over financial reporting during the year;
  - (ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
  - (iii) instances of significant fraud, if any, of which I/we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Place : Bangalore  
Date : 15.06.2007

**Chander K. Baljee**  
Managing Director

## ANNEXURE

Details of Directors seeking re appointment at the forthcoming Annual General Meeting of the Company (Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange)

Name of the Director	Mr. R.V.S. Rao	Mr. Sunil Sikka
Date of Birth	15.03.1944	24.08.1957
Date of Appointment	28.09.2005	28.09.2005
Qualifications	Commerce and Law Graduate and a Fellow of Indian Institute of Bankers, Bombay.	Post graduate in commerce
Expertise in specific functional areas	Had served as Executive Director of HDFC and now is appointed in Ptarmigan Capital Investment Advisors Private Limited as Non Executive Chairman for Indian Operations.	Has experience in export business
List of Companies in which outside Directorship held as on 31.03.2007	1. Icon Hospitality Private Limited 2. Puravankara Projects Limited 3. Nilgiris Dairy Private Limited 4. Shobha Developers Private Limited 5. Ptarmigan Capital Investment Advisors Pvt Ltd	Nil
Chairman / Member of the * Committees of other Companies on which he is a Director as on 31.03.2007	Nil	Nil

\* The Committees include the Audit Committee, the Remuneration Committee and the Shareholders'/Investor Grievance Committee.



## **AUDITORS' REPORT**

**To**

**The Members of Royal Orchid Hotels Limited**

1. We have audited the attached Balance Sheet of Royal Orchid Hotels Limited ('the Company') as at 31 March 2007, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (the 'Act'), we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - iv) In our opinion and to the best of our information and according to the explanations given to us, the financial statements, read together with the notes thereon, comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act, give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:
    - i) the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;
    - ii) the Profit and Loss Account, of the profit for the year ended on that date; and
    - iii) the Cash Flow Statement, of the cash flows for the year ended on that date.
  - v) On the basis of written representations received from the directors, as on 31 March 2007 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31 March 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

**For Walker, Chandiok & Co**  
**Chartered Accountants**

**Aashish Arjun Singh**  
**Partner**  
Membership No. 210122

**Bangalore**  
**15 June 2007**

## ANNEXURE TO THE AUDITORS' REPORT

**Annexure to the auditor's report of even date to the members of Royal Orchid Hotels Limited ('the Company'), on the financial statements for the year ended 31 March 2007**

In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit, we report that:

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) All the fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion is reasonable having regard to the size of the Company and the nature of its fixed assets. As informed, based on this verification no material discrepancies were noted on such verification.
- (c) In our opinion, a substantial part of fixed assets have not been disposed off during the year.
- (ii) (a) Inventory has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory and discrepancies were observed on physical verification, which have been appropriately adjusted in the financial statements.
- (iii) (a) The Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(b), 4(iii)(c) and 4(iii)(d) of the Order are not applicable to the Company.
- (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4 (iii) (f) and 4 (iii) (g) of the order are not applicable to the Company.
- (iv) In our opinion, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the sale of goods and services. *However, the internal control procedures for the purchase of fixed assets and inventory are inadequate as Company policies are not formally documented and therefore cannot be verified.*
- (v) (a) We are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register maintained under that section.
- (b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment whether the transactions made in pursuance of the contracts or arrangements referred to in Section 301 of the Act were made at prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public and accordingly, the provisions of clause 4(vi) of the Order are not applicable to the Company.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of business.
- (viii) To the best of our knowledge, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for the products of the Company and accordingly, the provisions of clause 4(viii) of the Order are not applicable to the Company.
- (ix) (a) The Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, custom duty, excise



duty and cess with the appropriate authorities. No undisputed amounts payable in respect of income-tax, wealth-tax, service-tax, sales-tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable.

- (b) There are no amounts in respect of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess that have not been deposited with the appropriate authorities on account of any dispute.
- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.
- (xi) The Company has not defaulted in repayment of dues to a financial institution or a bank. The Company has not issued or repaid any debentures during the year.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and accordingly, the provisions of clause 4(xii) of the Order are not applicable to the Company.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
- (xiv) In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
- (xv) The Company has not given any guarantee for loans taken by others from bank or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable to the Company.
- (xvi) The Company has applied the term loans for the purpose for which the loans were obtained.
- (xvii) Based on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable to the Company.
- (xix) The Company did not have any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable to the Company.
- (xx) We have verified that the end use of the monies raised by the public issue is as stated in the notes to the financial statements.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the period covered by our audit.

**For Walker, Chandiok & Co**  
Chartered Accountants

**Aashish Arjun Singh**  
Partner  
Membership No. 210122

Bangalore  
15<sup>th</sup> June 2007

## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
		Rs.	Rs.
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Capital	1	272,339,650	272,339,650
Reserves and surplus	2	1,372,980,838	1,225,089,917
		<b>1,645,320,488</b>	<b>1,497,429,567</b>
<b>LOAN FUNDS</b>			
Secured loans	3	220,768,018	269,351,992
		<b>220,768,018</b>	<b>269,351,992</b>
<b>DEFERRED TAX LIABILITY, NET</b>	4	33,000,000	35,200,000
		<b>1,899,088,506</b>	<b>1,801,981,559</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>	5		
Gross block		530,648,269	434,823,424
Less: Accumulated depreciation/amortisation		109,807,488	76,473,941
Net block		420,840,781	358,349,483
Capital work-in-progress including capital advances		3,370,096	8,403,598
		<b>424,210,877</b>	<b>366,753,081</b>
<b>INVESTMENTS</b>	6	107,749,000	62,049,000
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	7	5,039,481	5,388,165
Sundry debtors	8	44,259,490	34,222,268
Unbilled revenues		2,496,437	6,282,627
Cash and bank balances	9	1,210,272,005	1,401,533,640
Loans and advances	10	385,250,333	167,124,658
		<b>1,647,317,746</b>	<b>1,614,551,358</b>
<b>LESS : CURRENT LIABILITIES AND PROVISIONS</b>			
Liabilities	11	83,897,767	81,825,107
Provisions	12	196,291,350	159,546,773
		<b>280,189,117</b>	<b>241,371,880</b>
<b>NET CURRENT ASSETS</b>		<b>1,367,128,629</b>	<b>1,373,179,478</b>
		<b>1,899,088,506</b>	<b>1,801,981,559</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	20		

The schedules referred to above form an integral part of the financial statements.

This is the balance sheet referred to in our report of even date.

For Walker, Chandio & Co  
Chartered Accountants

Aashish Arjun Singh  
Partner  
Membership No. 210122

Bangalore  
15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Managing Director

Bangalore  
15<sup>th</sup> June 2007

Naresh K. Malhotra  
Director

A Someswara Rao  
Company Secretary



## PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
		Rs.	Rs.
<b>INCOME</b>			
Operating income	13	811,399,400	604,170,862
Other income	14	100,451,904	20,636,020
		<b>911,851,304</b>	<b>624,806,882</b>
<b>EXPENDITURE</b>			
Food and beverages consumed	15	64,083,974	44,236,545
Employee costs	16	73,292,481	55,270,026
Other operating expenses	17	129,002,534	102,580,284
Selling, general and administrative expenses	18	140,818,691	97,398,111
Interest	19	21,557,837	15,753,431
Depreciation	5	33,333,547	26,050,364
		<b>462,089,064</b>	<b>341,288,761</b>
<b>PROFIT BEFORE TAX</b>		<b>449,762,240</b>	<b>283,518,121</b>
Provision for income tax			
- Current		(111,500,000)	(61,000,000)
- Deferred		2,200,000	(9,300,000)
- Fringe Benefit Tax		(1,397,055)	(1,374,318)
- Provision for income tax of prior years written back		-	200,000
<b>PROFIT AFTER TAX</b>		<b>339,065,185</b>	<b>212,043,803</b>
Balance brought forward from the previous year		72,101,442	133,729,362
<b>Balance available for appropriation</b>		<b>411,166,627</b>	<b>345,773,165</b>
<b>APPROPRIATIONS</b>			
Proposed dividend		(163,403,790)	(136,169,825)
Tax on distribution of dividend		(27,770,474)	(19,097,818)
Transfer to general reserve		(33,944,202)	(21,204,380)
Bonus shares issued		-	(97,199,700)
<b>Surplus carried to Balance Sheet</b>		<b>186,048,161</b>	<b>72,101,442</b>
<b>EARNINGS PER SHARE (Par value - Rs. 10)</b>			
Basic and diluted		12.45	10.10
(Refer Note 3 in Schedule 20)			

### NOTES TO THE FINANCIAL STATEMENTS

20

The schedules referred to above form an integral part of the financial statements.

This is the profit and loss account referred to in our report of even date.

**For Walker, Chandio & Co**  
Chartered Accountants

**For and on behalf of the Board of Directors**

**Aashish Arjun Singh**  
Partner  
Membership No. 210122

**Chander K. Baljee**  
Managing Director

**Naresh K. Malhotra**  
Director

**A Someswara Rao**  
Company Secretary

Bangalore  
15<sup>th</sup> June 2007

Bangalore  
15<sup>th</sup> June 2007



## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 1</b>		
<b>CAPITAL</b>		
<b>Authorised</b>		
30,000,000 (31 March, 2006 : 30,000,000) Equity shares of Rs.10 each	300,000,000	300,000,000
<b>Issued, subscribed and paid up</b>		
27,233,965 (31 March, 2006 : 27,233,965) Equity shares of Rs.10 each fully paid up	272,339,650	272,339,650
	272,339,650	272,339,650

**Note:**

- Of the above 6,000,000 (31 March 2006: 6,000,000) equity shares have been allotted as fully paid up, by capitalizing the interest free refundable deposit due to the Managing Director. Pursuant to an agreement entered between the Company and the Managing Director, in 1992, the Company has been granted the right to use his interest in the land leased from the Karnataka State Tourism Development Corporation ('KSTDC') pertaining to the Royal Orchid Hotel, for the period of the lease arrangement.
- At the Annual General Meeting held on 28 September 2005, the members of the Company approved a bonus issue of one equity share for every equity share held on 1 September 2005. Consequently, of the above outstanding shares, 9,719,970 (31 March 2006 – 9,719,970) equity shares have been allotted as fully paid up by way of bonus shares by capitalising the balance in the profit and loss account.
- On January 30, 2006, the Company issued 6,820,000 equity shares of Rs.10 each at a premium of Rs.155 per equity share through an Initial Public Offer ('IPO') of equity shares. (Refer Schedule 2).

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 2</b>		
<b>RESERVES &amp; SURPLUS</b>		
<b>Share Premium</b>		
Balance at the beginning of the year	1,130,684,095	-
Add: Premium received on equity shares issued during the year	-	1,202,109,600
Less: Utilisation towards IPO issue expenses	-	71,425,505
Balance at the end of the year	1,130,684,095	1,130,684,095
<b>Foreign Exchange Earnings Reserve</b>	1,100,000	1,100,000
<b>General Reserve</b>		
Balance at the beginning of the year	21,204,380	-
Add: Transfer during the year	33,944,202	21,204,380
Balance at the end of the year	55,148,582	21,204,380
<b>Profit and Loss Account</b>		
Balance at the beginning of the year	72,101,442	133,729,362
Add: Net profit for the year	339,065,185	212,043,803
	411,166,627	345,773,165
Less: Proposed dividend	163,403,790	136,169,825
Less: Tax on distribution of dividend	27,770,474	19,097,818
Less: Transfer to general reserve	33,944,202	21,204,380
Less : Issue of bonus shares	-	97,199,700
Balance at the end of the year	186,048,161	72,101,442
	1,372,980,838	1,225,089,917

**Note:**

- Share premium includes Rs 1,057,100,000 received on allotment of 6,820,000 equity shares pursuant to the Company's IPO in January 2006. Refer Schedule 1.
- At the Annual General Meeting held on 28 September 2005, the members of the Company approved a bonus issue of one equity share for every equity share held on 1 September 2005. Of the above outstanding shares, 9,719,970 (31 March 2006 – 9,719,970) equity shares have been allotted as fully paid up by way of bonus shares by capitalising the balance in the profit and loss account.



		<b>31<sup>st</sup> March 2007</b>	<b>31<sup>st</sup> March 2006</b>
		<b>Rs.</b>	<b>Rs.</b>
<b>SCHEDULE 3</b>			
<b>SECURED LOANS</b>			
Term loans from banks	(a)	<b>213,650,992</b>	263,650,987
Other loans	(b)	<b>5,292,328</b>	4,289,459
Interest accrued and due on term loans		<b>1,824,698</b>	1,411,546
		<b>220,768,018</b>	269,351,992

**Notes:**

- a) During the year ended 31 March 2004, the Company availed a term loan facility of Rs 250 million from the Housing and Urban Development Corporation of India ('HUDCO') for the expansion activities of the Company that carried an interest rate of 11.25 % per annum which was subsequently revised to 9.75 % per annum. Of the above, the Company availed Rs 208 million with the balance facility remaining unutilised. This loan was repayable in 36 quarterly instalments of Rs 6.9 million each ending in June 2013 and was secured against the land and buildings of Royal Orchid Hotel and Royal Orchid Harsha with an escrow over the collections from sales settled through credit cards at both hotels.

Additionally, this borrowing was backed by the personal guarantees of Mr. Chander K. Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljees Hotels and Real Estates Private Limited, a company under the same management.

On 16 December 2004, the Company was sanctioned a term loan from the State Bank of Hyderabad ('the Bank') for Rs 300 million. The company drew down Rs.192 million of which Rs.154 million was utilised towards the repayment of the loan outstanding from HUDCO with the balance of Rs.38 million being utilised for the purposes of the expansion by the Company. This loan carries an interest rate of 3 % below the Prime Lending Rate ('PLR') of the Bank subject to a maximum of 9.75 % per annum in the previous year. This loan is secured by way of an equitable mortgage of the land and building of the Royal Orchid Hotel and a first charge on the present and future fixed assets of the Company. The key covenants include cost overruns on expansion being met directly by the Company, and new plant and machinery acquired to be insured jointly in the names of the Company and the Bank. Further, the arrangement also requires all expenditure in excess of the budgets and any other expansion activities to be pre-approved by the Bank.

Additionally, this borrowing has also been backed by the personal guarantees of Mr Chander K. Baljee, the Managing Director and Mrs Sunita Baljee, Director of the Company and a corporate guarantee from Baljees Hotels and Real Estates Private Limited. This loan is repayable in 24 quarterly instalments of Rs 12.5 million each, commencing from 31 December 2005.

- b) Other loans represent loans taken to purchase vehicles that are secured by the hypothecation of the vehicles concerned. These loans carry interest rates varying from 6.29 % to 8.5 % and are repayable through 2010.

Amounts due in one year are as follows:

		<b>31<sup>st</sup> March 2007</b>	<b>31<sup>st</sup> March 2006</b>
		<b>Rs.</b>	<b>Rs.</b>
Term loans		<b>50,000,000</b>	50,000,000
Other loans		<b>1,536,821</b>	1,465,612
		<b>51,536,821</b>	51,465,612
<b>SCHEDULE 4</b>			
<b>DEFERRED TAX LIABILITY, NET</b>			
Deferred tax liability arising on account of :			
Depreciation		<b>35,898,815</b>	37,801,389
Less: deferred tax asset arising on account of :			
Employee benefits		<b>713,349</b>	1,321,646
Provision for doubtful debts		<b>1,508,845</b>	688,536
Lease rentals allowable on payment basis		<b>676,621</b>	591,207
		<b>33,000,000</b>	35,200,000

**Note:**

The Company is eligible for a deduction of 30 percent of its profits from the Royal Orchid Hotel, being a new industrial undertaking as defined under Section 80IB of the Income-tax Act, 1961. This benefit is available for a period of ten consecutive years ending on 31 March 2010. Consequently, the deferred tax assets and liabilities as at 31 March 2007 have been recorded to the extent of the timing differences that reverse outside the tax holiday period.

## SCHEDULE 5

## FIXED ASSETS

Categories of Assets	Gross block				Accumulated Depreciation				Net block	
	Balance As at 1 April 2006	Additions during the year	Deletions during the year	Balance As at 31 March 2007	Balance As at 1 April 2006	Deletions during the year	Charge for the year	Balance As at 31 March 2007	As at 31 March 2007	As at 31 March 2006
Goodwill	-	4,554,452	-	4,554,452	-	-	555,790	555,790	3,998,662	-
Buildings	187,308,563	10,590,268	-	197,898,831	17,133,961	-	5,291,877	22,425,838	175,472,993	170,174,602
Plant and machinery	103,195,876	35,556,282	-	138,752,158	21,403,730	-	7,478,617	28,882,347	109,869,811	81,792,146
Office Equipment	7,360,679	1,215,157	-	8,575,836	2,352,038	-	558,171	2,910,209	5,665,627	5,008,641
Computers and related software	7,051,654	3,166,947	-	10,218,601	2,925,124	-	1,387,398	4,312,522	5,906,079	4,126,530
Furniture and fixtures	119,606,509	16,682,528	-	136,289,037	30,878,078	-	15,836,472	46,714,550	89,574,487	88,728,431
Vehicles	10,300,143	24,059,211	-	34,359,354	1,781,010	-	2,225,222	4,006,232	30,353,122	8,519,133
<b>TOTAL</b>	<b>434,823,424</b>	<b>95,824,845</b>	<b>-</b>	<b>530,648,269</b>	<b>76,473,941</b>	<b>-</b>	<b>33,333,547</b>	<b>109,807,488</b>	<b>420,840,781</b>	<b>358,349,483</b>
Prioryear	284,864,407	149,959,017	-	434,823,424	50,423,577	-	26,050,364	76,473,941	358,349,483	234,440,830

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 6</b>		
<b>INVESTMENTS</b>		
[Long Term, unquoted, at cost (non-traded)]		
Investment in Government Securities	225,000	25,000
Investment in Subsidiaries		
(Unquoted and fully paid up)		
Icon Hospitality Private Limited	3,073,000	3,073,000
(30,730 (2006 – 30,730) Equity Shares of Rs.100 each)		
Maruti Comforts and Inn Private Limited	58,849,000	58,849,000
(209,100 (2005 - 209,100) Equity Shares of Rs.100 each)		
Royal Orchid Hyderabad Private Limited	17,602,000	102,000
(1,760,200 (2006 - 10,200) Equity Shares of Rs.10 each)		
Royal Orchid Jaipur Private Limited	16,500,000	-
(1,650,000 (2006 – Nil) Equity Shares of Rs 10 each)		
AB Holdings Private Limited	2,500,000	-
(250,000 (2006 – Nil) Equity Shares of Rs 10 each)		
Royal Orchid South Private Limited	9,000,000	-
(90,000 (2006 – Nil) Equity Shares of Rs 100 each)	107,749,000	62,049,000
<b>Note:</b>		
During the year ended 31 March 2007, the Company purchased and sold 1,544,183,857 units of mutual funds for a gain of Rs 7,721,320.		
<b>SCHEDULE 7</b>		
<b>INVENTORIES</b>		
Food and beverages	3,000,700	3,191,339
Stores and spare parts	2,038,781	2,196,826
	5,039,481	5,388,165



	<b>31<sup>st</sup> March 2007 Rs.</b>	<b>31<sup>st</sup> March 2006 Rs.</b>
<b>SCHEDULE 8</b>		
<b>SUNDRY DEBTORS</b>		
(Unsecured)		
Debts outstanding for a period exceeding six months:		
- Considered good	-	50,072
- Considered doubtful	<b>6,403,724</b>	2,518,504
	<b>6,403,724</b>	2,568,576
Other debts		
- Considered good	<b>44,259,490</b>	34,172,196
- Considered doubtful	-	403,727
	<b>50,663,214</b>	34,575,923
Less : Provision for doubtful debts	<b>6,403,724</b>	2,922,231
	<b>44,259,490</b>	34,222,268
A reconciliation of the provision for doubtful debts is provided below :		
Balance at the beginning of the year	<b>2,922,231</b>	692,912
Add: Additional provisions created during the year	<b>4,966,642</b>	2,229,319
Less: Debts written off	<b>1,485,149</b>	-
Balance at the end of the year	<b>6,403,724</b>	2,922,231
<b>SCHEDULE 9</b>		
<b>CASH AND BANK BALANCES</b>		
Cash balances on hand	<b>1,057,150</b>	424,085
Demand drafts on hand	-	5,100,000
Banks balances with Scheduled banks :		
In current accounts (a)	<b>42,220,344</b>	203,385,491
In exchange earners foreign currency account	<b>855,557</b>	5,607,094
In deposit account (b)	<b>1,151,701,933</b>	1,171,611,719
In margin money (c)	<b>14,437,021</b>	15,405,251
	<b>1,210,272,005</b>	1,401,533,640

**Note:**

- At 31 March 2007, current accounts include Rs. 5,511,556 (31 March 2006 – Rs 82,489,172) representing unutilised proceeds from the Company's IPO.
- As at 31 March 2007, deposit accounts include unutilised public issue proceeds amounting to Rs 1,031,664,797 (2006 - Rs 1,000,000,000) which has been temporarily invested with banks until utilization for the specific objects of the IPO.
- Margin money represents bank guarantee given by the Company for imports at concessional duty rates under various Export Promotion Capital Goods ('EPCG') licenses and proposed projects and letters of credit for imported purchases. These deposits are to be released between years 2012 and 2014.

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 10</b>		
<b>LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
Security deposits (a)	118,457,720	94,378,527
Prepaid Expenses	13,873,189	11,536,321
Loan to subsidiaries	190,317,397	16,242,226
Advances to suppliers	5,001,102	2,047,442
Dues from subsidiaries	7,725,009	19,269,735
Advance tax (net of provision)	15,314,645	4,572,871
Interest Accrued and not due	22,735,401	14,522,839
Others	11,825,870	4,554,697
<b>Total</b>	<b>385,250,333</b>	<b>167,124,658</b>

**Note:**

a) Security deposits includes Rs 60,000,000 (31 March 2006 – Rs 60,000,000) being a interest-free, refundable security deposit with the Managing Director for his 50 percent interest in the land taken on lease from the KSTDC for the Royal Orchid Hotel. This deposit is repayable on the expiration of the lease agreement with the KSTDC. (Refer Notes 4 and 9 in Schedule 20).

Security deposits also include Rs 11,253,000 (31 March 2006 – 11,253,000) being amount paid to National Stock Exchange as a security deposit for the public issue of equity shares in accordance with Clause 42 of the Listing Agreement. This deposit is refundable on receipt of a No-Objection Certificate from the Securities Exchange Board of India in accordance with the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 11</b>		
<b>LIABILITIES</b>		
Sundry creditors	20,840,646	27,149,330
Accrued expenses	24,745,836	18,457,218
Dues to employees	7,111,061	5,561,768
Duties and taxes payable	16,894,984	15,735,787
Dues to related parties (a)	-	441,793
Dues to directors	5,969,893	5,725,979
Security deposits (b)	2,980,000	2,894,710
Other liabilities	5,355,347	5,858,522
	<b>83,897,767</b>	<b>81,825,107</b>

**Note:**

- a) Dues to related parties represent amounts dues to companies under the same management. The maximum amount outstanding during the year ended 31 March 2007 was Rs.441,793(31 March 2006 - 441,793).
- b) Security deposit includes Rs 2,980,000 (31 March 2006 – Rs 2,500,000) received from an entity under the same management for premises space provided to them for no charge. This amount is repayable on vacation of the aforesaid premises. (Refer Note 9 in Schedule 20).
- c) Based on information available with the Company, there are no amounts due to small scale industrial undertakings.



	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 12</b>		
<b>PROVISIONS</b>		
Provision for leave encashment	2,669,244	1,756,349
Provision for gratuity	2,447,842	2,522,781
Proposed dividend	163,403,790	136,169,825
Tax on proposed dividend	27,770,474	19,097,818
	196,291,350	159,546,773
A reconciliation of the provision for leave encashment is provided below:		
Balance at the beginning of the year	1,756,349	450,435
Add: Additional provisions created during the year	1,190,308	1,315,108
Less: Paid during the year	277,413	9,194
Balance at the end of the year	2,669,244	1,756,349
A reconciliation of the provision for gratuity is provided below:		
Balance at the beginning of the year	2,522,781	1,343,869
Add: Additional provisions created during the year	329,126	1,233,596
Less: Paid during the year	404,065	54,684
Balance at the end of the year	2,447,842	2,522,781
<b>SCHEDULE 13</b>		
<b>OPERATING INCOME</b>		
Room revenues	583,085,518	439,279,509
Food and beverages	192,317,506	136,163,606
Professional consultancy fee	3,398,043	-
Management fees	14,921,616	11,684,455
Other service charges	17,676,717	17,043,292
	811,399,400	604,170,862
<b>SCHEDULE 14</b>		
<b>OTHER INCOME</b>		
Interest income [TDS - Rs.19,176,033 (31 March 2006 - Rs. 3,904,609)]	86,552,671	17,076,809
Gain on sale of investments	7,721,320	-
Miscellaneous income	6,177,913	3,559,211
	100,451,904	20,636,020
<b>SCHEDULE 15</b>		
<b>FOOD AND BEVERAGES CONSUMED</b>		
Opening stock	3,191,339	2,444,224
Add: Purchases during the year	63,893,335	44,983,660
	67,084,674	47,427,884
Less: Closing stock	3,000,700	3,191,339
Consumption for the year	64,083,974	44,236,545

**Note:**

Consumption above is net of Rs 3,636,059 for the year ended 31 March 2007 (31 March 2006 - Rs 2,638,764), representing amounts utilised for internal consumption which has been classified under staff welfare.

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 16</b>		
<b>EMPLOYEE COSTS</b>		
Salaries, wages and bonus	63,174,958	45,604,256
Contribution to provident fund	3,453,757	2,865,170
Staff welfare	6,334,640	5,878,978
Gratuity	329,126	921,622
	<b>73,292,481</b>	<b>55,270,026</b>
<b>Note:</b>		
Staff welfare above includes Rs 3,636,059 (31 March 2006 – Rs 2,638,764), representing amounts utilised for internal consumption.		
<b>SCHEDULE 17</b>		
<b>OTHER OPERATING EXPENSES</b>		
Linen and room supplies	18,587,612	9,538,344
Catering supplies	4,276,384	2,647,448
Other kitchen supplies	6,912,585	6,025,696
Linen, uniform washing and laundry expenses	6,025,003	5,438,316
Power, fuel and water	38,405,243	31,371,172
Lease rent for hotel properties	28,550,672	22,443,580
Hire charges	4,047,496	3,285,000
Other rental charges	377,414	-
Repairs and maintenance		
- Building	18,869,095	4,305,231
- Machinery	734,760	1,899,236
- Furniture and fixtures	-	6,847,187
- Others	2,216,270	8,779,074
	<b>129,002,534</b>	<b>102,580,284</b>
<b>SCHEDULE 18</b>		
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Commission, brokerage and discount	28,154,390	20,139,057
Rates and taxes	18,273,506	8,996,596
Advertising and business promotion	14,009,047	11,167,483
Legal and professional charges	10,387,541	6,047,202
Communication costs	7,430,872	6,998,294
Printing and stationery	7,204,411	4,560,521
Travelling and conveyance	7,246,581	5,058,127
Directors' remuneration	8,904,827	4,419,491
Directors' commission	9,922,988	5,587,282
Security charges	3,147,010	2,990,894
Audit fees	982,026	913,009
Provision for doubtful debts	4,966,642	2,229,319
Bad debts written off	-	891,980
Insurance	2,130,666	1,796,659
Advances written off	-	2,274,834
Music and entertainment	1,933,874	2,600,237
Carriage inwards	1,254,435	1,534,187
Bank charges	629,189	495,767
Loss on disposal of investments	-	427,000
Miscellaneous expenses	14,240,686	8,270,172
	<b>140,818,691</b>	<b>97,398,111</b>





	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 16</b>		
<b>EMPLOYEE COSTS</b>		
Salaries, wages and bonus	63,174,958	45,604,256
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Hire charges	4,047,496	3,285,000
Other rental charges	377,414	-
Repairs and maintenance		
- Building	18,869,095	4,305,231
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Advances written off	-	2,274,834
Music and entertainment	1,933,874	2,600,237
Carriage inwards	1,254,435	1,534,187
Bank charges	629,189	495,767
Loss on disposal of Investments	-	427,000
Miscellaneous expenses	14,240,686	8,270,172
	<b>140,818,691</b>	<b>97,398,111</b>
<b>SCHEDULE 19</b>		
<b>INTEREST</b>		
Interest on term loan	21,173,367	15,376,072
Interest on vehicle loan	384,470	322,137
Interest on overdraft	-	55,222
	<b>21,557,837</b>	<b>15,753,431</b>

## NOTES TO THE FINANCIAL STATEMENTS

## SCHEDULE - 20

## 1. Background

Royal Orchid Hotels Limited ('the Company') was incorporated on 3 January 1986 as Universal Resorts Limited to carry on the business and management of hotels/holiday resorts and related services. The name of the Company was changed to Royal Orchid Hotels Limited on 10 April 1997. The Company currently operates three hotel properties - Royal Orchid Hotel, Bangalore, Royal Orchid Harsha, Bangalore and Royal Orchid Metropole, a heritage property in Mysore. Additionally the Company has also entered into a hotel operation agreement for the Royal Orchid Central, with its subsidiary, Icon Hospitality Private Limited, and Maruti Comforts and Inn Private Limited for which the Company receives an annual management fee.

The Company acquired the business of Royal Orchid Harsha effective 1 July 2002 on an ongoing basis. Prior to 1 July 2002, Royal Orchid Harsha was managed and operated by a company under the same management. Pursuant to this arrangement, the Company has not acquired the underlying land, building and the related assets, which continue to be leased from the owners. Consequently, in the financial statements of the Company, only the transactions and related working capital balances, such as sundry debtors and creditors, have been included with that of the Company.

During the year, the Company has acquired the ongoing business of Presidency Caterers (an entity under the same management). The goodwill disclosed in schedule 5 represents the excess of consideration paid over the net assets of the business acquired and is amortised over a period of 5 years.

The Company has leased Royal Orchid Metropole (including the land and buildings), from the Government of Karnataka for a non-cancellable period of 15 years. *For further details refer Note 4.*

## 2. Significant accounting policies

## i. Basis of preparation

The financial statements have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India ('ICAI'). The accounting policies have been consistently applied unless otherwise stated.

## ii. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by management in the preparation of these financial statements include the estimates of the economic useful lives of the fixed assets and provisions for bad and doubtful debts.

## iii. Revenue recognition

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the hotel. Room revenue is recognized based on occupation and revenues from sale of food and beverages and other allied services, as the services are rendered.

Unbilled revenues represent revenues recognized which have not been billed to the customers at the balance sheet date and are billed subsequently.



*iv. Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalised. Advances paid towards acquisition of fixed assets before the financial year-end are classified as capital work in progress.

Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

Expenditure directly relating to expansion is capitalized only if it increases the life or functionality of an asset beyond its original standard of performance.

*v. Depreciation*

Depreciation on fixed assets is provided on the Straight Line method, using the higher of the rates specified in Schedule XIV to the Companies Act, 1956 or rates based on management estimates of the economic useful lives of such assets. These rates are specified below:

<b>Asset Category</b>	<b>Rates of Depreciation (%)</b>
Plant and machinery	4.75% - 20%
Office equipment	4.75%
Computers and related equipment, including software	16.21%
Furniture & fittings	9.50%
Vehicles	9.50%

Assets individually costing less than Rs 5,000 are fully depreciated in the year of purchase. Improvements to buildings are amortized over the period of the lease.

*vi. Goodwill*

Goodwill on consolidation is not amortised and is tested for impairment on an annual basis. Goodwill on acquisition of entities is amortised over a period of five years.

*vii. Impairment of assets*

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

*viii. Investments*

Investments made in subsidiaries of the Company are treated as long term investments and are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

*ix. Inventory*

Inventory comprises stock of food and beverages and operating supplies and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the goods to their present location and condition and is determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

*x. Foreign currency transactions*

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into rupees at the rates of exchange prevailing on the balance sheet date. The differences in translation of monetary assets and liabilities and realised gains and losses on foreign currency transactions, other than those related to fixed assets are recognised in the profit and loss account. Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted in the carrying cost of fixed assets.

*xi. Leases*

*Finance leases*

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

For hotel properties i.e. land and buildings, taken on leases along with related assets as a part of a combined lease arrangement, the Company determines whether these assets acquired are integral to the land and building. If these assets are integral, the Company analyses the nature of the lease arrangement on a combined basis for all assets. If the assets are not integral to the land and building, the Company evaluates each asset individually, to determine the nature of the lease.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

*Operating leases*

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

*xii. Retirement benefits*

The Company provides for gratuity, a defined benefit plan in accordance with the rules of the Company based on an actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized Provident Fund and Employee State Insurance Scheme, which are defined contribution schemes, are charged to the profit and loss account.

*xiii. Leave encashment*

The Company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

*xiv. Taxes on income*

Tax expense comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.



*xv. Earnings per share*

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

*xvi. Provisions and contingent liabilities*

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

**3. Earnings Per Share ('EPS')**

	<b>Year ended 31<sup>st</sup> March 2007</b>	<b>Year ended 31<sup>st</sup> March 2006</b>
Weighted average number of shares outstanding during the year	<b>27,233,965</b>	20,994,370
	<b>(Rs)</b>	<b>(Rs.)</b>
Net profit after tax attributable to equity shareholders	<b>339,065,185</b>	212,043,803
Basic and diluted earnings per share	<b>12.45</b>	10.10
Nominal value per equity share	<b>10</b>	10

On 28 September 2005, at the Annual General Meeting members of the Company approved the issuance of a bonus share for every equity share held in the Company on 1 September 2005. For the purpose of calculating EPS, the effect of the bonus issue has been considered for all periods presented.

**4. Leases**

*Operating leases*

The key operating lease arrangements entered into by the Company are summarised below:

*Hotel Royal Orchid*

The Company has entered into various non-cancellable tri-partite agreements along with its Managing Director and the Karnataka State Tourism Development Corporation ('KSTDC') to lease lands on which the hotel premises has been constructed and adjacent areas. The primary lease periods for these agreements is 30 years and are further extendable by a period between 10 to 30 years at the option of the Company and carry an escalation provision for the increase in annual rent by 15 % every 10 years thereafter.

Additionally, the Company has also entered into an agreement with its managing director for the use of his 50% interest in the leased lands with the value of this consideration being determined at Rs 60 million, payable as an interest free security deposit repayable on the termination of the lease with KSTDC. This consideration could be discharged either in cash or through the issue of equity shares of the Company. The Company discharged this consideration through the allotment of 6 million equity shares at par through July 1999. (Refer Schedule 1 and Schedule 11).

*Royal Orchid Harsha*

Effective July 2002, the Company entered into a tri-partite agreement with Hotel Stay Longer Private Limited and Baljees Hotels and Real Estates Private Limited, Companies under the same management, to lease the hotel premises and related assets at Royal Orchid Harsha. This agreement was for an initial period of 11 months, renewable at the option of the Company and it has deposited an interest-free security deposit of Rs 10 million with Baljee Hotels and Real Estate Private Limited which is repayable on the termination of the lease agreement.

This agreement has been revised effective 1 September 2005 for a period of eleven months with an option to renew for a further 22 months. As per the agreement, the Company is required to make annual payments at 33 % of gross room revenues or a minimum committed amount, whichever is higher. This lease charge is paid to Hotel Stay Longer Private Limited and Baljees Hotels and Real Estates Private Limited at a pre-determined ratio of 20% and 80% respectively. (Refer Note 9).

*Royal Orchid Metropole*

In May 2004, the Company entered into a lease agreement with Jungle Lodges and Resorts Limited ('JLR'), a Government of Karnataka Undertaking for the use of the land and building representing Royal Orchid Metropole at Mysore for a non-cancellable period of 15 years. As a consideration, the Company is required to pay an annual amount comprising a fixed charge per annum and a revenue share representing 10% of the annual revenues in excess of Rs 25 million.

*Royal Orchid Brindavan*

In March 2006, the Company entered into a lease agreement with Jungle Lodges and Resorts Limited ('JLR'), a Government of Karnataka Undertaking for the use of the land and building representing Hotel Krishna Raja Sagar at Mysore for a non-cancellable period of 15 years commencing from the readiness date. As a consideration, the Company is required to pay an annual amount comprising a fixed charge per annum and a revenue share representing 10% of the annual revenues in excess of Rs 25 million..

*Property at Hyderabad*

In December 2004, the Company has entered into a lease arrangement for leasing a hotel property in Hyderabad. This arrangement has an initial period of 25 years which commence on the handover of the constructed property to the Company by the lessor. The lease rent comprises a fixed rate per square foot constructed which maybe enhanced by 12% every three years from the commencement of the lease period. In the event that the Company withdraws from the arrangement during the construction period, the Company is liable to pay the lessor, a sum of Rs 5 million if the withdrawal is within 12 months of the date of construction and Rs 10 million, if the withdrawal is after that period. During the year this lease has been assigned to the company's subsidiary, Royal Orchid Hotels Hyderabad Private Limited.

*Lease expenses*

The lease expense for cancellable and non-cancellable operating leases during the year ended 31 March 2007 was Rs 28,550,672 (31 March 2006 – Rs 22,443,580).

The details of lease commitments in terms of minimum lease payments within the non-cancellable period are as follows:

	2007 Rs.	2006 Rs.
<b>Payments falling due:</b>		
Within 1 year	11,828,611	11,303,611
Later than one year but not later than five years	37,196,073	35,066,157
Later than 5 years	120,982,973	130,941,500
	<b>170,007,657</b>	<b>177,311,268</b>

The above commitment does not include the lease payments amounting to Rs.137 million in respect of Royal Orchid Brindavan, Mysore payable over 15 years from the date of readiness.


**5. Utilization of proceeds from the Initial Public Offering ('IPO')**

During the year ended 31 March 2006, the Company has raised funds through a public issue of 6,820,000 equity shares of a par value of Rs.10 each, at a premium of Rs 155 per share, aggregating to Rs.1,125.30 million. At 31<sup>st</sup> March 2007, the proceeds of the issue have been utilized as under:

	Year ended 31 <sup>st</sup> March ,2007	Year ended 31 <sup>st</sup> March ,2006
	Rs.	Rs.
Proceeds from public issue/opening balance	1,082,489,172	1,125,300,000
Add: Interest received during the year	79,137,000	9,487,055
Less: Funds withdrawn towards IPO expenses	19,125,622	52,299,883
Funds withdrawn for investment in projects/subsidiaries	70,004,197	-
Funds withdrawn for payment of security deposit for hotel properties	35,320,000	-
	<b>1,037,176,353</b>	<b>1,082,489,172</b>

**6. Other commitments and contingencies**
**a) Litigation**

The Company has been named as a defendant in two civil suits filed restraining the Company from using certain parts of land taken on lease from the KSTDC for the operation of the Royal Orchid Hotel, which are adjacent to the hotel premises. Consequently, these lands are currently not being utilised by the Company. These cases are pending with the Civil Courts and scheduled for hearings shortly. Management believes that these cases will be settled in its favour and will not adversely effect its operations.

**b) Capital commitments**

Estimated amount of contracts remaining to be executed on capital account and not provided for Rs 1,320,600 (31 March 2006 – Rs 23,527,059)

**c) Export obligation**

The Company has received various Export Promotion Capital Goods ('EPCG') licenses which entitles it to import capital goods at a concessional rate of duty. Against these imports the Company has an export obligation equal to eight times the duty amount saved. The Company's export turnover till date is in excess of this obligation.

**7. Statutory information**
**a) Payments to Directors**

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
	Rs.	Rs.
a) Salary and allowances	8,904,827	4,419,491
c) Commission	9,922,988	5,587,282
d) Perquisites	-	59,814
e) Gratuity	-	606,812
	<b>18,827,815</b>	<b>10,673,399</b>



Computation of net profit in accordance with Section 349 of the Companies Act, 1956, read in accordance with Section 198 of the Act.

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
	Rs.	Rs.
Profit before income-tax	449,762,240	283,518,121
Add:		
Remuneration to directors	8,904,827	5,086,117
Commission to directors	9,922,988	5,587,282
Provision for doubtful debts	4,966,642	2,229,319
Loss on disposal of Investment	-	427,000
Less :		
Gain on sale of Investment	(7,721,320)	-
Net profit for computation of managerial remuneration	465,835,377	296,847,839
Commission to directors include:-		
Managing Director	4,961,494	2,368,197
Other Directors	4,961,494	3,219,085
	9,922,988	5,587,282

**b) Payment to auditors**

a) Audit fee	649,000	649,000
b) Other services	225,000	75,000
c) Service tax	108,026	73,848
d) Out of pocket expenses	-	115,161
	982,026	913,009

**c) Particulars relating to foreign exchange**

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>Earnings in foreign exchange (on accrual basis)</b>		
Income from operations	424,243,441	323,527,982
<b>Expenditure in foreign currency</b>		
Commission	954,923	213,055
<b>Value of imports on a CIF basis</b>		
Capital goods	32,365,633	7,449,493

**d) Imported and indigenous raw materials consumed**

	Year ended 31 <sup>st</sup> March 2007		Year ended 31 <sup>st</sup> March 2006	
	Amount (Rs.)	%	Amount (Rs.)	%
Imported	-	-	-	-
Indigenous	64,083,974	100	46,875,309	100
	64,083,974	100	46,875,309	100

Consumption above includes Rs 3,636,059 (2006 – Rs 2,638,764) representing amounts utilised for internal consumption which has been classified under staff welfare expenses.


**8. Additional information pursuant to the provisions of paragraphs 3 of Part II of Schedule VI to the Companies Act, 1956**

Due to the volume and large number of insignificant transactions, management is unable to provide the quantitative information on the turnover and consumption of foods and beverages. On 20 June 2006, the Company has received the approval of the Central Government for an exemption from the presentation of this information, and therefore the additional information has not been presented.

**9. Related party transactions**
*i. Parties where control exists*

Parties where control exists include

<b>Name of party</b>	<b>Nature of relationship</b>
Icon Hospitality Private Limited	Subsidiary
Royal Orchid Hyderabad Private Limited	Subsidiary
Maruti Comforts and Inn Private Limited	Subsidiary
A B Holdings Private Limited	Wholly owned Subsidiary
Royal Orchid Jaipur Private limited	Wholly owned Subsidiary
Royal orchid South Private limited	Subsidiary
Royal orchid East Private limited	Subsidiary
Chander K. Baljee	Key management personnel
Arjun Baljee	Relative of key management personnel.
Harsha Farms Private Limited	Entity controlled by Directors
Baljees Hotels and Real Estates Private Limited	
Entity controlled by Directors	
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors

*ii. Transactions with related parties during the year*

Parties with whom transactions have taken place during the year include:

<b>Name of Party</b>	<b>Nature of relationship</b>
Icon Hospitality Private Limited	Subsidiary
Royal Orchid Hyderabad Private Limited	Subsidiary
Maruti Comforts and Inn Private Limited	Subsidiary
A B Holdings Private Limited	Wholly owned Subsidiary
Royal Orchid Jaipur Private limited	Wholly owned Subsidiary
Royal Orchid South Private limited	Subsidiary
Royal Orchid East Private limited	Subsidiary
Chander K. Baljee	Key management personnel
Arjun Baljee	Relative of key management personnel.
Baljees Hotels and Real Estates Private Limited	
Entity controlled by Directors	
Hotel Staylonger Private Limited	Entity controlled by Directors

The transactions with related parties during the year ended 31<sup>st</sup> March 2007 is summarised below:

Nature of transaction	Subsidiaries	Entity controlled by Directors	Key Management Personnel	Relatives of key management personnel	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Management service fee received	14,921,616	-	-	-	14,921,616
Expenses incurred by related parties on behalf of the company	984,594	-	-	-	984,594
Professional Services fee	3,398,043	-	-	-	3,398,043
Interest received	4,864,383	-	-	-	4,864,383
Lease rental charges paid	-	18,223,476	-	-	18,223,476
Investment in subsidiaries	45,500,000	-	-	-	45,500,000
Loans to subsidiaries	174,075,171	-	-	-	174,075,171
Deposit received	-	480,000	-	-	480,000
Remuneration	-	-	8,904,827	1,440,000	10,344,827
Directors' Commission	-	-	5,512,771	-	5,512,771

The transactions with related parties during the year ended 31<sup>st</sup> March 2006 is summarised below :

Nature of transaction	Subsidiaries	Entity controlled by Directors	Key Management Personnel	Relatives of key management personnel	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Management service fee received	11,684,455	-	-	-	11,684,455
General and administrative expenses incurred on behalf of related parties charged to related parties	11,528	2,315,010	-	-	2,326,538
General and administrative expenses incurred by related parties on behalf of the company charged by related parties	60,000	-	-	-	60,000
Lease rental charges paid	-	11,212,122	-	-	11,212,122
Payments received on behalf of related parties	-	8,975,857	-	-	8,975,857
Payments made on behalf of related parties	52,000	5,881,418	-	-	5,933,418
Purchases made on behalf of associates charged	-	1,942,301	-	-	1,942,301
Loans to related parties	16,242,226	5,344,850	-	-	23,307,808
Remuneration	-	-	4,674,400	411,717	5,086,117
Directors' Commission	-	-	2,368,197	250,607	2,618,804


**Other transactions**

- a) As discussed in Schedule 3, the borrowing from HUDCO has been backed by the personal guarantees of Mr. Chander K. Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljees Hotels and Real Estates Private Limited.
- b) The Company has also entered into an arrangement with Presidency College of Hotel Management (an associate) whereby the associate is provided the use of a part of the Royal Orchid Hotel premises rent free against a refundable security deposit of Rs. 2.9 million (March 31 2006- Rs. 2.5 million).

Balances receivable/ (payable) from/to related parties as at 31<sup>st</sup> March 2007 and 31<sup>st</sup> March 2006 is summarised below:

	31 <sup>st</sup> March 2007 (Rs.)	31 <sup>st</sup> March 2006 (Rs.)
Dues from subsidiaries		
Dues	7,725,009	19,269,735
Loan to subsidiaries	190,317,397	16,242,226
Loan to associates	-	5,344,850
Security deposit given to entity controlled by Director	10,000,000	10,000,000
Investment in subsidiaries	107,524,000	62,024,000
Security deposit to key management personnel	60,000,000	60,000,000
Security deposit from entity controlled by director	(2,980,000)	(2,500,000)
Dues to Directors	5,969,893	5,725,979

**10. Segmental Information**

The Company's business comprises the operation of hotels, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the Company derives its entire revenues from services rendered in India. Consequently, the disclosure of business and geographic segment - wise information is not applicable to the Company.

**11. Prior year comparatives**

Prior year figures/balances have been reclassified wherever necessary to conform to the current year's representation.

For and on behalf of the Board of Directors

Chander K. Baljee  
Managing Director

Naresh K. Malhotra  
Director

A Someswara Rao  
Company Secretary

Bangalore  
15 June 2007

## CASH FLOW STATEMENT

	Year ended 31 March 2007	Year ended 31 March 2006
	Rs.	Rs.
<b>A. Cash flow from operating activities</b>		
Net profit before taxation	449,762,240	283,518,121
Adjustments for:		
Depreciation	33,333,547	26,050,364
Loss on disposal of Investments	-	427,000
Advances written off	-	2,274,834
Interest income	(86,552,671)	(17,076,809)
Interest expense	21,557,837	15,753,431
Provision for doubtful debts	4,966,642	2,229,319
Bad debts written off	-	891,980
<i>Operating profit before working capital changes</i>	<b>423,067,595</b>	<b>314,068,240</b>
Movements in working capital :		
(Increase) in sundry debtors	(12,081,632)	(17,391,004)
(Increase) / Decrease in unbilled revenue	3,786,190	(4,144,000)
(Increase) / Decrease in inventories	348,684	(956,845)
(Increase) in loans and advances	(64,846,598)	(63,227,392)
(Increase)/Decrease in margin monies	20,878,016	(5,260,202)
Increase/(Decrease) in current liabilities	10,480,482	13,589,745
Cash generated from operations	<b>381,632,737</b>	<b>236,678,542</b>
Direct taxes paid	(79,585,000)	(47,300,000)
Fringe benefit tax	(1,397,055)	-
<b>Net cash from operating activities</b>	<b>300,650,682</b>	<b>189,378,542</b>
<b>B. Cash flows from investing activities</b>		
Purchase of fixed assets and decrease in capital work-In-progress	(98,380,808)	(60,516,084)
Net investment in term deposits	20,878,016	(1,160,484,368)
Investments made in subsidiaries	(45,500,000)	(58,951,000)
Loans to subsidiaries	(174,075,171)	-
Other Investment	(200,000)	-
Interest received	66,163,405	2,553,971
<b>Net cash used in investing activities</b>	<b>(231,114,558)</b>	<b>(1,277,397,481)</b>
<b>C. Cash flows from financing activities</b>		
Proceeds from issuance of share capital (including premium)		1,280,299,850
Dividend paid including taxes thereon	(155,267,643)	-
Share issue expenses paid	(9,449,821)	(61,975,684)
Proceeds from long-term borrowings	-	92,857,345
Repayment of long-term borrowings	(55,060,463)	(22,815,636)
Proceeds from short-term borrowings	1,002,869	-
Interest paid	(21,144,685)	(15,689,620)
<b>Net cash generated by /(used in) financing activities</b>	<b>(239,919,743)</b>	<b>1,272,676,255</b>
<b>Net increase in cash and cash equivalents (A + B + C)</b>	<b>(170,383,619)</b>	<b>184,657,316</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>214,516,670</b>	<b>29,859,354</b>
<b>Cash and cash equivalents at the end of the year (a)</b>	<b>44,133,051</b>	<b>214,516,670</b>


**Note:**

- a) The Company considers all highly liquid investments with a remaining maturity, at the date of purchase/investment, of three months or less to be cash equivalents.

**Components of cash and cash equivalents as at year end**

	<b>2007</b>	<b>2006</b>
Cash and bank balances at 31 <sup>st</sup> March	<b>1,210,272,005</b>	1,401,533,640
Less : Bank deposits and margin monies considered separately (Refer note above )	<b>1,166,138,954</b>	1,187,016,970
	<b>44,133,051</b>	<b>214,516,670</b>

This is the cash flow statement referred to in our report of even date.

**For Walker, Chandiok & Co**  
Chartered Accountants

**For and on behalf of the Board of Directors**

**Aashish Arjun Singh**  
Partner  
Membership No. 210122

**Chander K. Baljee**  
Managing Director

**Naresh K. Malhotra**  
Director

**A Someswara Rao**  
Company Secretary

**Bangalore**  
15 June 2007

**Bangalore**  
15 June 2007

# **ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT 1956**

## **BALANCE SHEET ABSTRACT AND COMPNY'S GENERAL BUSINESS PROFILE**

### **i Registration details :**

Registraion No:	7392	State code	8
Balance sheet date	31/03/2007		

### **ii Capital raised during the year (Amounts in Rs.'000)**

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

### **iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)**

Total Liabilities	1899088	Total Assets	1899088
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#### **Sources of fund**

Paid up capital	272340	Reserves & Surplus (P & L a/c)	1372981
Secured Loans	220768	Unsecured loans	0

#### **Application of funds**

Net Fixed assets	420841	Investments	107749
Net current assets	1367129	Preliminary expenses	0
Accumulated losses	0		

### **iv Performance of the Company (amount in Rs.'000)**

Turnover	911851	Total Expenditure	462089
Profit /(loss) after tax	339065	Earnings per share in Rs.	12.45
Divident rate%	60%		

### **v Generic names of three pricipal products/services of the company (as per monetary terms)**

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product discription	Restaurant



**Statement attached to the Balance Sheet as at 31<sup>st</sup> March 2006, pursuant to Section 212 of the Companies Act 1956, relating to Subsidiary Companies**

Name of the Subsidiary Companies	Icon Hospitality Private Limited	Maruti Comforts & Inn Private Limited	Royal Orchid Jaipur Private Limited	Royal Orchid Hyderabad Private Limited	Royal Orchid South Private Limited	Royal Orchid East Private Ltd	AB Holdings Private Ltd
1. Financial year of the Company ended	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2007
2. Fully paid up shares held by holding company in the subsidiary company at the end of the Financial year.							
(a) Number	30,730 Equity Shares of Rs. 100/- each fully paid - up	2,09,100 Equity Shares of Rs. 100/- each fully paid - up	16,60,000 Equity Shares of Rs. 10/- each fully paid-up	17,60,200 Equity Shares of Rs. 10/- each fully paid-up	9,00,000 Equity Shares of Rs. 10/- each fully paid-up	By virtue of being subsidiary of AB Holdings Private Limited which is the subsidiary of the Company	26,00,000 Equity Shares of Rs. 10/- each fully paid-up
(b) Extent of holding	51.22%	51%	100%	99.45%	98.90%	-do-	100%
3. Changes in the interest of the Company between the end of the Financial Year of the subsidiary Company and 31 <sup>st</sup> March 2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil
4. The net aggregate of Profit/ (loss) of the Subsidiary Company so far as they concern the Members of the Holding Company							
(a) Dealt with in the accounts of the Company for the year ended 31 <sup>st</sup> March 2007	1,62,82,541	26,27,784	1,26,452	(9,95,400)	(1,653)	(11,45,330)	(12,296)
(b) Not dealt with in the accounts of the Company for the year ended 31 <sup>st</sup> March 2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil



Name of the Subsidiary Companies	Kon Hospitality Private Limited	Maruti Comforts & Inn Private Limited	Royal Orchid Jaipur Private Limited	Royal Orchid Hyderabad Private Limited	Royal Orchid South Private Limited	Royal Orchid East Private Ltd	AB Holdings Private Ltd
5. The net aggregate of Profit/ (loss) of the Subsidiary Company for previous financial years, so far as they concern the Members of the Holding Company							
(a) Dealt with in the accounts of the Company for the year ended 31 <sup>st</sup> March 2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(b) Not dealt with in the accounts of the Company for the year ended 31 <sup>st</sup> March 2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil
6. Material changes between the end of the Financial Year of the Subsidiary Company and 31 <sup>st</sup> March 2007							
(a) Fixed Assets	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(b) Investment	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(c) Moneys lent by the Subsidiary Company	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(d) Moneys borrowed by the Subsidiary Company other than for meeting current liabilities.	Nil	Nil	Nil	Nil	Nil	Nil	Nil



## DIRECTORS' REPORT

Dear Shareholders,

We, the Directors of your Company, have pleasure in presenting the Fifth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2007.

### Financial Results

The performance of the Company for the financial year ended 31<sup>st</sup> March 2007 is summarized below:

(Rs. In Lakhs)

Particulars	2006 – 07	2005 - 06
Operating income	2807.37	2359.38
Non-operating income	24.15	16.43
Total revenue	2831.51	2375.81
Expenditure	2240.70	1787.69
Net profit before Depreciation & Tax	590.81	588.12
Depreciation	53.42	32.72
Profit after Depreciation but before Taxation and prior period expenses	537.39	555.40
Prior period expenses	-	-
Profit after depreciation and prior period expenses but before taxation	537.39	555.40
Provision for taxation	219.48	189.13
Profit after depreciation and taxation	317.91	366.27

### Performance Analysis

During the year 2006 - 07, your Company has witnessed an increase by 19.18% in turnover at Rs. 2831.51 lakhs compared to Rs. 2375.81 lakhs of previous year. The Gross Operating Profit (PBDIT) was higher by 0.45 % at Rs. 590.81 Lakhs compared to Rs. 588.12 Lakhs of the previous year. However, due to increase in the tax burden, the Profit After Tax stood at Rs. 317.91 lakhs as compared to Rs. 366.27 lakhs of previous year.

### Future Outlook

#### *Tourist arrivals remain healthy*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.2% surge in foreign tourist arrival in calendar year 2006 over the previous year.

#### *ARR expected to rise further*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next two years. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.

#### *Company's performance*

With Industrial growth, including the Hospitality Industry, likely to remain strong, your Company's overall performance and operating results are expected to further improve in the current year. With the positive mood prevailing in the tourism industry, the outlook for the company promises to be brighter in the coming years.

## **Directors**

Pursuant to the provisions of Section 256, Mr. Chander K. Baljee- Director and Mrs. Sunita Baljee retire by rotation and being eligible offers themselves for re-appointment.

## **Auditors' and their Report:**

M/s. Walker, Chandio & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and have expressed their willingness to continue in office if re-appointed. Since the proposal is in the best interest of the Company, your Directors propose their appointment as Statutory Auditors for the current year, for the approval of shareholders.

The comments of the Auditors in Para No, 4,5, of their report are self explanatory and company's reply is as follows:

### **Reply in respect of Para No.4 of Auditor's Report**

The Company has made an application to the Ministry of Company Affairs, New Delhi for the payment of remuneration to the Directors under Section 309 of the Companies Act, 1956. Approval is awaited.

### **Reply in respect of Para No.5 of Auditor's Report**

The Company has made an application to the Ministry of Company Affairs, New Delhi seeking an exemption for providing quantitative details as required under paragraph 3, 4C and 4D of Para II of Schedule VI of the Companies Act, 1956. Approval is awaited.

## **Public Deposits**

During the year under review, your company has neither invited nor accepted any deposits from the public.

## **Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has, in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iv. It has prepared the annual accounts on a going concern basis.

## **Employees**

The details of employees as specified under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are not applicable.

## **Statutory Information**

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out hereunder:

### **(1) CONSERVATION OF ENERGY**

Your Company's efforts towards conservation of energy, which results in savings in consumption of electricity, a significant component of the energy cost, is an ongoing process.



***(2) RESEARCH AND DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION***

Your Company is engaged in Hotel & Hospitality Industry. Hence, your Company does not require Research & Development activities. Despite that, the Company is constantly upgrading and optimizing the Process parameters with emphasis on cost control and rationalization. The Company continues to strive for improving methodology of work and productivity of operations through continuous research. However, the actual expenditure incurred thereon is minimal.

***(3) FOREIGN EXCHANGE EARNINGS AND OUTGO***

There is no foreign exchange earnings and outgo during the year.

**Acknowledgments**

Your Directors acknowledge with gratitude and wish to place on record sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

**For and on behalf of the Board of Directors of  
ICON HOSPITALITY PRIVATE LIMITED**

Place : Bangalore  
Date : 15.06.2007

**CHANDER K. BALJEE**  
Chairman

## SECRETARIAL COMPLIANCE CERTIFICATE

Registration No.: **08/31516**

Nominal Capital : **Rs.1,00,00,000/-**

To

The Members

**M/s ICON HOSPITALITY PRIVATE LIMITED**

No.47/1, Dickenson Road,

Bangalore-560042.

Dear Sir,

I have examined the registers, records, books and papers of **M/s Icon Hospitality Private Limited** as required to be maintained under the Companies Act, 1956 (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded.
2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, or other authorities as per the provisions of the Act and the rules made there under.
3. The Company is a Private Limited Company, which is a subsidiary of a company which is not a private Limited company within the meaning of section of 3 (1) (iv) of the companies Act 1956 and has the minimum prescribed paid up capital and its maximum number of members during the said financial year was 03 (Three) and the company during the year under scrutiny:
  - has not invited public to subscribe for its shares or debentures and
  - has not invited or accepted any deposits during the financial year under review.
4. The Board of directors duly met 5 times on 12.06.2006, 15.09.2006, 20.11.2006, 29.12.2006 and 23.01.2007 in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose.
5. The Company has not closed its Register of Members during the financial year.
6. The Annual General meeting for the financial year ended on 31.3.2006 was held on 30<sup>th</sup> September, 2006 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose.
7. One Extra-ordinary general meeting held during the financial year under report i.e. 30<sup>th</sup> December 2006.
8. The Company has not made any loan to Directors under the provisions of section 295 of the Companies Act 1956.
9. The Company has not entered in to any contracts falling within the purview of section 297 of the Act.
10. The Company has made necessary entries in the Register of Companies and firms in which Directors are interested maintained under Section 301(3) of the Act.
11. As there were no instances falling within the purview of Section 314 of the Act, the Company has not obtained any approvals from the Board of Directors, members or Central Government as the case may be.



12. The Company has not issued any duplicate share certificates during the financial year.
13.
  - a) There was no allotment of Equity Shares during the financial year. There was no transfer/transmission of equity shares during the financial year.
  - b) The Company has not deposited any amount in a separate Bank Account as no Dividend was declared during the financial year.
  - c) The Company has not posted warrants to any member of the Company as no Dividend was declared during the financial year.
  - d) The company has duly complied with the requirements of Section 217 of the Act.
14. The Board of Directors of the Company is duly constituted. There was appointment of a Director during the financial year and no appointment of Alternate Directors or Directors to fill Casual vacancy during the financial year.
15. The Company has not appointed any Managing Director/Whole time Director/Manager during the financial year.
16. The Company has not appointed any sole selling agents during the financial year.
17. The Company has made an application to the Ministry of Company affairs seeking exemption from the applicability of para 3(1)(a) and 3(2)(d) of part II of Schedule VI of the Companies Act, 1956 and also sought condonation of delay in making the application seeking approval for payment of remuneration to the Directors. The Company also has made an application to the Ministry of Company Affairs, New Delhi, for payment of remuneration to the Directors under Section 309 of the Companies Act, 1956. Approval is awaited.
18. The directors have disclosed their interest in other firms/Companies to the Board of Directors pursuant to the provisions of the Act and the rules made thereunder and hence the same has been recorded in the register maintained under section 301(3) of the Act.
19. The Company has not issued Equity Shares during the financial year under review.
20. The Company has not bought back any shares during the financial year.
21. The company has not issued any preference shares or debentures and hence redemption thereof during the year does not arise.
22. There were no transactions necessitating the Company to keep in abeyance the rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The Company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A during the financial year.
24. The Company has duly complied with provisions of section 293 (1) (d) of the Act and necessary resolutions as per that section have been passed in duly convened extraordinary general meeting.
25. The Company has not made any loans/investments or provided any guarantee or securities falling within the provisions of section 372A of the Act.
26. The Company has not altered the provisions of the Memorandum with respect to Situation of the Company's registered office from one State to another during the year under scrutiny.
27. The Company has not altered the provisions of the Memorandum with respect to the Objects of the Company during the year under scrutiny.

28. The Company has not altered the provisions of the Memorandum with respect to Name of the Company during the year under scrutiny.
29. The Company has not altered the provisions of the Memorandum with respect to Share Capital of the Company during the year under scrutiny
30. The Company has not altered the provisions of its Articles of Association during the year under scrutiny.
31. There were no prosecution initiated against or show cause notices received by the Company and no fines or penalties or any other punishment was imposed on the company during the financial year, for offences under the Act.
32. From the records, it has been observed that the Company has not received any money as security deposit from its employees during the financial year.
33. The Company has deposited contribution towards Provident Funds collected from the employees together with employers contribution with the prescribed authorities during the financial year.

PLACE: BANGALORE

DATE: 15.06.2007

Sd/- :

Name : **Ramachandra Bhat S.**

C.P.No. : 5421



## **ANNEXURE-A**

Name of the Company : **ICON HOSPITALITY PRIVATE LIMITED**

Company No. : **08/31516**

Authorised Capital : **Rs.1,00,00,000/-**

Paid Up Capital : **Rs.60,00,000/-**

### **Registers as maintained by the Company:**

1. Register of Members u/s 150
2. Register of Companies and Firms in which Directors, etc., are interested u/s 301(3)
3. Minutes of Board Meetings/Annual General Meetings/Extra- Ordinary General Meetings u/s 193
4. Register of Directors u/s 303
5. Board Meeting Attendance Register
6. General Meeting Attendance Register
7. Register of share transfers.
8. Register of Contract u/s 301
9. Register of Directors share holding u/s 307

## **ANNEXURE B**

**Forms and Returns as filed by the Company with the Registrar of Companies, during the financial year ending on 31st March 2007.**

1. 4th Annual Report containing Directors Report, Auditors Report, Balance Sheet and Profit and Loss Account for the financial year ended 31.3.2006 has been filed with ROC office on.11.11.2006.
2. 4th Annual Return u/s 159 made as on the date of 4th Annual General Meeting held on 30.09.2006 has been filed with ROC office on 11.11.2006.
3. Compliance Certificate u/s 383A of the Companies Act, 1956 obtained from the practicing Company Secretary was filed with the ROC on 20.11.2006
4. Form No.8 in respect of creation of Charge was filed with the ROC office on 21.02.2007.
5. Form 32 in respect of reappointment of Director was filed with the ROC on 21.12.2006.
6. Form No.23 in respect of ordinary resolution passed in the EGM under Section 293(1)(d) of the Companies Act, 1956 is yet to be filed.

PLACE: BANGALORE  
DATE: 15.06.2007

Sd/- :  
Name : **Ramachandra Bhat S.**

C.P.No. : 5421



## AUDITORS' REPORT

To

The Members of  
Icon Hospitality Private Limited

1. We have audited the attached Balance Sheet of Icon Hospitality Private Limited (the 'Company') as at 31<sup>st</sup> March 2007 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. *As more fully discussed in note 6(a) to Schedule 20, the Company has provided for directors' remuneration in excess of the limits specified by Section 309 of the Companies Act, 1956, by Rs 7,128,080 without the prior approval of the Central Government. The Company has applied to the Central Government for the said approval, which is currently awaited.*
5. *As more fully discussed in Note 7 of Schedule 20, the Company has not provided the quantitative disclosures of purchases, sales and consumption as required by paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956. The Company has applied to the Central Government seeking an exemption from providing such information and the approval is awaited.*
6. *Subject to our comments in paragraph 4 and 5 above and further to our comments in the Annexure referred to above, we report that:*
  - a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books
  - c. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
  - d. In our opinion and to the best of our information and according to the explanations given to us, the financial statements, read together with the notes thereon, comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act, give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:
    - i) the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007;
    - ii) the Profit and Loss Account, of the profit for the year ended on that date; and
    - iii) the Cash Flow Statement, of the cash flows for the year ended on that date.
  - e. On the basis of written representations received from the directors, as on 31<sup>st</sup> March 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

For Walker, Chandiok & Co  
Chartered Accountants

Aashish Arjun Singh  
Partner  
Membership No. 210122

Bangalore  
15 June 2007



## ANNEXURE TO THE AUDITORS' REPORT

**Annexure to the auditor's report of even date to the members of Icon Hospitality Private Limited ('the Company'), on the financial statements for the year ended 31 March 2007**

In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit, we report that:

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
- (c) In our opinion, a substantial part of fixed assets have not been disposed off during the year.
- (ii) (a) Inventory has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) The Company has not granted any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses (b), (c) and (d) of the Order are not applicable to the Company.
- (e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses (g) and (f) of the Order are not applicable to the Company.
- (iv) In our opinion, there are adequate internal control systems commensurate with the size of the Company and the nature of its business, for the purchase of inventory, fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal controls in respect of these areas.
- (v) (a) We are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register maintained under that section.
- (b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment whether the transactions made in pursuance of the contracts or arrangements referred to in Section 301 of the Act were made at prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public and accordingly, the provisions of clause 4(vi) of the Order are not applicable to the Company.
- (vii) The Company has an internal audit system which is generally commensurate with the nature and size of its business.
- (viii) To the best of our knowledge, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for the products of the Company and accordingly, the provisions of clause 4(viii) of the Order are not applicable to the Company.

- (ix) (a) The Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities except for a few delays in a few cases. No undisputed amounts payable in respect of income-tax, wealth-tax, service-tax, sales-tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable.
- (b) There are no amounts in respect of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess that have not been deposited with the appropriate authorities on account of any dispute.
- (x) The Company has been registered for a period of less than five years. Accordingly, the provisions of clause 4(x) of the Order are not applicable to the Company.
- (xi) The Company has not defaulted in repayment of dues to a financial institution or a bank. The Company has not issued or repaid any debentures during the year.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and accordingly, the provisions of clause 4(xii) of the Order are not applicable to the Company.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
- (xiv) In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
- (xv) The Company has not given any guarantee for loans taken by others from bank or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable to the Company.
- (xvi) The Company has applied the term loans for the purpose for which the loans were obtained.
- (xvii) The Company did not have any short term borrowings outstanding during the year. Accordingly, the provisions of clause 4 (xvii) of the order is not applicable to the company.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable to the company.
- (xix) The Company did not have any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable to the Company.
- (xx) The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable to the Company.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the period covered by our audit.

**For Walker, Chandio & Co**  
Chartered Accountants

**Aashish Arjun Singh**  
Partner  
Membership No. 210122

Bangalore  
15 June 2007



## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Capital	1	6,000,000	6,000,000
Reserves and surplus	2	114,412,660	82,621,194
		<b>120,412,660</b>	<b>88,621,194</b>
<b>LOAN FUNDS</b>			
Secured loans	3	3,046,689	4,373,254
Unsecured loans	4	155,000,000	
		<b>158,046,689</b>	<b>4,373,254</b>
<b>DEFERRED TAX LIABILITY</b>	5	2,300,000	1,200,000
<b>TOTAL</b>		<b>280,759,349</b>	<b>94,194,448</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>	6		
Gross block		85,841,983	61,705,965
Less: Accumulated Depreciation		11,046,589	5,704,610
Net block		74,795,394	56,001,355
Capital work-in-progress (including capital advances)		4,157,309	1,060,303
		<b>78,952,703</b>	<b>57,061,658</b>
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	7	1,570,964	1,372,263
Sundry debtors	8	15,754,917	9,009,733
Unbilled revenues		1,165,934	1,440,056
Cash and bank balances	9	33,198,097	35,552,653
Loans and advances	10	200,442,818	19,752,148
		<b>252,132,730</b>	<b>67,126,851</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
Current liabilities	11	47,986,942	24,858,360
Provisions	12	2,339,140	5,135,701
		<b>50,326,082</b>	<b>29,994,061</b>
<b>NET CURRENT ASSETS</b>		<b>201,806,646</b>	<b>37,132,788</b>
<b>TOTAL</b>		<b>280,759,349</b>	<b>94,194,448</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	20		

The schedules referred to above form an integral part of the financial statements.

This is the balance sheet referred to in our report of even date.

**For Walker, Chandiok & Co**  
Chartered Accountants

**Aashish Arjun Singh**  
Partner  
Membership No. 210122

Bangalore  
15 June 2007

**For and on behalf of the Board of Directors**

**Chander K. Baljee**  
Director

Bangalore  
15 June 2007

**Satish Pai**  
Director

PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>INCOME</b>			
Operating income	13	280,736,622	235,938,089
Other income	14	2,414,578	1,642,739
		<b>283,151,200</b>	<b>237,580,828</b>
<b>EXPENDITURE</b>			
Food and beverages consumed	15	23,628,778	15,989,172
Employee costs	16	30,215,616	20,584,891
Operating expenses	17	118,834,000	100,031,852
Selling, general and administrative expenses	18	44,036,187	41,839,422
Depreciation	6	5,341,979	3,272,012
Interest	19	7,355,206	323,426
		<b>229,411,766</b>	<b>182,040,775</b>
<b>PROFIT BEFORE INCOME TAX</b>		<b>53,739,434</b>	<b>55,540,053</b>
Provision for income tax- Current		(20,600,000)	(18,100,000)
- Fringe Benefit Tax		(387,833)	(212,952)
- Deferred		(1,100,000)	(600,000)
- Provision for income tax of prior years written back		139,865	-
<b>PROFIT AFTER INCOME TAX</b>		<b>31,791,466</b>	<b>36,627,101</b>
Balance brought forward from the previous year		81,971,194	45,344,093
<b>SURPLUS CARRIED TO BALANCE SHEET</b>		<b>113,762,660</b>	<b>81,971,194</b>
Basic and diluted Earnings per share (Par value – Rs.100) (Refer note 3 in Schedule 20)		<b>529.86</b>	<b>610.45</b>
<b>Notes to the financial statements</b>	<b>20</b>		

The schedules referred to above form an integral part of the financial statements.

This is the balance sheet referred to in our report of even date.

For Walker, Chandiok & Co  
Chartered Accountants

For and on behalf of the Board of Directors

Aashish Arjun Singh  
Partner  
Membership No. 210122

Chander K. Baljee  
Director

Satish Pai  
Director

Bangalore  
15 June 2007

Bangalore  
15 June 2007



## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>Schedule 1</b>		
<b>CAPITAL</b>		
<b>Authorised</b>		
100,000 ( 31 March 2006 – 100,000) equity shares of Rs. 100 each	10,000,000	10,000,000
<b>Issued, subscribed and paid up</b>		
60,000 (31 March 2006 – 60,000) nequity shares of Rs. 100 each fully paid up	6,000,000	6,000,000
	6,000,000	6,000,000
<b>Note:</b>		
Of the above 30,730 (31 March 2006 – 30,730) equity shares of Rs. 100 each are held by Royal Orchid Hotels Limited, the Holding Company.		
<b>Schedule 2</b>		
<b>RESERVES &amp; SURPLUS</b>		
<b>Foreign Exchange Earnings Reserve</b>		
Balance at the beginning of the year	650,000	650,000
Additions during the year	-	-
Balance at the end of the year	650,000	650,000
Profit and Loss Account	113,762,660	81,971,194
	114,412,660	82,621,194
<b>Schedule 3</b>		
<b>SECURED LOANS</b>		
Vehicle loans	3,046,689	4,373,254
	3,046,689	4,373,254
<b>Note:</b>		
These loans represent amounts payable for vehicles taken on loans that are secured against the hypothecation of the vehicles acquired. Amount due in one year as at 31 March 2007 is Rs. 1,664,500 (31 March 2006 – Rs. 1,528,456).		
<b>SCHEDULE 4</b>		
<b>UNSECURED LOANS</b>		
From Holding company	77,500,000	-
From Director	77,500,000	-
	155,000,000	-
<b>SCHEDULE 5</b>		
<b>DEFERRED TAX LIABILITY (NET)</b>		
Deferred tax liability arising on account of :		
Depreciation	3,266,470	2,093,976
	3,266,470	2,093,976
Deferred tax asset arising on account of:		
Employee benefits	796,991	609,335
Provision for doubtful debts	169,479	284,641
	966,470	893,976
	2,300,000	1,200,000

Schedule 6

FIXED ASSETS

Assets	Gross block				Accumulated Depreciation			Net block	
	As at 1 <sup>st</sup> April 2006	Additions during the year	Deletions during the year	As at 31 <sup>st</sup> March 2007	As at 1 <sup>st</sup> April 2006	Charge for the year	Deletions during the year	As at 31 <sup>st</sup> March 2007	As at 31 <sup>st</sup> March 2006
Buildings	30,442,395	13,730,913	-	44,173,308	1,049,798	1,784,657	-	2,834,455	29,392,597
Plant and machinery	8,713,860	7,358,705	-	16,072,565	920,501	573,163	-	1,493,664	7,793,359
Furniture and fixtures	9,966,792	2,461,811	-	12,428,603	1,168,071	1,569,873	-	2,737,944	8,798,721
Computers and related software	2,048,981	247,111	-	2,296,092	339,481	356,643	-	696,124	1,709,500
Office equipments	479,813	38,880	-	518,693	67,997	84,019	-	152,016	411,816
Vehicles	10,054,124	298,598	-	10,352,722	2,158,762	973,624	-	3,132,386	7,895,362
Total	61,705,965	24,136,018	-	85,841,983	5,704,610	5,341,979	-	11,046,589	56,001,355
Prior year	35,611,898	26,094,067	-	61,705,965	2,432,598	3,272,012	-	5,704,610	33,179,300





	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 7</b>		
<b>INVENTORIES</b>		
Food and beverages	1,117,156	887,734
Stores and spare parts	453,808	484,529
	<b>1,570,964</b>	<b>1,372,263</b>
<b>SCHEDULE 8</b>		
<b>SUNDRY DEBTORS</b>		
(Unsecured)		
Debts outstanding for a period exceeding six months:		
- considered good	-	-
- considered doubtful	503,504	845,635
	<b>503,504</b>	<b>845,635</b>
Other debts		
- considered good	15,754,917	9,009,733
- considered doubtful	-	-
	<b>16,258,421</b>	<b>9,855,368</b>
Less: Provision for doubtful debts	503,504	845,635
	<b>15,754,917</b>	<b>9,009,733</b>
A reconciliation of the provision for doubtful debts is provided below:		
Balance at the beginning of the year/period	845,625	380,945
Add: Additional provisions created	-	942,080
Less: Bad debts written off	-	477,400
Less: Doubtful debts recovered	342,131	-
Balance at the end of the year	<b>503,494</b>	<b>845,625</b>
<b>SCHEDULE 9</b>		
<b>CASH &amp; BANK BALANCES</b>		
Cash balance on hand	386,937	180,595
Banks balances with Scheduled banks:		
- In current accounts	14,308,495	9,056,383
- In exchange earners foreign currency accounts	252,665	298,232
- In deposit account	15,000,000	25,000,000
- In margin money	3,250,000	1,017,443
	<b>33,198,097</b>	<b>35,552,653</b>

**Note:**

Margin money represents bank guarantee given by the Company for import of capital goods at concessional duty rates under various Export Promotion Capital Goods ('EPCG') licenses.

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 10</b>		
<b>LOANS &amp; ADVANCES</b>		
(Unsecured, considered good)		
Security deposits	6,484,000	6,354,000
Advance for purchase of property	180,000,000	-
Prepaid Expenses (a)	12,604,456	11,446,775
Advances to suppliers	376,691	1,008,060
Others	977,671	943,313
	<b>200,442,818</b>	<b>19,752,148</b>
<b>Note:</b>		
a) Prepaid expenses include Rs. 9,989,247 (31 March 2006 – Rs 9,989,041) representing insurance premium paid towards two Key man Insurance policies taken by the Company for two of its directors. The premiums are for the period from 31 March 2007 to 31 March 2008.		
<b>SCHEDULE 11</b>		
<b>CURRENT LIABILITIES</b>		
Sundry creditors	9,074,554	5,237,343
Accrued expenses	1,079,811	2,657,210
Dues to employees	3,360,188	2,590,362
Duties and taxes payable	9,779,766	6,049,002
Due to Holding Company	10,030,883	1,734,095
Dues to directors	3,128,496	596,281
Lease rent payable	10,211,272	3,741,208
Other liabilities	1,321,972	2,252,859
	<b>47,986,942</b>	<b>24,858,360</b>
<b>SCHEDULE 12</b>		
<b>PROVISIONS</b>		
Provisions for taxation (net of advance tax)	6,26,447	3,745,280
Provision for leave encashment	1,037,599	659,984
Provision for gratuity	675,094	730,437
	<b>2,339,140</b>	<b>5,135,701</b>
Reconciliation of the provision for leave encashment is provided below:		
Balance at the beginning of the year	659,984	309,313
Add: Additional provisions created during the year	377,615	428,515
Less: Payments made during the year	-	77,844
Balance at the end of the year	<b>1,037,599</b>	<b>659,984</b>
Reconciliation of the provision for gratuity is provided below:		
Balance at the beginning of the year	730,437	276,571
Add: Additional provisions created during the year	173,647	453,866
Less: excess provision reversed	228,990	-
Balance at the end of the year	<b>675,094</b>	<b>730,437</b>



	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 13</b>		
<b>OPERATING INCOME</b>		
Room revenues	203,632,844	187,518,712
Food and Beverages	65,376,648	43,389,256
Other Service Charges	11,727,130	5,030,121
	<b>280,736,622</b>	<b>235,938,089</b>
<b>SCHEDULE 14</b>		
<b>OTHER INCOME</b>		
Interest income (Tax Deducted at Source - Rs. 252,734 2006-Rs. 122,027)	1,126,266	516,467
Rent	240,000	240,000
Excess provisions written back	453,240	94,925
Discount Received	-	205,554
Others	835,072	825,793
	<b>2,414,578</b>	<b>1,642,739</b>
<b>SCHEDULE 15</b>		
<b>FOOD AND BEVERAGES CONSUMED</b>		
Opening Stock	887,735	496,400
Add: Purchases during the year	23,858,199	16,380,506
	<b>24,745,934</b>	<b>16,876,906</b>
Less: Closing Stock	1,117,156	887,734
<b>Consumption</b>	<b>23,628,778</b>	<b>15,989,172</b>
<b>Note:</b> Consumption above is net of Rs 1,862,491 (31 March 2006 - Rs 1,347,520) representing amounts utilised for internal consumption which has been classified under staff welfare.		
<b>SCHEDULE 16</b>		
<b>EMPLOYEE COSTS</b>		
Salaries, wages and bonus	25,807,943	16,895,269
Contribution to provident fund	1,696,968	1,297,888
Staff welfare (Net of recoveries of Rs.280,957) (2006- Rs. 241,635)	2,537,058	1,937,868
Gratuity	173,647	453,866
	<b>30,215,616</b>	<b>20,584,891</b>

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 17</b>		
<b>OTHER OPERATING EXPENSES</b>		
Lease rent for hotel property	60,513,191	56,970,285
Power and fuel	17,469,191	14,998,227
Water	1,112,639	1,504,706
Management fees	11,666,661	10,608,822
Hire Charges	6,076,434	4,730,033
Linen and room supplies	6,102,711	2,552,309
Laundry expenses	2,061,571	1,730,666
Kitchen and other supplies	2,832,037	3,936,810
Contractor charges	2,342,671	1,522,687
Rent	1,847,168	1,624,580
Others	222,730	-
Repairs and maintenance		
- Building	4,041,040	3,271,938
- Machinery	2,233,883	1,032,110
- Others	312,073	278,712
	<b>118,834,000</b>	<b>100,031,852</b>
<b>SCHEDULE 18</b>		
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Director's remuneration (Refer note 6(a) in Schedule 18)	9,000,000	9,000,000
Commission, brokerage and discount	9,620,383	7,283,596
Rates and taxes	1,587,911	1,104,973
Advertisement and business promotion	1,428,099	1,952,370
Communication expenses	3,272,824	1,901,772
Legal and professional charges	1,334,316	1,375,951
Insurance	10,763,978	10,639,250
Printing and stationery	1,462,410	279,827
Audit fees	428,595	504,060
Travelling and conveyance	1,279,823	1,273,001
Bank charges	126,925	103,663
Music and entertainment charges	2,280,462	2,038,520
Miscellaneous expenses	1,792,592	3,440,359
Provision for doubtful debts	(342,131)	942,080
	<b>44,036,187</b>	<b>41,839,422</b>
<b>SCHEDULE 19</b>		
<b>INTEREST</b>		
Interest on vehicle loan	251,782	323,426
Interest on unsecured loan	7,103,424	-
	<b>7,355,206</b>	<b>323,426</b>



## NOTES TO THE FINANCIAL STATEMENTS

### SCHEDULE – 20

#### 1. Background

Icon Hospitality Private Limited ('Icon' or 'the Company') was incorporated on 28 January 2003 as a private limited company providing hospitality services. The Company operates Royal Orchid Central in Bangalore, India and the Company has leased the land, building and other assets from Sacred Hospitality Company Limited under an operating lease arrangement for a period of 25 years. For its daily operations, the Company has also entered into an agreement with Royal Orchid Hotels Limited, the holding Company for which it pays an annual management fee based on a pre determined percentage of net profits.

#### 2. Significant accounting policies

##### a. Basis of preparation

The financial statements are prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India. The accounting policies have been consistently applied unless otherwise stated.

##### b. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by management in the preparation of these financial statements include the estimates of the economic useful lives of the fixed assets, provision for bad and doubtful debts and accruals for leave encashment and gratuity.

##### c. Revenue recognition

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the hotel. Room revenue is recognized based on occupation and revenue from sale of food and beverages and other allied services, as the services are rendered.

Unbilled revenues represent revenues recognized which have not been billed to the customers at the balance sheet date and are billed subsequently.

##### d. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalised. Advances paid towards acquisition of fixed assets before the financial year-end are classified as capital work-in-progress.

Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

Expenditure directly relating to expansion is capitalized only if it increases the life or functionality of an asset beyond its original standard of performance.

##### e. Depreciation

Depreciation on fixed assets is provided on the Straight Line method, using the higher of rates specified in Schedule XIV to the Companies Act, 1956 or the management estimates of the economic useful lives of such assets. These rates are specified below:

Asset category	Rates of depreciation used (%)
Plant and machinery	4.75%
Furniture and fixtures	9.50% - 20%
Computers and related equipment, including software	16.21%
Office equipment	4.75%
Vehicles	9.50%

Assets individually costing less than Rs 5,000 are fully depreciated in the year of purchase. Improvements to buildings are amortized over the period of the lease.

*f. Impairment of assets*

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

*g. Inventory*

Inventory comprises stock of food and beverages and operating supplies and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the goods to their present location and condition and is determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

*h. Foreign currency transactions*

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into rupees at the rates of exchange prevailing on the balance sheet date. The differences in translation of monetary assets and liabilities and realised gains and losses on foreign currency transactions, other than those related to fixed assets are recognised in the profit and loss account. Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted in the carrying cost of fixed assets.

*i. Leases*

*Finance leases*

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

For hotel properties i.e. land and buildings, taken on leases along with related assets as a part of a combined lease arrangement, the Company determines whether these assets acquired are integral to the land and building. If these assets are integral, the Company analyses the nature of the lease arrangement on a combined basis for all assets. If the assets are not integral to the land and building, the Company evaluates each asset individually, to determine the nature of the lease.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.



*Operating leases*

Leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

*j. Retirement benefits*

The Company provides for gratuity, a defined benefit plan in accordance with the rules of the Company based on an actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized Provident Fund and Employee State Insurance Scheme, which are defined contribution schemes, are charged to the profit and loss account as incurred.

*k. Leave encashment*

The Company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

*l. Taxes on income*

Tax expense comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

*m. Earnings per share*

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

*n. Contingent liabilities*

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.



3. Earnings per share ('EPS')

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
Weighted average number of shares outstanding	60,000	60,000
	(Rs.)	(Rs.)
Net profit after tax attributable to equity shareholders	31,791,466	36,627,101
Basic and diluted earnings per share	529.86	610.45
Nominal value per equity share	100	100

4. Leases

*Operating leases*

As indicated in Note 1 of this schedule, the business of the Company comprises revenues from the operation of the Royal Orchid Central at Bangalore. This operation is carried out through a lease entered into with Sacred Hospitality Company Limited in January 2003. As per the provisions of this arrangement, the Company has leased the land, the associated hotel building and other assets necessary for the operation of the hotel under a non-cancellable operating lease arrangement for a period of five years. This agreement was renewed in June 2004 extending the period of the lease for a further period of 20 years ending on 30 January 2028.

As per the agreement, the Company is required to make annual payments at 33% of net room revenues determined after reducing certain allowable expenses from the room revenues for the period, or a minimum committed amount, whichever is higher. This lease includes an escalation provision of 15% from the previous rent, every three years commencing from July 2010.

This agreement also requires the Company to invest Rs. 50 million towards renovation and improvement of the concerned property within three years from the date of the arrangement.

The lease expense for cancellable and non-cancellable operating leases during the year ended 31 March 2007 was Rs. 60,513,191 (31 March 2006 – Rs. 56,970,285)

The details of lease commitments in terms of minimum lease payments within the non-cancellable period are as follows:

Payments falling due:	Amount
	(Rs.)
Within 1 year	36,000,000
Later than one year but not later than five years	156,000,000
Later than 5 years	975,011,928
<b>TOTAL</b>	<b>1,167,011,928</b>

5. Commitments and contingencies

(a) Capital commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for as at 31<sup>st</sup> March 2007 – Rs 3, 250, 000. (31 March 2006 – Rs 1,498,165).


**(b) Other matters**

Sacred Hospitality Company Limited ('Sacred Hospitality') has permitted the Company vide a deed of license dated January 31, 2003, to use its license to sell liquor and the retail sale of bulk beer at the Royal Orchid Central for a consideration included in the lease rentals. In terms of the license issued for Indian/ foreign liquor to Sacred Hospitality, Royal Orchid Central (previously Central Park) was permitted to possess/sell Indian/ foreign liquor and for retail sale of bulk beer. In accordance with the terms of the deed of license, the revenues from such sales are recorded in these financial statements and the Company has been paying the excise on behalf of Sacred Hospitality in respect of the sale of liquor and the retail sale of beer for the license to the appropriate authorities, which means that Sacred Hospitality has assigned the right to use the license to the Company, which is not in terms of the license issued to Sacred Hospitality. However, based on independent legal advice received, the Company is informed that this transaction is not a violation of the Karnataka State Excise Act, 1961 and that the Company will not be subject to any penalties or levies. Accordingly, this transaction will not have an adverse impact on the Company's financial statements and accordingly no provision for any penalties or levies has been made in these financial statements.

**6. Supplementary statutory information**
**a) Payments to directors**

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
a) Salary and allowances	9,000,000	9,000,000
b) Contribution to provident and other funds	-	-
	<b>9,000,000</b>	<b>9,000,000</b>

**Computation of net profit in accordance with Section 349 and 350 of the Companies Act, 1956, read in accordance with Section 198 of the Act.**

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
Profit before income tax	53,739,434	55,540,053
Add:		
Directors' remuneration	9,000,000	9,000,000
Provision for doubtful debts	(342,131)	942,080
Net profit for the purpose of computation of managerial remuneration	<b>62,397,303</b>	<b>65,482,133</b>

As per the provisions of Section 309 of the Companies Act, 1956, remuneration payable to directors not in the whole time employment of the Company cannot exceed 3 percent of the net profits for the year, without the prior approval of the Central Government. The total remuneration paid to the directors during the year ended 31 March 2007 exceeds the limits as specified in Section 309 by Rs 7,128,080 (31 March 2006 – Rs. 7,035,536). The Company has applied for the Central Government approval under Section 309 of the Companies Act, 1956 which is currently awaited.

**b) Payment to auditors**

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	(Rs.)	(Rs.)
a) Audit fee	400,000	400,000
b) Service tax	28,595	48,960
c) Out of pocket expenses	-	55,100
	<b>428,595</b>	<b>504,060</b>

c) Particulars relating to foreign exchange

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>Earnings in foreign exchange (on accrual basis)</b>		
Income from operations	146,626,246	113,779,358
<b>Expenditure in foreign currency</b>		
Commission	768,657	310,056
Others	226,827	-
<b>Total</b>	995,484	310,056
<b>Value of imports on a CIF basis</b>		
Capital goods	2,142,072	1,433,661
	2,142,072	1,433,661

d) Imported and indigenous raw materials, components and spare parts consumed

	Year ended 31 March 2007		Year ended 31 March 2006	
	Amount	%	Amount	%
Imported	-	-	-	-
Indigenous	25,491,269	100	17,336,692	100
<b>Total</b>	25,491,269	100	17,336,692	100

The above figure includes Rs. 1,862,491 (2006 - Rs. 1,347,520) of internal consumptions which is included in staff welfare costs net of recoveries from staff.

7. Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956

Due to the volume and large number of insignificant transactions, management is unable to provide the quantitative information on the turnover and consumption of food and beverages consumed. On 29 August 2005, the Company has applied an approval from the Central Government for an exemption from the presentation of such information. The approval for the same is currently awaited.

8. Related party transactions

i. Parties where control exists

Parties where control exists include:

Name of the related party	Relationship
Royal Orchid Hotels Limited	Holding Company
AB Holdings Private Limited	Fellow Subsidiary
Maruti Comforts and Inn Private Limited	Fellow Subsidiary
Chander .K.Baljee	Key management personnel ( Director )
Sunita Baljee	Key management personnel ( Director )
Arjun Baljee	Key management personnel ( Director )
Presidency Caterers	Entity controlled by Directors
Harsha Farms Private Limited	Entity controlled by Directors
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors
Royal Orchid South Private Limited	Entity controlled by Directors



*ii. Transactions with related parties during the period*

Parties with whom transactions have taken place during the year include:

Name of the related party	Relationship
Royal Orchid Hotels Limited	Holding Company
Chander K. Baljee	Key management personnel ( Director )
Sunita Baljee	Key management personnel ( Director )
Dayanand Pai	Key management personnel ( Director )
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors

The transactions with related parties during the year ended 31 March 2007 are summarised below:

Nature of transaction	Holding company Rs.	Associates Rs.	Key Management Personnel Rs.	TOTAL Rs.
Management service fee expense	11,666,661	-	-	
Payments received on behalf of the related parties	1,271,961	193,535	-	1,465,496
Payments made on behalf of the related parties	-	46,461	-	46,461
Short term loan received from related parties	105,000,000	-	137,500,000	242,500,000
Short term loan repayment to related parties	27,500,000	-	60,000,000	87,500,000
Remuneration	-	-	9,000,000	9,000,000

The transactions with related parties during the year ended 31 March 2006 are summarised below:

Nature of transaction	Holding company Rs.	Associates Rs.	Key Management Personnel Rs.	TOTAL Rs.
Management service fee expense	10,608,822	-	-	10,608,822
Payments received on behalf of the related parties	52,000	930,342	-	982,342
Payments made on behalf of the related parties	9,632	138,077	-	147,709
Remuneration	-	-	9,000,000	9,000,000

Balances receivable/ (payable) from/to related parties as at 31 March 2007 and 31 March 2006 is summarised below:

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
Holding Company	10,030,883	(1,879,758)
Due from Associate	-	145,663

**9. Segment Information**

The Company's business comprises the operation of the Royal Orchid Central the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the Company derives its entire revenues from services rendered in India. Consequently, the disclosure of business and geographic segment-wise information is not applicable to the Company.

**10. Prior year comparatives**

Prior year figures have been regrouped / reclassified wherever necessary to conform to the current year's representation.

**For and on behalf of the board of directors**

**Chander K. Baljee**  
Director

**Satish Pai**  
Director

Place : Bangalore  
Date : 15 June 2007



## CASH FLOW STATEMENT

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>A. Cash flow from operating activities</b>		
Net profit before taxation	53,739,434	55,540,053
Adjustments for:		
Depreciation	5,341,979	3,272,012
Interest income	(1,126,266)	(516,467)
Interest expense	7,355,206	323,427
Provision for doubtful debts	(342,131)	942,080
Bad debts written off		
<i>Operating profit before working capital changes</i>	<b>64,968,222</b>	<b>59,561,105</b>
Movements in working capital :		
(Increase) in sundry debtors	(6,429,167)	(1,778,163)
(Increase) in inventories	(198,701)	(387,140)
(Increase)/Decrease in unbilled revenue	274,120	(28,647)
Decrease / (Increase) Advance towards purchase of hotel property	(180,000,000)	-
(Increase) loans and advances	(690,668)	(130,547)
(Increase) in margin money	7,767,443	(52,443)
Increase in current liabilities and provisions	13,811,280	191,479
<i>Cash generated from operations</i>	<b>(100,497,471)</b>	<b>57,375,644</b>
Direct taxes paid	(21,326,401)	(12,663,644)
Fringe benefit tax paid	(380,000)	(212,952)
<b>Net cash from operating activities</b>	<b>(122,203,872)</b>	<b>44,499,048</b>
<b>B. Cash flows from investing activities</b>		
Purchase of fixed assets	(26,943,209)	(25,431,561)
Net investment in term deposit		(21,500,000)
Interest received	1,126,266	516,467
<b>Net cash (used in) investing activities</b>	<b>(25,816,943)</b>	<b>(46,415,094)</b>
<b>C. Cash flows from financing activities</b>		
Proceeds from long-term borrowings	155,000,000	-
Repayment of long-term borrowings	(1,326,566)	(1,451,693)
Interest paid	(239,732)	(307,291)
<b>Net cash (used in) financing activities</b>	<b>153,433,702</b>	<b>(1,758,984)</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+ B+C)</b>	<b>5,412,887</b>	<b>(3,675,030)</b>
Cash and cash equivalents at the beginning of the year	9,535,210	13,210,240
<b>Cash and cash equivalents at the end of the year (a)</b>	<b>14,948,097</b>	<b>9,535,210</b>

**Note:**

- a) The Company considers all highly liquid investments with a remaining maturity, at the date of purchase/investment, of three months or less to be cash equivalents.

<b>Components of cash and cash equivalents as at year end</b>	<b>31<sup>st</sup> March 2007</b>	<b>31<sup>st</sup> March 2006</b>
	<b>Rs.</b>	<b>Rs.</b>
Cash and bank balances at 31 <sup>st</sup> March	<b>33,198,097</b>	35,552,653
Less : Bank deposits and margin monies considered separately (Refer note above ) 26,017,443	<b>14,948,097</b>	18,250,000
	<b>14,948,097</b>	9,535,210

This is the cash flow statement referred to in our report of even date.

**For Walker, Chandiok & Co**  
Chartered Accountants

**For and on behalf of the Board of Directors**

**Aashish Arjun Singh**  
Partner  
Membership No. 210122

**Chander K. Baljee**  
Director

**Satish Pai**  
Director

Bangalore  
15 June 2007

Bangalore  
15 June 2007


**ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT 1956**
**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**
**i Registration details :**

Registration No:	31516	State code	8
Balance sheet date	31/03/2007		

**ii Capital raised during the year (Amounts in Rs.'000)**

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

**iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)**

Total Liabilities	280759	Total Assets	280759
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**Sources of fund**

Paid up capital	6000	Reserves & Surplus (P & L a/c)	114413
Secured Loans	3046	Unsecured loans	157300

**Application of funds**

Net Fixed assets	78952	Investments	0
Net current assets	201807	Preliminary expenses	0
Accumulated losses	0		

**iv Performance of the Company (amount in Rs.'000)**

Turnover	283151	Total Expenditure	229412
Profit /(loss) after tax	31791	Earnings per share in Rs.	530
Dividend rate%	Nil		

**v Generic names of three principal products/services of the company (as per monetary terms)**

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product description	Restaurant



## DIRECTORS' REPORT

Dear Shareholders,

We, the Directors of your Company, have pleasure in presenting the Thirteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2007.

### Financial Results

The performance of the Company for the financial year ended 31st March 2007 is summarized below:

(Rs. In Lakhs)

Particulars	2006 – 07	2005 - 06
Operating income	550.92	277.36
Non-operating income	21.64	57.17
Total revenue	572.56	334.52
Expenditure	475.47	281.99
Net profit before Depreciation & Tax	97.09	52.53
Depreciation	55.70	34.69
Profit after Depreciation but before Taxation	41.39	17.84

### Performance Analysis

During the year 2006-07, your Company has achieved a 98.63% increase in turnover at Rs.550.92 lakhs compared to Rs.277.36 lakhs of previous year, and the Net Profit before depreciation and tax is higher by 84.83% in the current year at Rs.97.09 lakhs Compared to of Rs.52.53 lakhs of the previous year.

Your Directors are also pleased to inform you that the profit after tax have also improved compared to the previous year due to better room realizations and various cost control measures undertaken by your company.

### Future Outlook

#### *New international Airport:*

New international Airport situated at Yelhanka in Bangalore will be commissioned by 2nd April 2008, Vendors movement already started. Your company will expect better room realizations by 2008 provided the hotel is renovated.

#### *Tourist arrivals remain healthy*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.2% surge in foreign tourist arrival in calendar year 2006 over the previous year.



*ARR expected to rise further*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next year. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.

**Directors**

In accordance with the Companies Act, 1956 read with the Articles of Association of the Company Mr. Chander K.Baljee and Ms.Panna Doddi retire by rotation and being eligible offers themselves for re-appointment.

**Auditors' and their Report:**

M/s. P. Chandrasekar, Chartered Accountants, retires at the ensuing Annual General Meeting and has expressed their willingness to continue in office if re-appointed. Since the proposal is in the best interests of the Company, your Directors propose their appointment as Statutory Auditors for the current year, for the approval of shareholders.

**Public Deposits**

During the year under review, your company has neither invited nor accepted any deposits from the public.

**Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Operations Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has, in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iii. It has prepared the annual accounts on a going concern basis.

**Employees**

The details of employees as specified under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended upto date is not applicable.

**Statutory Information**

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out hereunder:

***(1) CONSERVATION OF ENERGY***

Your Company's efforts towards conservation of energy, which results in savings in consumption of electricity, a significant component of the energy cost, is an ongoing process.

***(2) RESEARCH AND DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION***

Your Company is engaged in Hotel & Hospitality Industry. Hence, your Company does not require Research & Development activities. Despite that, the Company is constantly upgrading and optimizing the Process parameters with emphasis on cost control and rationalization. The Company continues to strive for improving methodology of work and productivity of operations through continuous research. However, the actual expenditure incurred thereon is minimal.

***(3) FOREIGN EXCHANGE EARNINGS AND OUTGO***

There is no foreign exchange earnings and outgo during the year.

**Acknowledgments**

Your Directors acknowledge with gratitude and wish to place on record sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

**For and on behalf of the Board of Directors of  
MARUTI COMFORTS & INN PRIVATE LIMITED**

Place : Bangalore  
Date : 11.06.2007

**CHANDER K. BALJEE**  
Chairman



## AUDITORS' REPORT

To

**The Members of Maruti comforts & Inn Private Limited**

We have audited the attached Balance Sheet of Maruti Comforts & Inn Private Limited as at 31<sup>st</sup> March 2007 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 & 5 of the said Order, to the extent applicable to the Company.

Further to our comments in the annexure attached hereto, we report that:

- A. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- B. In our opinion, proper books of account as required by law have been kept by Company, so far as appears from our examination of books;
- C. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
- D. In our opinion, the Balance Sheet & Profit & Loss Account comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956 ;
- E. In our opinion and to the best of our information and according to the explanations given to us, none of the Directors of the Company are disqualified from being appointed as Directors under clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.
- F. In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give the true and fair view in conformity with the accounting principles generally accepted in India.
  - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007.
  - (b) in the case of Profit and Loss Account, of the Profit of the Company for the year ended on the date.

For P. CHANDRASEKAR  
Chartered Accountants

P. CHANDRASEKAR  
Partner

Place : Bangalore  
Date : 11.06.2007

## ANNEXURE TO THE AUDITORS' REPORT

**Annexure to the auditor's report of even date to the members of Maruthi Comforts and Inns Private Limited ('the Company'), on the financial statements for the year ended 31 March 2007**

- (i) (a) The company is in the process of updating proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) These fixed assets have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification.
- (c) No substantial part of fixed assets have been disposed off during the year, to affect the going concern.
- (ii) (a) The physical verification of inventory has been conducted at reasonable intervals by the management; In our opinion the frequency of verification is reasonable having regard to the size of the company and the nature of its business. In case of stocks lying with third parties, certificate confirming such stocks have been received in respect of stocks held on 31st March-2007.
- (b) The procedures of physical verification of inventory followed by the management is reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) The company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) The company has not granted, unsecured loans to companies, firms or other parties covered in the register maintained under section 301 of the Act.
- (b) The company has taken interest free unsecured loans from companies, firms or other parties covered in the register maintained under section 301 of the Act from two parties amounting to Rs. 260.28 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh
- vi) In our opinion and according to informations and explanations given to us, the company needs to strengthen the internal control procedures commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and there is no continuing failure to correct major weaknesses in internal control.*
- (v) (a) All transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered.
- (b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lakhs, in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time;
- (vi) The company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under.
- (vii) In our opinion the company has an internal audit system commensurate with its size and nature of its business. However it needs to be strengthened*
- (viii) The maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act.



- (ix) (a) The company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty, cess and other statutory dues with the appropriate authorities and there is no arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable.

There is no dues of sales tax/income tax/custom tax/wealth tax/excise duty/cess that have not been deposited on account of any dispute.

- (x) The Company has accumulated losses and has not sustained cash losses during the current financial year covered under our audit and the immediately preceding financial year.
- (xi) The company has not defaulted in repayment of dues to a financial institution or bank .
- (xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The provisions of any special statute applicable to chit fund/nidhi/ mutual benefit fund/societies are not applicable to the Company and therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
- (xiv) As the company is not dealing or trading in shares, securities, debentures and other investments, the maintenance of proper records of the transactions and contracts and making timely entries of the shares, securities, debentures and other securities held by the company, are not applicable.
- (xv) The company has not given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;
- (xvi) The Company has not taken any term loan from any bank or financial institutions.
- (xvii) According to information and explanations given to us, and an overall examination of the Balance Sheet and fund flow statement of the Company, we report that the funds raised on short-term basis have not been used for long term investment and vice versa.
- (xviii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act .
- (xix) According to information and explanations given to us, the company has not issued any debentures during the year and no securities were created by the company.
- (xx) The company has not raised money on public issue.
- (xxi) On the basis of our examination of the books of accounts and other relevant records and information made available to us, prima-facie have not noticed any fraud on or by the Company, during the year. Further, the management has represented to us that no fraud on or by the Company has been reported during the year. However, we are unable to determine / verify as to whether any such reporting has been made, during the year.

**For M/s P. CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 11.06.2007

## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	41,000,000.00	41,000,000.00
Reserves and surplus	2	(41,219,646.27)	(45,190,267.95)
		(219,646.27)	(4,190,267.95)
<b>LOAN FUNDS</b>			
Secured loans	3	356,949.76	435,815.31
Unsecured loans	4	26,028,609.00	20,103,246.00
		26,385,558.76	20,539,061.31
		26,165,912.49	16,348,793.36
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>	5		
Gross Block		110,863,596.35	108,218,292.17
Less : Accumulated depreciation		53,776,556.20	48,206,071.20
Net block		57,087,040.15	60,012,220.97
Capital work-in-progress and advances		3,871,288.00	-
		60,958,328.15	60,012,220.97
<b>INVESTMENTS</b>	6	-	-
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	7	736,027.16	200,425.00
Sundry debtors	8	6,284,375.64	3,259,738.00
Unbilled revenues		183,749.00	-
Cash and bank balances	9	10,785,790.91	2,929,343.51
Loans and advances	10	6,211,930.28	4,378,154.38
		24,201,872.99	10,767,660.89
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	11	58,994,288.65	54,431,088.50
		58,994,288.65	54,431,088.50
<b>Net current assets</b>		(34,792,415.66)	(43,663,427.61)
		26,165,912.49	16,348,793.36
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	21		

The schedules referred to above form an integral part of the financial statements.

This is the balance sheet referred to our report of even date.

For and on behalf of the Board of Directors.

M/s P. Chandrasekar  
Chartered Accountants

Chander K. Baljee  
Director

Ravi S Doddi  
Director

P.Chandrasekar  
Partner

Place : Bangalore  
Dated : 11.06.2007

Place : Bangalore  
Dated : 11.06.2007



## PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
		Rs.	Rs.
<b>INCOME</b>			
Operating Income	12	55,092,044.10	27,735,606.66
Other Income	13	2,163,733.05	5,716,607.64
		<b>57,255,777.15</b>	<b>33,452,214.30</b>
<b>EXPENDITURE</b>			
Food and beverages consumed	14	9,683,104.05	5,168,757.11
Employee costs	15	8,201,298.00	4,035,874.00
Other operating expenses	16	15,979,681.00	11,198,359.35
General and administration expenses	17	12,446,914.97	7,003,367.33
Finance charges	18	1,235,554.45	792,581.31
Depreciation	5	5,570,485.00	3,469,177.28
		<b>53,117,037.47</b>	<b>31,668,116.38</b>
<b>PROFIT BEFORE TAX</b>		<b>4,138,739.68</b>	<b>1,784,097.92</b>
<b>LESS:OLD BALANCES WRITTEN OFF</b>		<b>-</b>	<b>6,908,743.00</b>
		<b>4,138,739.68</b>	<b>(5,124,645.08)</b>
<b>Provision for tax</b>		<b>-</b>	<b>-</b>
- Fringe Benefit tax		<b>168,118.00</b>	<b>32,818.00</b>
<b>PROFIT AFTER TAX</b>		<b>3,970,621.68</b>	<b>(5,157,463.08)</b>
Balance brought forward from the previous year/period		<b>45,190,267.95</b>	<b>40,032,804.87</b>
<b>Surplus carried to Balance Sheet</b>		<b>41,219,646.27</b>	<b>45,190,267.95</b>
<b>EARNING PER SHARE (Par value - Rs.100)</b>		<b>9.68</b>	<b>(12.58)</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>21</b>		

The schedules referred to above form an integral part of the financial statements.

This is the profit and loss account referred to in our report of even date.

**For and on behalf of the Board of Directors.**

**M/s. P. Chandrasekar**  
Chartered Accountants

**Chander K. Baljee**  
Director

**Ravi S Doddi**  
Director

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 11.06.2007

Place : Bangalore  
Dated : 11.06.2007



## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
Authorised		
410000 Equity Shares of Rs.100 each	41,000,000.00	41,000,000.00
Issued, subscribed and paid up		
410000 Equity Shares of Rs.100 each fully paid up	41,000,000.00	41,000,000.00
	41,000,000.00	41,000,000.00
<b>SCHEDULE 2</b>		
<b>RESERVES AND SURPLUS</b>		
Profit and Loss account		
Balance at the beginning of the period	45,190,267.95	40,032,804.87
Add: Profit for the year/Period	3970621.68	-5,157,463.08
	41,219,646.27	45,190,267.95
Balance at the end of the year / period	41,219,646.27	45,190,267.95
	41,219,646.27	45,190,267.95
<b>SCHEDULE 3</b>		
<b>SECURED LOANS</b>		
Vehicle Loans	356,949.76	435,815.31
	356,949.76	435,815.31
<b>SCHEDULE 4</b>		
<b>UNSECURED LOAN</b>		
From Directors- Ravi Doddi Group	9,080,376.00	9,080,376.00
From Royal Orchid Hotels Ltd.,	16,948,233.00	11,022,870.00
	26,028,609.00	20,103,246.00
<b>SCHEDULE 6</b>		
<b>INVESTMENTS</b>	-	-
	-	-
<b>SCHEDULE 7</b>		
<b>INVENTORIES</b>		
Food and beverages	450,316.49	200425.00
Other items	285,710.67	-
	736,027.16	200,425.00
<b>SCHEDULE 8</b>		
<b>SUNDRY DEBTORS</b>		
(Unsecured)		
Debts outstanding for period exceeding six months:		
- Considered good	1,022,212.00	45,920.00
- Considered doubtful	-	36,363.00
	1,022,212.00	82,283.00
Other debts		
- Considered good	5,330,404.64	3,259,738.00
- Considered doubtful	-	7,166.00
	6,352,616.64	3,349,187.00
Less: Provision for doubtful debts	68,241.00	89,449.00
	6,284,375.64	3,259,738.00



	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 9</b>		
<b>CASH AND BANK BALANCES</b>		
Cash balances on hand	7,586.00	9,925.00
Other cash balances	726,551.00	-
Banks balances with Scheduled Banks:		
In Current accounts	3,025,663.91	2,919,418.51
F.D with Corporation Bank	7,025,990.00	-
	<b>10,785,790.91</b>	<b>2,929,343.51</b>
<b>SCHEDULE 10</b>		
<b>LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	1,799,031.00	1,289,612.38
Advance Income tax	700,000.00	-
Security deposits	3,105,314.00	2,837,514.00
Prepaid Expenses	502,430.00	251,028.00
Interest accrued	105,155.28	-
	<b>6,211,930.28</b>	<b>4,378,154.38</b>
<b>SCHEDULE 11</b>		
<b>CURRENT LIABILITIES</b>		
Sundry Creditors	5,524,768.56	699,587.50
Accrued expenses	1,247,997.00	4,871,998.50
Trade Advances	155,205.00	201,834.00
Other liabilities	26,687,828.00	23,374,098.00
Dues to employees	946,304.34	609,939.73
Duties and taxes payable	1,252,163.75	444,424.77
Other liabilities - Club Membership	24233466.00	
Less:Membership Revenue	1053444.00	
	<b>23,180,022.00</b>	<b>24,229,206.00</b>
	<b>58,994,288.65</b>	<b>54,431,088.50</b>
<b>SCHEDULE 12</b>		
<b>OPERATING INCOME</b>		
Room Revenue	28,380,143.57	13,371,045.14
Food and Beverages	24,942,192.15	13,949,991.27
Other Service Charges	1,769,708.38	1,130,570.25
	<b>55,092,044.10</b>	<b>28,451,606.66</b>
<b>SCHEDULE 13</b>		
<b>OTHER INCOME</b>		
Difference in Foreign exchange	27,859.00	0.00
Excess provision written back	7,567.00	1,428,261.00
Miscellaneous Income	2,023,151.77	3,572,346.64
F.D.Interest	105,155.28	-
	<b>2,163,733.05</b>	<b>5,000,607.64</b>

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 14</b>		
<b>FOOD AND BEVERAGES CONSUMED</b>		
Opening Stock	5,168,757.11	84,789.00
Add:Purchases during the period	5,250,374.10	5,284,393.11
	10,419,131.21	5,369,182.11
Less:Closing Stock	736,027.16	200,425.00
Consumption for the period	9,683,104.05	5,168,757.11
<b>SCHEDULE 15</b>		
<b>EMPLOYEE COSTS</b>		
Salaries, wages and bonus	7,303,148.00	2,897,277.00
Kitchen stewarding	262,242.00	30,000.00
Contribution to Provident Fund & ESIC	633,299.00	305,712.00
Staff welfare	2,609.00	802,885.00
	8,201,298.00	4,035,874.00
<b>SCHEDULE 16</b>		
<b>OTHER OPERATING EXPENSES</b>		
Linen and room supplies	1,143,176.53	597,988.50
Kitchen and other supplies	984,395.88	104,034.10
Linen, Uniform washing and laundry expenses	613,173.00	283,260.20
Power and fuel	4,178,044.00	3,106,651.00
Lease rent for hotel premises	1,379,410.00	1,422,424.00
Hiring Charges	1,555,894.41	1,098,894.00
Management fees paid to ROHL	3,541,134.00	1,185,347.00
Management fees paid to Concept Hospitality	-	1,750,000.00
Repairs and Maintenance	-	
Building	1,117,424.50	977,244.10
Machinery	716,880.17	28,120.00
Furniture	41,614.50	48,926.00
Others	670,683.01	365,933.45
Vehicle	37,851.00	29,537.00
	15,979,681.00	11,198,359.35



	<b>31<sup>st</sup> March 2007</b>	<b>31<sup>st</sup> March 2006</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>SCHEDULE 17</b>		
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Commission, brokerage and discount	<b>1,560,087.93</b>	1,322,233.13
Rates and taxes	<b>1,514,574.10</b>	1,831,068.96
Advertising and business promotion	<b>1,241,765.00</b>	190,299.00
Legal and professional charges	<b>219,602.00</b>	246,593.00
Technical fees - ROHL	<b>3,813,963.00</b>	-
Telephone, Internet and Fax	<b>389,098.00</b>	385,774.77
Printing and Stationery	<b>533,228.05</b>	213,366.50
Travelling and conveyance	<b>26,874.00</b>	926,645.00
Consultancy paid	<b>586,902.00</b>	502,520.00
Audit fees	<b>84,270.0</b>	40,000.00
Security charges	<b>615,946.00</b>	378,291.00
Provisional for doubtful debts	<b>68,241.00</b>	89,449.00
Insurance	<b>410,235.00</b>	195,092.00
Music and entertainment	<b>211,832.00</b>	217,402.00
Carriage inward	<b>387,661.00</b>	93,916.00
Bank Charges	<b>49,880.19</b>	50,843.70
Miscellaneous expenses	<b>490,875.70</b>	319,873.27
	<b>12,446,914.97</b>	7,003,367.33
<b>SCHEDULE 18</b>		
<b>FINANCE CHARGES</b>		
Interest on Vehicle Loan	<b>35,554.45</b>	9,955.31
Interest on Loan (KSIIDC)	-	782,626.00
Interest on Unsecured Loan	<b>1,200,000.00</b>	-
	<b>1,235,554.45</b>	792,581.31

For and on behalf of the Board of Directors.

**M/s. P. Chandrasekar**  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 11.06.2007

**Chander K. Baljee**  
Director

Place : Bangalore  
Dated : 11.06.2007

**Ravi S Doddi**  
Director

## NOTES TO THE FINANCIAL STATEMENTS

## SCHEDULE – 21

## 1. Background

Maruti Comforts & Inn Pvt Ltd., ('the Company') was incorporated on 16<sup>th</sup> March 1994 to carry on the business Hotels / Holiday resorts and related services. M/s.Royal Orchid Hotels Limited holds 51% of equity shares and Balance of 49% hold by M/s.Senet Cable Private Ltd.,

## 2. Significant accounting policies

## i. Basis of preparation

The financial statements have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India ('ICAI'). The accounting policies have been consistently applied unless otherwise stated.

## ii. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals for leave encashment, bonus and gratuity.

## iii. Revenue recognition

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the Hotel. Room revenue is recognized based on occupation and revenues from sale of food and beverages and other allied services, as the services are rendered.

## iv. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalized.

## v. Depreciation:

Depreciation on fixed assets is provided on the Straight Line Method, using the higher of the rates specified in Schedule XIV to the Companies Act, 1956 or management estimates of the economic useful lives of such assets. These rates are specified below:

Asset Category	Rates of Depreciation (%)
Plant and machinery	4.75%
Office Equipment	4.75%
Computer and related equipment, including software	16.21%
Furniture & fittings	9.50%
Vehicles	9.50%
Gym Equipments	4.75%
Discotheque	4.75%
Water Fountain	4.75%

Assets individually costing less than Rs. 5,000 are fully depreciated in the year of purchase. Improvements to buildings are amortized over the period of the lease.



**vi. Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

**vii. Inventory**

Inventory comprises stock of food and beverages and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the goods to their present location and condition and determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

**viii. Retirement benefits**

The Company provides for gratuity and bonus, a defined benefit plan in accordance with the rules of the Company based on actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized Provident Fund and Employees state Insurance Scheme, which are defined contribution schemes, which are charged to the profit and loss account as incurred.

**ix. Leave Encashment**

The Company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

**x. Taxes on income**

During the year no deferred tax has been recognized as there is no virtual certainty that sufficient taxable income may be available in future against which such deferred tax could be realized.

**xi. Earnings per share**

Basic Earnings per Share are Calculated by dividing Net Profit/Net Loss for the period divided by Number of Shares. As there are no unissued shares during the year the diluted earnings will be the same as basic earnings.

**xii. Provisions and contingent liabilities**

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

**3. Recoverability of loans and advances**

In the opinion of the board of directors, current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amounts at which they are stated and provisions for all known liabilities have been made in the accounts.

## 4. Earnings per share

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
Net Profit after tax attributable to equity shareholder	39,70,622	(51,57,463)
Basic earning per share	13.07	34.88
Nominal value per equity share	100	100

## 5. Related party transactions

## i. Parties where control exists include

Name of the party	Nature of Relationship
Ravi.S.Doddi	Key Management Personnel
Panna Doddi	Key Management Personnel
C.K.Baljee	Key Management Personnel
Royal Orchid Hotels Ltd	Entity Controlled by Directors
Ravi.S.Doddi – HUF	Entity Controlled by Directors
Quantum Technologies	Entity Controlled by Directors
R.D.Realtors	Entity Controlled by Directors
R.S.Corporation	Entity Controlled by Directors
Senet Cables Private Limited	Entity controlled by Director

## ii. Transactions with Related Parties during the year

Parties with whom transactions have taken place during the year include:

Name of the Party	Nature of Relationship
Ravi.S.Doddi	Key Management Personnel
Royal Orchid Hotels Ltd	Entity Controlled by Directors

The transactions with related parties during the year ended 31<sup>st</sup> March 2007 is summarized below:

Nature of transaction	Holding company Rs.	Entity controlled by Directors Rs.	Relatives of Management Personnel Rs.	TOTAL Rs.
Management Service fee (32,18,698)	-	-	-	32,18,698

## 6. Segmental Information

The Company's business comprises the operation of hotels, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the Company derives its entire revenues from services rendered in India, consequently, the disclosure of business and geographic segment – wise information is not applicable to the Company.

## 7. Prior year comparatives

The Company has prepared financial statements, in accordance with AS-25, prior period comparatives have been provided.



8. Membership fees if for a period of 30 years from the commencement of operations. Accordingly Membership fees are accrued ratably over the contract period. The balance of such fees received is carried as a liability. Also, membership fee is accrued for the contracted amount on receipt of Application for membership. Dues on such account are carried under other current assets.

Further the Promoters of the Company have guaranteed for settlement of any Liabilities arising due to the above.

During the year 51% of the Equity Shares have been acquired by Royal Orchid Hotels Limited Bangalore (ROHL). In terms of various agreements, between Senet Cables Private Limited (being the 49% stake holders) and ROHL, all the liabilities and certain activities are to be carried out by Senet Cables Private Limited. The process of such commitments are still continuing and expected to be completed during the subsequent financial years. In view of the above, the liabilities which have remained outstanding but not payable are regrouped under current liabilities and will be adjusted /written back in future years upon completion of the commitments made by Senet Cables Private Limited.

**10 Deferred Income Taxes:**

In view of the carried forward losses and future uncertainties, the deferred tax assets have not been recognized in the books for the period under review.

**For and on behalf of the Board of Directors.**

**M/s. P. Chandrasekar**  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 11.06.2007

**Chander K. Baljee**  
Director

Place : Bangalore  
Dated : 11.06.2007

**Ravi S Doddi**  
Director



## CASH FLOW STATEMENT

	Year ended 31 <sup>st</sup> March 2007
	Rs.
<b>A. Cash flow from operating activities</b>	
Net profit before taxation	4,138,740
Add: Adjustments for	
Depreciation	5,570,485
Assets written off	-
Finance charges	1,235,554
Provisional for Doubtful debts	68,241
<i>Operating profit before working capital changes</i>	11,013,020
Movement in working capital:	
Increase in sundry debtors	- 3,276,628
Increase in Inventories	- 535,602
Increase in loans and advances	-1,833,776
Increase in current liabilities	- 4,563,201
Taxes paid	- 168,118
<b>Net cash from operative activities</b>	- 1,250,923
<b>B. Cash flows from investing activities</b>	
Purchase of fixed assets	- 2645304
Capital Work in Progress	- 3871288
Net investment in term deposit	-
Purchase of investment	-
Loan to holding co	5925363
Loan repayment by holding co	-
Sales/maturity of investments	-
Interest received	-
<b>Net cash used in investing activities</b>	- 591229
<b>C. Cash flows from financing activities</b>	
Share capital	-
Proceeding from long-term borrowings	- 78866
Repayment of long-term borrowings	- 1235554
Interest paid	-
<b>Net cash used in financing activities</b>	- 1314420
<b>A+B+C</b>	7,856,448
<b>Cash and bank balance as on 01/04/06</b>	2929343
<b>Cash and bank balance as on 31/03/07</b>	10785791

For and on behalf of the Board of Directors

M/s. P. Chandrasekar  
Chartered AccountantsChander K. Baljee  
DirectorRavi S Doddi  
DirectorP. Chandrasekar  
PartnerPlace : Bangalore  
Dated : 11.06.2007Place : Bangalore  
Dated : 11.06.2007


**ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT 1956**
**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**
**i Registration details :**

Registration No:	15366	State code	8
Balance sheet date	31/03/2007		

**ii Capital raised during the year (Amounts in Rs.'000)**

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

**iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)**

Total Liabilities	26165	Total Assets	26165
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**Sources of fund**

Paid up capital	41000	Reserves & Surplus (P & L a/c)	41220
Secured Loans	357	Unsecured loans	26029

**Application of funds**

Net Fixed assets	57087	Investments	Nil
Net current assets	34792	Preliminary expenses	Nil
Accumulated losses	Nil		

**iv Performance of the Company (amount in Rs.'000)**

Turnover	57256	Total Expenditure	53117
Profit /(loss) after tax	3971	Earnings per share in Rs.	9.68
Dividend rate%	Nil		

**v Generic names of three principal products/services of the company (as per monetary terms)**

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product description	Restaurant

## DIRECTORS' REPORT

Dear Shareholders,

We, the Directors of your Company, have pleasure in presenting the Second Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2007.

## Financial Results

The performance of the Company for the financial year ended 31st March 2007 is summarized below:

(Rs. In Lakhs)

Particulars	2006 – 07
Operating income	121.16
Non-operating income	3.90
Total revenue	125.06
Expenditure	105.93
Net profit before Depreciation & Tax	19.13
Depreciation	3.84
Profit after Depreciation but before Taxation	15.29

## Performance Analysis

During the year 2006 - 07, your Company has witnessed a period of revival with a turnover of Rs. 121.16 lakhs and the Net Profit before depreciation and tax at Rs.19.13 lakhs.

## Future Outlook

*Tourist arrivals remain healthy*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.2% surge in foreign tourist arrival in calendar year 2006 over the previous year.

*ARR expected to rise further*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next year. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.



### *Company's performance*

With Industrial growth, including the Hospitality Industry, likely to remain strong, your Company's overall performance and operating results are expected to further improve in the current year. With the positive mood prevailing in the tourism industry, the outlook for the company promises to be brighter in the coming years.

### **Directors**

Pursuant to the provisions of Section 256, Mr. Chander K. Baljee- Director retires by rotation and being eligible offers himself for re-appointment.

### **Auditors' and their Report:**

M/s. P. Chandrasekar, Chartered Accountants, retires at the ensuing Annual General Meeting and has expressed their willingness to continue in office if re-appointed. Since the proposal is in the best interests of the Company, your Directors propose their appointment as Statutory Auditors for the current year, for the approval of shareholders.

### **Public Deposits**

During the year under review, your company has neither invited nor accepted any deposits from the public.

### **Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Operations Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has, in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iv. It has prepared the annual accounts on a going concern basis.

### **Employees**

The details of employees as specified under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended upto date is not applicable.

### **Statutory Information**

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out hereunder:

*(1) CONSERVATION OF ENERGY*

Your Company's efforts towards conservation of energy, which results in savings in consumption of electricity, a significant component of the energy cost, is an ongoing process.

*(2) RESEARCH AND DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION*

Your Company is engaged in Hotel & Hospitality Industry. Hence, your Company does not require Research & Development activities. Despite that, the Company is constantly upgrading and optimizing the Process parameters with emphasis on cost control and rationalization. The Company continues to strive for improving methodology of work and productivity of operations through continuous research. However, the actual expenditure incurred thereon is minimal.

*(3) FOREIGN EXCHANGE EARNINGS AND OUTGO*

There is no foreign exchange earnings and outgo during the year.

**Acknowledgments**

Your Directors acknowledge with gratitude and wish to place on record sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

For and on behalf of the Board of Directors of  
ROYAL ORCHID JAIPUR PRIVATE LIMITED

Place : Bangalore  
Date : 15.06.2007

CHANDER K. BALJEE  
Chairman



## SECRETARIAL COMPLIANCE CERTIFICATE

Registration No : **08/36813**

Nominal Capital : **Rs 2 Crores**

To

The Members,  
**ROYAL ORCHID JAIPUR PRIVATE LIMITED**

I have examined the registers, records, books and papers of **ROYAL ORCHID JAIPUR PRIVATE LIMITED** (the Company) (Formerly Known as Royal Orchid Banjara Private Limited), as required to be maintained under the Companies Act, 1956, (the Act) and the rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31<sup>st</sup> March 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made thereunder and all entries therein have been duly recorded.
2. The company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities under the Act and the rules made thereunder.
3. The company being a private limited company (and subsidiary of public company) has minimum prescribed paid-up capital and its maximum number of members during the said financial year was 3 excluding its present and past employees and the company during the year under scrutiny.
  - Has not invited public to subscribe for its shares or debentures; and
  - Has not invited or accepted any deposits from persons other than its members, directors or their relatives.
4. The Board of Directors duly met 6 (Six) times on 1st June 2006, 28th July 2006, 1st September 2006, 30th September 2006, 9th October 2006, 30th January 2007 and in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose
5. The Company was not required to close its Register of Members or Debenture holders during the financial year.
6. The Annual General Meeting for the financial year ended on 31st March 2006 was held on 30th September 2006 after giving due notice to the members of the Company and the resolution passed thereat were duly recorded in Minutes Book maintained for the purpose.
7. Two Extra-ordinary General Meetings were held during the financial year.
8. The company has not advanced any loans to its directors or persons or firms or companies referred to under Section 295 of the Act.
9. The company has duly complied with provisions section 297 of the Act in respect of contracts specified in that section.
10. The company has made necessary entries in the register maintained under section 301 of the Act
11. As there were no instances falling within the purview of section 314 of the Act, the company has not obtained any approvals from the board of directors, members or Central Government.
12. The Company has not issued any duplicate share certificates during the financial year.
13. The company
  - has delivered all the certificates on allotment of securities during the financial year;
  - has not deposited any amount in a separate bank account as no dividend was declared during the financial year.
  - has not posted warrants to any member of the company as no dividend was declared during the financial year
  - was not required to transfer any amount to Investor Education and Protection Fund, as the Company has no unclaimed dividend.
  - has duly complied with the requirements of Section 217 of the Act.

14. The Board of Directors of the company is duly constituted.
15. The Company has not appointed any Managing Director /Whole-time Director/ Manager during the financial year.
16. The Company has not appointed any sole-selling agents during the financial year.
17. The company was not required to obtain any approvals of the Central Government, Company Law Board, Regional Director, Registrar of Companies or such other authorities as may be prescribed under the various provisions of the Act during the financial year.
18. The directors have disclosed their interest in other firms /companies to the Board of Directors pursuant to the provisions of the Act and the rule made thereunder.
19. The company has issued 16,50,000 Equity shares of Rs.10 each during the financial year and complied with the provisions of the Act.
20. The company has not bought back any shares during the financial year.
21. Since the company has not issued debentures and preference shares the matter of redemption does not arise.
22. There were no transactions necessitating the company to keep in abeyance rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A of the Companies Act 1956, during the financial year.
24. The Company has duly complied with provisions of Section 293(1)(d) of the Act and the necessary resolution as per that Section have been passed in duly convened extraordinary general meeting.
25. The company has not made any loans or advances or given guarantees or provided securities to other bodies corporate and consequently no entries have been made in the register kept for the purpose.
26. The company has not altered the provisions of the Memorandum of Association with respect to situation of the company during the year under scrutiny
27. The company has not altered the provisions of the Memorandum of Association with respect to the objects of the company during the year under scrutiny.
28. The company has altered the provisions of the Memorandum of Association with respect to name of the company during the year under scrutiny.
29. The company has altered the provisions of the Memorandum of Association with respect to share capital of the company during the year under scrutiny.
30. The company has altered its Articles of Association during the financial year.
31. The company has not received any notices from Registrar of Companies during the financial year
32. The company has not received any money as security from its employees during the financial year.
33. Since the company is directly paying employers and employees contribution to provident fund authorities, the provisions of section 418 of the Act is not applicable to this company.

PLACE : Bangalore  
DATE : 15.06.2007

Sd/- :  
Name : **G. Shanker Prasad**  
Company Secretary in Practice  
C.P.No. : 6450

**ANNEXURE "A"****Registers as maintained by the Company:****Statutory Registers**

SL. No.	Name of the Register	Under Section	Remarks
1	Register of Members	150	Updated
2	Register of Directors	303	Updated
3	Register of Director's Share holding	307	Updated
4	Register of Charges	143(1)	Updated
5	Minutes Books of Board Meeting & General Meeting	193	Updated
6	Books of Accounts	209	Updated
7	Register of Contracts	301(3)	Updated

**Other Registers**

SL No	Name of the Register
1	Register of Directors Attendance
2	Register of shareholders Attendance

**Note:** - The company has not maintained the following registers as it was informed that there were no entries/transactions to be recorded there in

SL.NO	Name of the Register
1	Register of Securities Bought Back
2	Register and Index of Debenture holders
3	Minutes Book of Class Meeting
4	Register of Renewed and duplicate certificates
5	Register of Destruction of Records
6	Register of Deposits



## ANNEXURE "B"

Forms and Returns as filed by the Company with the Registrar of Companies during the financial year ending on 31<sup>st</sup> March 2007

SL. No.	Forms	U/s	For	Whether filed within the prescribed time Yes/No	If delay in filing whether requisite additional fee paid Yes/NA
1.	Balance Sheet	220	For the year ended on 31.03.2006	NO	YES
2.	Annual Return	159	Made up to 30.09.2006	NO	YES
3.	Form 2	75(1)	Allotment of shares		
4.	Form 23	192	Alteration of articles of association and Increase of share capital	YES	NO
5.	Form 62		Alteration of articles of association for increase of share capital	YES	NO
6.	Form 23	192	Change of name		
7.	Form 62		Alteration of MOA & AOA for change of Name	YES	NO
8.	Form 5		Increase of share capital	YES	NO
9.	Form 1A		Change of name application		
10.	Form 1B		Change of name	YES	NO

PLACE : Bangalore  
DATE : 15.06.2007

Sd/- :  
Name : **G. Shanker Prasad**  
Company Secretary in Practice  
C.P.No. : 6450



## **AUDITORS' REPORT**

**To**

**The Members**

**Royal Orchid Jaipur Private Limited**

**Bangalore**

We have audited the attached Balance Sheet of **Royal Orchid Jaipur Private Limited** as at 31<sup>st</sup> March 2007 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, the matters specified in paragraphs 4 & 5 of the said Order, are not applicable to the Company.

Further to our comments in the annexure attached hereto, we report that:

- A. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- B. In our opinion, proper books of account as required by law have been kept by Company, so far as appears from our examination of books;
- C. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
- D. In our opinion, the Balance Sheet & Profit & Loss Account comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956 ;
- E. In our opinion and to the best of our information and according to the explanations given to us, none of the Directors of the Company are disqualified from being appointed as Directors under clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.
- F. In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give the true and fair view in conformity with the accounting principles generally accepted in India.
  - a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007.
  - b) in the case of Profit and Loss Account, of the Profit of the Company for the year ended on the date.

**For M/s P.CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 15 June 2007

## ANNEXURE TO AUDITOR'S REPORT

**Annexure to the auditor's report of even date to the members of Royal Orchid Jaipur Private Limited ('the Company'), on the financial statements for the year ended 31 March 2007**

- (i) (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) These fixed assets have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification.
- (c) No substantial part of fixed assets have been disposed off during the year, to affect the going concern.
- (ii) (a) The physical verification of inventory has been conducted at reasonable intervals by the management; In our opinion the frequency of verification is reasonable having regard to the size of the company and the nature of its business.
- (b) The procedures of physical verification of inventory followed by the management is reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) The company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) The company has not granted interest free unsecured loans to companies, firms or other parties covered in the register maintained under section 301 of the Act on the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh.
- (b). The company has taken interest free unsecured loans from companies, firms or other parties covered in the register maintained under section 301 of the Act from one party amounting to Rs. 438.98 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh
- (iv) In our opinion and according to informations and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business,
- (v) (a) All transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered.
- (b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lakhs, in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time;
- (vi) The company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under.
- (vii) *In our opinion the company has an internal audit system commensurate with its size and nature of its business. However it needs to be strengthened*
- (viii) The maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act.
- (ix) The Company has no accumulated losses and has not sustained cash losses during the current financial year covered under our audit and the immediately preceding financial year.
- (x) The company has not defaulted in repayment of dues to a financial institution or bank .



- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) The provisions of any special statute applicable to chit fund/nidhi/ mutual benefit fund/societies are not applicable to the Company and therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
- (xiii) As the company is not dealing or trading in shares, securities, debentures and other investments, the maintenance of proper records of the transactions and contracts and making timely entries of the shares, securities, debentures and other securities held by the company, are not applicable.
- (xiv) The company has not given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;
- (xv) The Company has not taken any term loan from any bank or financial institutions.
- (xvi) According to information and explanations given to us, and an overall examination of the Balance Sheet and fund flow statement of the Company, we report that the funds raised on short-term basis have not been used for long term investment and vice versa.
- (xvii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act .
- (xviii) According to information and explanations given to us, the company has not issued any debentures during the year and no securities were created by the company.
- (xix) The company has not raised money on public issue.
- (xx) On the basis of our examination of the books of accounts and other relevant records and information made available to us, prima-facie have not noticed any fraud on or by the Company, during the year. Further, the management has represented to us that no fraud on or by the Company has been reported during the year. However, we are unable to determine / verify as to whether any such reporting has been made, during the year.
- (xxi) All other provisions of the said order are not applicable to the company

**For M/s P. CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 15 June 2007

## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	16,600,000	100,000
Reserves and surplus	2	460,317	-
		<b>17,060,317</b>	<b>100,000</b>
<b>LOAN FUNDS</b>			
Secured loans	3	383,400	-
Unsecured loans	4	43,898,692	4,344,850
Deferred Tax Liabilities		870,000	-
		<b>45,152,092</b>	<b>4,344,850</b>
<b>TOTAL</b>		<b>62,212,409</b>	<b>4,444,850</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
	5		
Gross Block		24,974,923	-
Less : Accumulated depreciation		383,711	-
Net block		24,591,212	-
Capital work-in-progress and advances		-	1,030,462
		<b>24,591,212</b>	<b>1,030,462</b>
<b>INVESTMENTS</b>			
		-	-
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	6	684,371	-
Sundry debtors	7	2,286,868	-
Cash and bank balances	8	23,117,621	74,800
Loans and advances	9	18,484,165	4,320,000
		<b>44,573,025</b>	<b>4,394,800</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	10	6,679,138	1,005,612
Provisions	11	292,850	-
		<b>6,971,988</b>	<b>1,005,612</b>
<b>Net current assets</b>		<b>37,601,037</b>	<b>3,389,188</b>
<b>Miscellaneous Expenditure</b> (to the extent not written-off or Adjusted)			
Preliminary Expenses		20,160	25,200
Profit & Loss account		-	-
<b>TOTAL</b>		<b>62,212,409</b>	<b>4,444,850</b>
Note forming part of accounts	21		

As per our report of even date

For M/s P. Chandrasekar  
Chartered AccountantsP.Chandrasekar  
PartnerPlace : Bangalore  
Dated : 15 June 2007

For and on behalf of the Board of Directors

Chander K. Baljee  
DirectorPlace : Bangalore  
Dated : 15 June 2007Arjun Baljee  
Director



## PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>INCOME</b>			
Operating income	12	12,116,140	-
Other income	13	390,074	-
		<b>12,506,214</b>	-
<b>EXPENDITURE</b>			
Food and beverages consumed	14	1,333,730	-
Employees cost	15	2,140,783	-
Other operating expenses	16	6,097,046	-
Selling, General and administration expenses	17	1,009,564	-
Finance charges	18	12,155	-
Depreciation	19	383,711	-
		<b>10,976,989</b>	-
<b>Profit before tax , change in accounting policy and prior period items</b>		<b>1,529,225</b>	-
Profit before tax and prior period items		-	-
Profit before tax change in accounting		-	-
Provision for Income tax		170,000	-
Provision for Fringe benefit tax		28,908	-
Provision for Deferred tax		870,000	-
<b>Profit after tax</b>		<b>460,317</b>	-
Balance brought forward for the previous year		-	-
Excess provision for Tax written back		-	-
<b>Surplus available for appropriation</b>		<b>460,317</b>	-
Appropriation		-	-
Transfer to general reserve		-	-
Interim Dividend		-	-
Proposed final dividend		-	-
Corporate Tax on dividend		-	-
Surplus carried to balance sheet		<b>460,317</b>	-
Notes forming part of accounts	21		

As per our report of even date

For M/s P. Chandrasekar  
Chartered Accountants

P.Chandrasekar  
Partner

Place : Bangalore  
Dated : 15 June 2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15 June 2007

## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
2000000 Equity Shares of Rs.10 each	20,000,000	500,000
<b>Issued, subscribed and paid up</b>		
1660000 Equity Shares of Rs.10 each fully paid up	16,600,000	100,000
	<b>16,600,000</b>	<b>100,000</b>
<b>SCHEDULE 2</b>		
<b>RESERVES AND SURPLUS</b>		
Balance transferred from Profit & Loss accounts	460,317	-
	<b>460,317</b>	<b>-</b>
<b>SCHEDULE 3</b>		
<b>SECURED LOANS</b>		
Vehicle loan - ICICI bank car loan (Against hypothecation of vehicles)	383,400	-
	<b>383,400</b>	<b>-</b>
<b>SCHEDULE 4</b>		
<b>UNSECURED LOANS</b>		
Royal Orchid Hotels Ltd	43,898,692	4,344,850
	<b>43,898,692</b>	<b>4,344,850</b>

## SCHEDULE 5

## FIXED ASSETS

	Cost					Depreciation			Written Down Value		
Particulars	Value as on 31.03.2006	Additions	Deductions/ Adjustments	Value As at 31.03.2007	Depreciation Rate	Upto 31.03.2006	Deductions/ Adjustments	For the year	Upto 31.03.2007	As at 31.03.2007	As at 31.03.2006
Buildings	-	-	-	-	4%	-	-	-	-	-	-
Plant and machinery	-	12,743,712	-	12,741,716	4.75%	-	-	120,906	120,906	12,620,810	-
Office Equipment	-	162,153	-	3,306,846	4.75%	-	-	12,062	12,062	3,294,784	-
Computers	-	3,305,720	-	162,208	16.21%	-	-	96,897	96,897	65,311	-
Furniture fixtures	-	8,259,151	-	8,261,964	9.5%	-	-	145,219	145,219	8,116,745	-
Vehicles	-	502,189	-	502,189	9.5%	-	-	8,627	8,627	493,562	-
Discotheque	-	-	-	-	4.75%	-	-	-	-	-	-
Gym Equipments	-	-	-	-	4.75%	-	-	-	-	-	-
Water equipments	-	-	-	-	4.75%	-	-	-	-	-	-
CWP	1,030,462	-	1,030,462	-	4.75%	-	-	-	-	-	1,030,462
Current year	1,030,462	24,972,925	1,030,462	24,974,923	-	-	-	383,711	383,711	24,591,212	1,030,462
Previous year	-	-	-	-	-	-	-	-	-	-	-



	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 6</b>		
<b>INVENTORIES</b>		
(Valued at cost)		
Food and beverages	353,855	-
Stores and spare parts	330,516	-
	<b>684,371</b>	-
<b>SCHEDULE 7</b>		
<b>SUNDRY DEBTORS</b>		
(Unsecured considered good)		
Debtors outstanding for a period exceeding six months	-	-
Others Considered good	2,286,868	-
	<b>2,286,868</b>	-
<b>SCHEDULE 8</b>		
<b>CASH AND BANK BALANCES</b>		
Cash balances on hand	279,646	74,800
Banks balances with Scheduled Banks :		
In Current accounts	2,929,488	-
In deposits account (TDR)	17,763,521	-
In margin account	2,144,966	-
	<b>23,117,621</b>	<b>74,800</b>
<b>SCHEDULE 9</b>		
<b>LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received		
Staff	40,911	-
Security deposit	17,177,500	4,320,000
Prepaid expenses	865,889	-
Interest accrued and not due	321,715	-
TDS/TCS	78,150	-
	<b>18,484,165</b>	<b>4,320,000</b>
<b>SCHEDULE 10</b>		
<b>CURRENT LIABILITIES</b>		
Sundry creditors suppliers	3,056,069	-
Accrued expences	1,116,616	-
Duties and taxes	1,104,132	-
Lease rent payable	1,391,400	-
Other liabilities	4,921	5,612
Security deposit	6,000	-
Share Application money	-	100,000
	<b>6,679,138</b>	<b>1,005,612</b>
<b>SCHEDULE 11</b>		
Gratuity	93,942	-
Provision for taxation	170,000	-
Provision for FBT	28,908	-
Total	<b>292,850</b>	-
<b>SCHEDULE 12</b>		
<b>OPERATING INCOME</b>		
Room revenue	9,792,013	
Food & Beverages revenue	2,178,028	
Other service revenue	146,099	
	<b>12,116,140</b>	-



	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 13</b>		
<b>OTHER INCOME</b>		
Interest income	334,273	-
Guest transportatin	494,26	-
Profit on FC	6,375	-
	<b>390,074</b>	-
<b>SCHEDULE 14</b>		
<b>FOOD AND BEVERAGES CONSUMED</b>		
Opening stock	-	-
Add Purchases during the year	1,687,585	-
Less Closing stock	(353,855)	-
Consumption for the year	<b>1,333,730</b>	-
<b>SCHEDULE 15</b>		
<b>EMPLOYEES' REMUNERATION AND BENEFITS</b>		
Salaries/Allowances/Gratukity/Bonus	1,839,243	-
Contribution to PF	111,712	-
Staff welfare	189,828	-
	<b>2,140,783</b>	-
<b>SCHEDULE 16</b>		
<b>OTHER OPERATING EXPENSES</b>		
Linen and room supplies	713,684	-
Other kitchen supply	334,084	-
Linen, uniform washing and laundry expenses	166,652	-
Power and fuel	720,442	-
Lease rent for hotel properties	3,948,209	-
Hire charges	32,275	-
Repairing and maintenance		-
Machinery	99,616	-
Furniture & Fixture	42,319	-
Others	34,725	-
Preliminary expenses written off	5,040	-
	<b>6,097,046</b>	-
<b>SCHEDULE 17</b>		
<b>SELLING GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Commission, brokerage and discount	181,054	-
Rates and taxes	139,039	-
Advertisement and business promotion	231,077	-
Legal and professional charges	17,284	-
Communicatin cost	92,959	-
Printing and stationery	51,664	-
Travelling and conveyance	101,080	-
Security charges	89,187	-
Audit fees	84,270	-
Insurance	3,530	-
Bank charges	10,492	-
Miscellaneous expenses	1,731	-
Postage and couriers	6,197	-
	<b>1,009,564</b>	-
<b>SCHEDULE 18</b>		
<b>INTEREST</b>		
Interest on loan	9,213	-
Interest - others	2,942	-
	<b>12,155</b>	-
<b>SCHEDULE 19</b>		
<b>DEPRECIATION</b>		
Depreciation	383,711	-
	<b>383,711</b>	-



## NOTES TO THE FINANCIAL STATEMENTS

### SCHEDULE 21

#### 1. Background

Royal Orchid Jaipur Pvt. Ltd. ("the Company") was incorporated on 21.07.05 to carry on the business hotels/holiday resorts and related services. M/s. Royal Orchid Hotels Ltd holds 100% of equity shares of the Company. The Hotel started its commercial activity on 26<sup>th</sup> January 2007.

The company entered into an agreement with M/s. Paradise Mehak Properties Pvt. Ltd for lease the property along with the building for a period of 19 years 11 months with a right of renewal. The rent payable Rs. 12,50,000/= per month with an enhanced at the rate of 3% every year. An interest free refundable Security deposit of Rs 1,71,20,500/= was given to M/s. Paradise Mehak Properties Pvt. Ltd.

The company entered into an agreement with M/s.Paradise Mehak Properties Pvt. Ltd. For lease of equipment, plant and machinery at the property for a period of 19 years 11 months with a right of renewal. The rent payable is at Rs.5,50,000/- per month with an enhanced at the rate of 3% every year.

A tri-partite agreement was sign on 29<sup>th</sup> of January 2007 between Housing Development Finance Corporation Limited who lend Rs. 12.50 Crores to M/s. Paradise Mehak Properties Pvt. Ltd. the lessor and Royal Orchid Jaipur Pvt Ltd the lessee. As per the agreement the lessee will pay the loan repayment amount with interest directly to the lender HDFC from the lease rent payable to the lesser account.

The Hotel already approach the Govt of India, Ministry of Tourism for 4 star category approval and the process are on for the same.

#### 2. Significant accounting policies

##### *i Basis of preparation*

The financial statement have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India (ICAI). The accounting policies have been consistently applied unless otherwise stated.

##### *ii Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals of leave encashment, bonus and gratuity.

##### *iii Revenue recognition*

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the Hotel, room revenue is recognized based on occupation and revenues for sale of food and beverages and other allied services, as the services are rendered.

##### *iv Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalized.

*v Depreciation*

Depreciation on fixed assets is provided on the Straight Line Method, using the higher of the rates specified in Schedule XIV to the Companies Act, 1956 or management estimates of the economic useful lives of such assets. These rates are specified below:

Assets category	Rates of depreciation used %
Plant and Machinery	4.75%
Office Equipment	1.75%
Computer and related equipment, including software	16.21%
Furniture and fittings	9.5%
Vehicles	9.5%

Assets individually costing less than Rs. 5000.00 are fully depreciated in the year of purchase. Improvements to buildings are amortized over the period of the lease.

*vi Impairment of assets*

The company assessed at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

*vii Inventory*

Inventory comprised stock of food and beverages and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the good to their present location and condition and determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

*viii Retirement benefits*

The Company provides for gratuity and bonus, a defined benefit plan in accordance with the rules of the company based on actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized Provident Fund and Employees state Insurance scheme, which are defined contribution schemes, which are charged to the profit and loss account as incurred.

*ix Leave Encashment*

The company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

*x Taxes on income*

During the year no deferred tax has been recognized in accordance with AS22 of ICAI.

*xi Earnings per share*

Basic earning per share is calculated by dividing net profit/loss for the period divided by Number of shares. As there are no un-issued shares during the year the diluted earning will be the same as basic earning.

*xii Provisions and contingent liabilities*

The company creates a provision when there is a present obligation as a result of a past event that probably requires and outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a



contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, required an outflow of resources. When there is a possible obligation or present obligation in respect of which the likelihood of outflow of resources is remote no provision or disclosure is made.

*xiii Leases – Operating Leases*

Operating Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating Lease payments are recognized as an expense in the profit and loss account on a straight line basis over the lease term.

### 3. RECOVERABILITY OF LOANS AND ADVANCES

In the opinion of the board of directors, current assets, loans and advances have a value on realization in the ordinary course of business at Jaipur equal to the amounts at which they are stated and provisions for all known liabilities has been made in the accounts.

### 4. EARNINGS PER SHARE

	31 <sup>st</sup> March 2007 (Rs.)	31 <sup>st</sup> March 2006 (Rs.)
Net profit/loss after tax attributable to equity shareholder	4,30,317	(3,30,462)
Basic earning per share	0.26	(-)
Nominal value per equity share	10.00	10.00

### 5. RELATED PARTY TRANSACTIONS

*i Parties where control exists include*

Name of the party	Nature of relationship
Royal Orchid Hotels Ltd	Entity controlled by Directors
Mr. Arjun Baljee	Entity controlled by Directors
Mr. C K Baljee	Entity controlled by Directors

### 6. SEGMENTAL INFORMATION

The Company's business comprises the operation of hotel, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the company derives its entire revenues from services rendered in India, consequently, the disclosure of business and geographic segment-wise information is not applicable to the company.

### 7. PRIOR YEAR COMPARATIVES

The Company has prepared financial statements, in accordance with AS-25 prior period comparatives have been provided and have been reclassified and rearranged wherever necessary.

### 8. DEFERRED INCOME TAXES

The deferred tax asset has been taken into books for the period under review.

### 9. QUANTITATIVE DETAILS

Due to the volume and large number of insignificant transactions, the management is unable to provide the quantitative information on the turnover and consumption of food and beverages consumed. The Company is in the process of applying to the central government for exemption from presentation of such information.

10. State Bank of Hyderabad Bangalore has issued deferred payment guarantee to HDFC for a maximum amount of Rs.150 Lakhs with validity up to 21/02/2008.
11. The company has received two EPCG licences with entitles it to import capital goods at a concessional rate of duty. Against these imports the company has export obligations equal to eight times of the duty amount saved. The Company has commenced this obligation from the current year onwards.

Particulars relating to foreign exchange

Income from operations	Rs.13,06,224
Value of import on CIF basis capital goods	Rs.39,87,043

**For M/s P. Chandrasekar**  
Chartered Accountants

**For and on behalf of the Board of Directors**

**P. Chandrasekar**  
Partner

**Arjun Baljee**  
Director

**Chander K. Baljee**  
Director

Place : Bangalore  
Date : 15 June 2007



## CASH FLOW STATEMENT

	Year ended 31 March 2007
	Rs.
<b>A. Cash flows from operating activities</b>	
Net profit before taxation	1,529,225
Add: Adjustments for	
Depreciation	383,711
Assets written off	5,040
Finance charges	12,155
Provisional for Doubtful debts	
<i>Operating profit before working capital changes</i>	1,930,131
Movement in working capital :	
Increase in sundry debtors	- 2,286,868
Increase in Inventories	- 684,371
Increase in loans and advances	- 14,164,165
Increase in current liabilities	5,966,375
Taxes paid	- 1,068,908
<b>Net cash from operative activities</b>	- 11,367,937
<b>B. Cash flows from investing activities</b>	
Purchase of fixed assets	-23944460
Net investment in term deposit	-
Purchase of investment	-
Loan to holding company	39937242
Loan repayment by holding company	-
Sales/maturity of investments	-
Interest received	-
<b>Net cash used in investing activities</b>	15992782
<b>C. Cash flows from financing activities</b>	
Share capital	16500000
Proceeding from long-term borrowings	-
Repayment of long-term borrowings	-
Interest paid	-12155
<b>Net cash used in financing activities</b>	16487845
<b>A+B+C</b>	23042821
<b>Cash and bank balance as on 01/04/06</b>	74800
<b>Cash and bank balance as on 31/03/07</b>	23117621

For M/s P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15 June 2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15 June 2007

# **ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT 1956**

## **BALANCE SHEET ABSTRACT AND COMPNY'S GENERAL BUSINESS PROFILE**

### **i Registration details :**

Registraion No:	36813	State code	8
Balance sheet date	31/03/2007		

### **ii Capital raised during the year (Amounts in Rs.'000)**

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

### **iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)**

Total Liabilities	62212	Total Assets	62212
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#### **Sources of fund**

Paid up capital	16600	Reserves & Surplus (P & L a/c)	460
Secured Loans	383	Unsecured loans	44769

#### **Application of funds**

Net Fixed assets	24591	Investments	0
Net current assets	37601	Preliminary expenses	20
Accumulated losses	Nil		

### **iv Performance of the Company (amount in Rs.'000)**

Turnover	12506	Total Expenditure	10976
Profit /(loss) after tax	460	Earnings per share in Rs.	0.26
Divident rate%	Nil		

### **v Generic names of three pricipal products/services of the company (as per monetary terms)**

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product desperation	Restaurant



## DIRECTORS' REPORT

Dear Shareholders,

We, the Directors of your Company, have pleasure in presenting the Second Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2007.

### Financial Results :

The performance of the Company for the financial year ended 31st March 2007 is summarized below:

(Rs. In Lakhs)

Particulars	2006 – 07	2005 – 06
Operating income	-	-
Non-operating income	-	-
Total revenue	-	-
Expenditure	1.62	0.31
Net loss before Depreciation & Tax	1.62	0.31
Depreciation	-	-
Loss after Depreciation but before Taxation	1.62	0.31

### Performance Analysis :

Your Company was incorporated on 9th March 2006 and has incurred a net loss of Rs. 1, 62,152.

### Future outlook :

#### *Tourist arrivals remain healthy*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.2% surge in foreign tourist arrival in calendar year 2006 over the previous year.

#### *ARR expected to rise further*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next year. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.

#### *Company's performance*

With Industrial growth, including the Hospitality Industry, likely to remain strong, your Company's overall performance and operating results are expected to further improve in the current year. With the positive mood prevailing in the tourism industry, the outlook for the company promises to be brighter in the coming years.

### Directors

Pursuant to the provisions of Section 256, Mr.Arjun Baljee- Director retires by rotation and being eligible offers himself for re-appointment.

### Auditors' and their Report:

M/s. P. Chandrasekar, Chartered Accountants, retires at the ensuing Annual General Meeting and has expressed their willingness to continue in office if re-appointed. Since the proposal is in the best interests of the Company, your Directors propose their appointment as Statutory Auditors for the current year, for the approval of shareholders.

### Public Deposits

During the year under review, your company has neither invited nor accepted any deposits from the public.



**Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has, in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iv. It has prepared the annual accounts on a going concern basis.

**Employees :**

The details of employees as specified under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended upto date is not applicable.

**Statutory Information**

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out hereunder:

**(1) CONSERVATION OF ENERGY**

Your Company's efforts towards conservation of energy, which results in savings in consumption of electricity, a significant component of the energy cost, is an ongoing process.

**(2) RESEARCH AND DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION**

Your Company is engaged in Hotel & Hospitality Industry. Hence, your Company does not require Research & Development activities. Despite that, the Company is constantly upgrading and optimizing the Process parameters with emphasis on cost control and rationalization. The Company continues to strive for improving methodology of work and productivity of operations through continuous research. However, the actual expenditure incurred thereon is minimal.

**(3) FOREIGN EXCHANGE EARNINGS AND OUTGO**

There is no foreign exchange earnings and outgo during the year.

**Acknowledgments**

Your Directors acknowledge with gratitude and wish to place on record sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

**For and on behalf of the Board of Directors of  
ROYAL ORCHID SOUTH PRIVATE LIMITED**

Place: Bangalore  
Date: 15.06.2007

**CHANDER K. BALJEE**  
Chairman



## SECRETARIAL COMPLIANCE CERTIFICATE

Registration No : 08/38712  
Nominal Capital : Rs 1 Crore

To

The Members,  
**ROYAL ORCHID SOUTH PRIVATE LIMITED**

I have examined the registers, records, books and papers of **ROYAL ORCHID SOUTH PRIVATE LIMITED** (the Company), as required to be maintained under the Companies Act, 1956, (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company from 09.03.2006 (Incorporation) to financial year ended on 31<sup>st</sup> March 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the company, its officers and agents, I certify that in respect of the aforesaid financial year :

1. The company has kept and maintained all registers as stated in *Annexure 'A'* to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded.
2. The company has duly filed the forms and returns as stated in *Annexure 'B'* to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities under the Act and the rules made there under.
3. The company being a private limited company (and subsidiary of public company) has minimum prescribed paid-up capital and its maximum number of members during the said financial year was 3 excluding its present and past employees and the company during the year under scrutiny.
  - i Has not invited public to subscribe for its shares or debentures; and
  - ii Has not invited or accepted any deposits from persons other than its members, directors or their relatives.
4. The Board of Directors duly met 4 (Four) times on 3<sup>rd</sup> April 2006, 28<sup>th</sup> August 2006, 25<sup>th</sup> December 2006, and 28<sup>th</sup> March, 2007 and in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose
5. The Company was not required to close its Register of Members or Debenture holders during the financial year.
6. No Annual General Meeting was held during the financial year since it was first year of Incorporation.
7. One Extra-ordinary General Meeting was held during the financial year.
8. The company has not advanced any loans to its directors or persons or firms or companies referred to under Section 295 of the Act.
9. The company has duly complied with provisions section 297 of the Act in respect of contracts specified in that section.
10. The company has made necessary entries in the register maintained under section 301 of the Act
11. As there were no instances falling within the purview of section 314 of the Act, the company has not obtained any approvals from the board of directors, members or Central Government.
12. The Company has not issued any duplicate share certificates during the financial year.
13. The company
  - (i) has not delivered all the certificates on allotment of securities during the financial year;
  - (ii) has not deposited any amount in a separate bank account as no dividend was declared during the financial year.
  - (iii) has not posted warrants to any member of the company as no dividend was declared during the financial year
  - (iv) was not required to transfer any amount to Investor Education and Protection Fund, as the Company has no unclaimed dividend.
  - (v) has duly complied with the requirements of Section 217 of the Act.

14. The Board of Directors of the company is duly constituted.
15. The Company has not appointed any Managing Director /Whole-time Director/ Manager during the financial year.
16. The Company has not appointed any sole-selling agents during the financial year.
17. The company was not required to obtain any approvals of the Central Government, Company Law Board, Regional Director, Registrar of Companies or such other authorities as may be prescribed under the various provisions of the Act during the financial year.
18. The directors have disclosed their interest in other firms /companies to the Board of Directors pursuant to the provisions of the Act and the rule made there under.
19. The company has issued 9,00,000 Equity shares of Rs.10/- each during the financial year and complied with the provisions of the Act.
20. The company has not bought back any shares during the financial year.
21. Since the company has not issued debentures and preference shares the matter of redemption does not arise.
22. There were no transactions necessitating the company to keep in abeyance rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A of the Companies Act 1956, during the financial year.
24. The amounts borrowed by the Company are within borrowing limits of the Company and no resolution need to be passed U/s 293(1)(d) of the Act.
25. The company has not made any loans or advances or given guarantees or provided securities to other bodies corporate and consequently no entries have been made in the register kept for the purpose.
26. The company has not altered the provisions of the Memorandum of Association with respect to situation of the company during the year under scrutiny
27. The company has not altered the provisions of the Memorandum of Association with respect to the objects of the company during the year under scrutiny.
28. The company has not altered the provisions of the Memorandum of Association with respect to name of the company during the year under scrutiny.
29. The company has altered the provisions of the Memorandum of Association with respect to share capital of the company during the year under scrutiny.
30. The company has not altered its Articles of Association during the financial year.
31. The company has not received any notices from Registrar of Companies during the financial year
32. The company has not received any money as security from its employees during the financial year.
33. Since the company is directly paying employers and employees contribution to provident fund authorities, the provisions of section 418 of the Act is not applicable to this company.

Place : Bangalore  
Date : 15.06.2007

Sd/- :  
Name : **G. Shankar Prasad**  
Company Secretary in Practice  
C.P.No. : 6450



## ANNEXURE "A"

**Registers as maintained by the Company:**

### Statutory Registers

SL. No.	Name of the Register	Under Section	Remarks
1	Register of Members	150	Updated
2	Register of Directors	303	Updated
3	Register of Director's Share holding	307	Updated
4	Register of Charges	143(1)	Updated
5	Minutes Books of Board Meeting & General Meeting	193	Updated
6	Books of Accounts	209	Updated
7	Register of Contracts	301(3)	Updated

### Other Registers

SL No	Name of the Register
1	Register of Directors Attendance
2	Register of shareholders Attendance

**Note:** - The company has not maintained the following registers as it was informed that there were no entries/transactions to be recorded there in

Sl. No.	Name of the Register
1	Register of Securities Bought Back
2	Register and Index of Debenture holders
3	Minutes Book of Class Meeting
4	Register of Renewed and duplicate certificates
5	Register of Destruction of Records
6	Register of Deposits

## ANNEXURE "B"

Forms and Returns as filed by the Company with the Registrar of Companies during the financial year ending on 31<sup>st</sup> March 2007

SL. No.	Forms	U/s	For	Whether filed within the prescribed time Yes/No	If delay in filing whether requisite additional fee paid Yes/No
1.	Form 5	94(2)	Increase of Authorized Share Capital	NO	YES

Place : Bangalore  
Date : 15.06.2007

Sd/- :  
Name : **G. Shankar Prasad**  
Company Secretary in Practice  
C.P.No. : 6450

## AUDITORS' REPORT

To

The Members

Royal Orchid South Private Limited

Bangalore

We have audited the attached Balance Sheet of **ROYAL ORCHID SOUTH PRIVATE LIMITED** as at 31<sup>st</sup> March 2007 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, the matters specified in paragraphs 4 & 5 of the said Order, are not applicable to the Company.

Further to our comments in the annexure attached hereto, we report that:

- A. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- B. In our opinion, proper books of account as required by law have been kept by Company, so far as appears from our examination of books;
- C. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
- D. In our opinion, the Balance Sheet & Profit & Loss Account comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956 ;
- E. In our opinion and to the best of our information and according to the explanations given to us, none of the Directors of the Company are disqualified from being appointed as Directors under clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.
- F. In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give the true and fair view in conformity with the accounting principles generally accepted in India.
  - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007.
  - (b) in the case of Profit and Loss Account, of the Loss of the Company for the year ended on the date.

For **M/s. P. Chandrasekar**  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore

Date : 15<sup>th</sup> June 2007



## ANNEXURE TO THE AUDITORS' REPORT

**Annexure to the auditor's report of even date to the members of Royal Orchid South Private Limited ('the Company'), on the financial statements for the year ended 31<sup>st</sup> March 2007**

In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit, we report that:

- (i) (a) The company does not have any fixed assets an clause (i)(a)(b)(c) of this order are not applicable.
- (ii) (a) The Company does not hold any inventory and hence clause ii(a)(b)(c) of this order are not applicable.
- (iii) (a) The company has not granted interest free unsecured loans to companies, firms or other parties covered in the register maintained under section 301 of the Act on the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh.  
(b) The company has taken interest free unsecured loans from companies, firms or other parties covered in the register maintained under section 301 of the Act from one party amounting to Rs. 4.60 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh.
- (iv) In our opinion and according to informations and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business,
- (v) (a) All transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered.  
(b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lakhs, in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time;
- (vi) The company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under.
- (vii) *In our opinion the company has an internal audit system commensurate with its size and nature of its business. However it needs to be strengthened*
- (viii) The maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act.
- (ix) The Company has accumulated losses and has sustained cash losses during the current financial year covered under our audit and the immediately preceding financial year.
- (x) The company has not defaulted in repayment of dues to a financial institution or bank.
- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) The provisions of any special statute applicable to chit fund/nidhi/ mutual benefit fund/societies are not applicable to the Company and therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
- (xiii) As the company is not dealing or trading in shares, securities, debentures and other investments, the maintenance of proper records of the transactions and contracts and making timely entries of the shares, securities, debentures and other securities held by the company, are not applicable.
- (xiv) The company has not given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;

- (xv) The Company has not taken any term loan from any bank or financial institutions.
- (xvi) According to information and explanations given to us, and an overall examination of the Balance Sheet and fund flow statement of the Company, we report that the funds raised on short-term basis have not been used for long term investment and vice versa.
- (xvii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act .
- (xviii) According to information and explanations given to us, the company has not issued any debentures during the year and no securities were created by the company.
- (xix) The company has not raised money on public issue.
- (xx) On the basis of our examination of the books of accounts and other relevant records and information made available to us, prima-facie have not noticed any fraud on or by the Company, during the year. Further, the management has represented to us that no fraud on or by the Company has been reported during the year. However, we are unable to determine / verify as to whether any such reporting has been made, during the year.
- (xxi) All other provisions of the said order are not applicable to the company

**For M/s. P. Chandrasekar**  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Date :15<sup>th</sup> June 2007



## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
		Rs.	Rs.
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	9,100,000.00	100,000.00
Reserves and surplus		-	-
		<b>9,100,000.00</b>	100,000.00
<b>LOAN FUNDS</b>			
Secured loans		-	-
Unsecured loans	3	460,130.00	-
<b>TOTAL</b>		<b>9,560,130.00</b>	100,000.00
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Gross Block		-	-
Less : Accumulated depreciation		-	-
Net block		-	-
Capital work-in-progress and advances		-	-
<b>INVESTMENTS</b>		-	-
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories		-	-
Sundry debtors		-	-
Cash and bank balances	4	488,698.00	82,300.00
Loans and advances	5	8,902,800.00	-
		<b>9,391,498.00</b>	82,300.00
<b>LESS : CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	6	24,792.00	13,572.00
		<b>24,792.00</b>	13,572.00
<b>Net current assets</b>		<b>9,366,706.00</b>	68,728.00
<b>Miscellaneous Expenditure</b> (to the extent not written-off or Adjusted)			
Preliminary Expenses		-	-
Profit & Loss account	2	193,424.00	31,272.00
<b>TOTAL</b>		<b>9,560,130.00</b>	100,000.00
Note forming part of accounts	8		

As per our report of even date

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Arjun Baljee  
Director



## PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
		Rs.	Rs.
<b>INCOME</b>			
		-	-
		-	-
<b>EXPENDITURE</b>			
Food and beverages consumed			
Employees cost		-	-
Other operating expenses		-	-
General and administration expenses	7	162,152.00	31,272.00
Finance charges		-	-
Depreciation		-	-
		162,152.00	31,272.00
<b>LOSS BEFORE TAX</b>		(162,152.00)	(31,272.00)
Provision for tax		-	-
Fringe Benefit Tax		-	-
<b>LOSS AFTER TAX</b>		(162,152.00)	(31,272.00)
Balance brought forward for the previous year		(31,272.00)	-
<b>Profit/loss carried to balance sheet</b>		(193,424.00)	(31,272.00)
<b>Notes forming part of accounts</b>	8		

As per our report of even date

For M/s. P. Chandrasekar  
Chartered Accountants

For and on behalf of the Board of Directors

P. Chandrasekar  
Partner

Chander K. Baljee  
Director

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007



## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
1000000 Equity Shares of Rs.10 each	<b>10,000,000.00</b>	500,000.00
<b>Issued, subscribed and paid up</b>		
910000 Equity Shares of Rs.10 each fully paid up	<b>9,100,000.00</b>	100,000.00
	<b>9,100,000.00</b>	100,000.00
<b>SCHEDULE 2</b>		
<b>RESERVES AND SURPLUS</b>		
<b>Profit and Loss account</b>		
Balance at the beginning of the period	<b>31,272.00</b>	-
Add: Loss for the year / period	<b>162,152.00</b>	31,272.00
	<b>193,424.00</b>	31,272.00
Balance at the end of the year / period	<b>193,424.00</b>	31,272.00
	<b>193,424.00</b>	31,272.00
<b>SCHEDULE 3</b>		
<b>UNSECURED LOANS</b>		
Royal Orchid Hotels Ltd.	<b>460,130.00</b>	-
	<b>460,130.00</b>	-
<b>SCHEDULE 4</b>		
<b>CASH AND BANK BALANCES</b>		
Cash balances on hand	<b>82,300.00</b>	82,300.00
Banks balances with Scheduled Banks:		
In Current accounts	<b>406,398.00</b>	-
	<b>488,698.00</b>	82,300.00
<b>SCHEDULE 5</b>		
<b>LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received		
Deposits	<b>8,902,800.00</b>	-
<b>TOTAL</b>	<b>8,902,800.00</b>	-

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 6</b>		
<b>CURRENT LIABILITIES</b>		
Gopichand Rohra Pvt Ltd	5,000.00	5,000.00
Kaali Art printers	1,660.00	1,660.00
Vijay Shetty	1,300.00	1,300.00
Audit fees payable	16,832.00	5,612.00
<b>TOTAL</b>	<b>24,792.00</b>	<b>13,572.00</b>
<b>SCHEDULE 7</b>		
<b>Profit and loss account</b>		
Rates & Taxes	148,300.00	17,700.00
Professional charges	0.00	5,000.00
Audit fees	11,220.00	5,612.00
Bank charges	2,632.00	0
Others	0.00	2,960.00
<b>Total</b>	<b>162,152.00</b>	<b>31,272.00</b>

For M/s. P. Chandrasekar  
Chartered Accountants

For and on behalf of the Board of Directors

P. Chandrasekar  
Partner

Chander K. Baljee  
Director

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007



## NOTES TO THE FINANCIAL STATEMENTS

### SCHEDULE 8

#### 1. Background

Royal Orchid South Pvt. Ltd. ("the Company") was incorporated on 09.03.06 to carry on the business hotels/holiday resorts and related services. M/s. Royal Orchid Hotels Ltd holds 98.90% of equity shares and the balance 1.09% hold by Mr. C K Baljee and 0.01% by Mr. Arjun Baljee.

The company has signed exclusive territorial rights with Ramada International USA, for a territorial exclusivity fee of Two hundred Thousands US Dollars. As per information given by the management, the scheme will commence shortly.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### i Basis of preparation

The financial statement have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India (ICAI). The accounting policies have been consistently applied unless otherwise stated.

##### ii Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals of leave encashment, bonus and gratuity.

##### iii Revenue recognition

The commercial opening of the hotel not been taken during the period under review.

##### iv Taxes on income

During the year no deferred tax has been recognized as there is no commercial activity.

##### v Earnings per share

Basic earning per share is calculated by dividing net profit/loss for the period divided by Number of shares. As there are no un-issued shares during the year the diluted earning will be the same as basic earning. As there was no commercial activity shares were not valued.

##### vi Provisions and contingent liabilities

The company creates a provision when there is a present obligation as a result of a past event that probably requires and outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, required an outflow of resources. When there is a possible obligation or present obligation in respect of which the likelihood of outflow of resources is remote no provision or disclosure is made.

**3. RECOVERABILITY OF LOANS AND ADVANCES**

In the opinion of the board of directors, current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amounts at which they are stated and provisions for all known liabilities has been made in the accounts.

**4. RELATED PARTY TRANSACTIONS**

i Parties where control exists include

Name of the party	Nature of relationship
Royal Orchid Hotels Ltd	Entity controlled by Directors
Mr. Chander K. Baljee	Entity controlled by Directors
Mr. Arjun Baljee	Entity controlled by Directors

**5. SEGMENTAL INFORMATION**

The Company's business comprises the operation of hotel, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the company derives its entire revenues from services rendered in India, consequently, the disclosure of business and geographic segment-wise information is not applicable to the company.

**6. PRIOR YEAR COMPARATIVES**

The Company has prepared financial statements, in accordance with AS-25 prior period comparatives have been provided.

**7. DEFERRED INCOME TAXES**

The deferred tax asset was not taken into books for the period under review.

For M/s. P. Chandrasekar  
Chartered Accountants

For and on behalf of the Board of Directors

P. Chandrasekar  
Partner

Chander K. Baljee  
Director

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007



## CASH FLOW STATEMENT

	Year ended 31 <sup>st</sup> March 2007
	Rs.
<b>A. Cash flows from operating activities</b>	
Net profit before taxation	-162152
Add: Adjustments for	
Depreciation	
Assets written off	
Finance charges	
Provisional for Doubtful debts	
<i>Operating profit before working capital changes</i>	- 162152
Movement in working capital:	
Increase in sundry debtors	
Increase in Inventories	
Decrease/Increase in loans and advances	- 8902800
Increase in current liabilities	11220
<b>Net cash from operative activities</b>	- 8891580
<b>B. Cash flows from investing activities</b>	
Purchase of fixed assets	
Net investment in term deposit	
Purchase of investment	
Loan to holding company	
Loan repayment by holding company	
Sales/maturity of investments	
Interest received	
<b>Net cash used in investing activities</b>	460130
<b>C. Cash flows from financing activities</b>	
Share capital	9000000
Proceeding from long-term borrowings	
Repayment of long-term borrowings	
Interest paid	
<b>Net cash used in financing activities</b>	9000000
<b>A+B+C</b>	406398
Cash and bank balance as on 01/04/06	82300
<b>Cash and bank balance as on 31/03/07</b>	<b>488698</b>

For M/s. P. Chandrasekar  
Chartered Accountants

For and on behalf of the Board of Directors

P. Chandrasekar  
Partner

Chander K. Baljee  
Director

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

# ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT 1956

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

### i Registration details :

Registration No:	38712	State code	8
Balance sheet date	31/03/2007		

### ii Capital raised during the year (Amounts in Rs.'000)

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

### iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)

Total Liabilities	9560	Total Assets	9560
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#### Sources of fund

Paid up capital	9100	Reserves & Surplus (P & L a/c)	0
Secured Loans	0	Unsecured loans	460

#### Application of funds

Net Fixed assets	0	Investments	0
Net current assets	9367	Preliminary expenses	0
Accumulated losses	193		

### iv Performance of the Company (amount in Rs.'000)

Turnover	0	Total Expenditure	162
Profit /(loss) after tax	-162	Earnings per share in Rs.	0
Dividend rate%	NIL		

### v Generic names of three principal products/services of the company (as per monetary terms)

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product description	Restaurant



## DIRECTORS' REPORT

Dear Shareholders,

We, the Directors of your Company, have pleasure in presenting the Second Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2007.

### Financial Results

The performance of the Company for the financial year ended 31st March 2007 is summarized below:

(Rs. In Lakhs)

Particulars	2006 – 07	2005 – 06
Operating income	-	-
Non-operating income	-	-
Total revenue	-	-
Expenditure	9.86	10.37
Net loss before Depreciation & Tax	9.86	10.37
Depreciation	-	-
Loss after Depreciation but before Taxation	9.86	10.37
Provision for taxation	0.15	-
Loss after depreciation and taxation	10.01	10.37

### Performance Analysis

Your Company was incorporated on 12th September 2005 and has incurred a net loss of Rs.10,01,096.

### Future Outlook

#### *Tourist arrivals remain healthy*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.2% surge in foreign tourist arrival in calendar year 2006 over the previous year.

#### *ARR expected to rise further*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next year. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.

#### *Company's performance*

With Industrial growth, including the Hospitality Industry, likely to remain strong, your Company's overall performance and operating results are expected to further improve in the current year. With the positive mood prevailing in the tourism industry, the outlook for the company promises to be brighter in the coming years.



**Directors**

Pursuant to the provisions of Section 256, Mrs. Sunita Baljee- Director retires by rotation and being eligible offers herself for re-appointment.

**Auditors' and their Report:**

M/s. P. Chandrasekar, Chartered Accountants, retires at the ensuing Annual General Meeting and has expressed their willingness to continue in office if re-appointed. Since the proposal is in the best interests of the Company, your Directors propose their appointment as Statutory Auditors for the current year, for the approval of shareholders.

**Public Deposits**

During the year under review, your company has neither invited nor accepted any deposits from the public.

**Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has, in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iv. It has prepared the annual accounts on a going concern basis.

**Employees**

The details of employees as specified under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended upto date is not applicable.

**Statutory Information**

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out hereunder:

***(1) CONSERVATION OF ENERGY***

Your Company's efforts towards conservation of energy, which results in savings in consumption of electricity, a significant component of the energy cost, is an ongoing process.

***(2) RESEARCH AND DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION***

Your Company is engaged in Hotel & Hospitality Industry. Hence, your Company does not require Research & Development activities. Despite that, the Company is constantly upgrading and optimizing the Process parameters with emphasis on cost control and rationalization. The Company continues to strive for improving methodology of work and productivity of operations through continuous research. However, the actual expenditure incurred thereon is minimal.



*(3) FOREIGN EXCHANGE EARNINGS AND OUTGO*

There is no foreign exchange earnings and outgo during the year.

**Acknowledgments**

Your Directors acknowledge with gratitude and wish to place on record sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

**For and on behalf of the Board of Directors of  
ROYAL ORCHID HYDERABAD PRIVATE LIMITED**

Place : Bangalore  
Date : 15.06.2007

**CHANDER K. BALJEE**  
Chairman

## SECRETARIAL COMPLIANCE CERTIFICATE

Registration No : 08/37198

Nominal Capital : Rs 2 Crores

To

The Members,

**ROYAL ORCHID HYDERABAD PRIVATE LIMITED**

I have examined the registers, records, books and papers of **ROYAL ORCHID HYDERABAD PRIVATE LIMITED** (the Company), as required to be maintained under the Companies Act, 1956, (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31<sup>st</sup> March 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded.
2. The company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities under the Act and the rules made there under.
3. The company being a private limited company (and subsidiary of public company) has minimum prescribed paid-up capital and its maximum number of members during the said financial year was 2 excluding its present and past employees and the company during the year under scrutiny.
  - Has not invited public to subscribe for its shares or debentures; and
  - Has not invited or accepted any deposits from persons other than its members, directors or their relatives.
4. The Board of Directors duly met 5 (Five) times on 6th June 2006, 12th June 2006, 30th September 2006, 9th October 2006, 30th January 2007 and in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose
5. The Company was not required to close its Register of Members or Debenture holders during the financial year.
6. The Annual General Meeting for the financial year ended on 31st March 2006 was held on 30th September 2006 after giving due notice to the members of the Company and the resolution passed thereat were duly recorded in Minutes Book maintained for the purpose.
7. One Extra-ordinary General Meeting was held during the financial year.
8. The company has not advanced any loans to its directors or persons or firms or companies referred to under Section 295 of the Act.
9. The company has duly complied with provisions section 297 of the Act in respect of contracts specified in that section.
10. The company has made necessary entries in the register maintained under section 301 of the Act
11. As there were no instances falling within the purview of section 314 of the Act, the company has not obtained any approvals from the board of directors, members or Central Government.
12. The Company has not issued any duplicate share certificates during the financial year.
13. The company
  - has delivered all the certificates on allotment of securities during the financial year;
  - has not deposited any amount in a separate bank account as no dividend was declared during the financial year.
  - has not posted warrants to any member of the company as no dividend was declared during the financial year
  - was not required to transfer any amount to Investor Education and Protection Fund, as the Company has no unclaimed dividend.
  - has duly complied with the requirements of Section 217 of the Act.



14. The Board of Directors of the company is duly constituted.
15. The Company has not appointed any Managing Director /Whole-time Director/ Manager during the financial year.
16. The Company has not appointed any sole-selling agents during the financial year.
17. The company was not required to obtain any approvals of the Central Government, Company Law Board, Regional Director, Registrar of Companies or such other authorities as may be prescribed under the various provisions of the Act during the financial year.
18. The directors have disclosed their interest in other firms /companies to the Board of Directors pursuant to the provisions of the Act and the rule made there under.
19. The company has issued 17,50,000 Equity shares of Rs.10 each during the financial year and complied with the provisions of the Act.
20. The company has not bought back any shares during the financial year.
21. Since the company has not issued debentures and preference shares the matter of redemption does not arise.
22. There were no transactions necessitating the company to keep in abeyance rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A of the Companies Act 1956, during the financial year.
24. The company has not made any borrowings during the financial year.
25. The company has not made any loans or advances or given guarantees or provided securities to other bodies corporate and consequently no entries have been made in the register kept for the purpose.
26. The company has not altered the provisions of the Memorandum of Association with respect to situation of the company during the year under scrutiny.
27. The company has not altered the provisions of the Memorandum of Association with respect to the objects of the company during the year under scrutiny.
28. The company has not altered the provisions of the Memorandum of Association with respect to name of the company during the year under scrutiny.
29. The company has altered the provisions of the Memorandum of Association with respect to share capital of the company during the year under scrutiny.
30. The company has altered its Articles of Association during the financial year.
31. The company has not received any notices from Registrar of Companies during the financial year.
32. The company has not received any money as security from its employees during the financial year.
33. Since the company is directly paying employers and employees contribution to provident fund authorities, the provisions of section 418 of the Act is not applicable to this company.

PLACE: BANGALORE  
DATE: 15.06.2007

Sd/- :  
Name : **G. Shanker Prasad**  
Company Secretary in Practice  
C.P.No. : 6450

## ANNEXURE "A"

Registers as maintained by the Company:

## Statutory Registers

SL. No.	Name of the Register	Under Section	Remarks
1	Register of Members	150	Updated
2	Register of Directors	303	Updated
3	Register of Director's Share holding	307	Updated
4	Register of Charges	143(1)	Updated
5	Minutes Books of Board Meeting & General Meeting	193	Updated
6	Books of Accounts	209	Updated
7	Register of Contracts	301(3)	Updated

## Other Registers

SL. No.	Name of the Register
1	Register of Directors Attendance
2	Register of shareholders Attendance

**Note:** - The company has not maintained the following registers as it was informed that there were no entries/transactions to be recorded there in:

SL. No.	Name of the Register
1	Register of Securities Bought Back
2	Register and Index of Debenture holders
3	Minutes Book of Class Meeting
4	Register of Renewed and duplicate certificates
5	Register of Destruction of Records
6	Register of Deposits

**ANNEXURE "B"**

Forms and Returns as filed by the Company with the Registrar of Companies during the financial year ending on 31<sup>st</sup> March 2007

SL. No.	Forms	U/s	For	Whether filed within the prescribed time Yes/No	If delay in filing whether requisite additional fee paid Yes/No
1.	Balance Sheet	220	For the year ended on 31.03.2006	NO	YES
2	Annual Return	159	Made up to 30.09.2006	YES	NO
3.	Form 2	75(1)	Allotment of shares	YES	NO
4.	Form 23	192	Alteration of articles of association and Increase of share capital	YES	NO
5	Form 62		Alteration of articles of association for increase of share capital	YES	NO
6	Form 5		Increase of share capital	YES	NO

PLACE: BANGALORE  
DATE: 15.06.2007

Sd/- :  
Name : **G. Shanker Prasad**  
Company Secretary in Practice  
C.P.No. : 6450

## AUDITORS' REPORT

To

The Members

Royal Orchid Hyderabad Private Limited

We have audited the attached Balance Sheet of **Royal Orchid Hyderabad Private Limited** as at 31<sup>st</sup> March 2007 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, the matters specified in paragraphs 4 & 5 of the said Order, are not applicable to the Company.

Further to our comments in the annexure attached hereto, we report that:

- A. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- B. In our opinion, proper books of account as required by law have been kept by Company, so far as appears from our examination of books;
- C. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
- D. In our opinion, the Balance Sheet & Profit & Loss Account comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956 ;
- E. In our opinion and to the best of our information and according to the explanations given to us, none of the Directors of the Company are disqualified from being appointed as Directors under clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.
- F. In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give the true and fair view in conformity with the accounting principles generally accepted in India.
  - a. in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007.
  - b. in the case of Profit and Loss Account, of the Loss of the Company for the year ended on the date.

For **M/s. P. CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 15.06.2007



## ANNEXURE TO AUDITORS' REPORT

**Annexure to the auditor's report of even date to the members of Royal Orchid Hyderabad Private Limited ('the Company'), on the financial statements for the year ended 31<sup>st</sup> March 2007**

- (i) (a) The company does not have any fixed assets an clause (i)(a)(b)(c) of this order are not applicable.
- (ii) (a) The Company doesnot hold any inventory and hence clause ii(a)(b)(c) of this order are not applicable.
- (iii) (a) The company has granted interest free unsecured loans to companies, firms or other parties covered in the register maintained under section 301 of the Act to one party amounting to Rs. 0.32 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh.  
  
(b) The company has taken interest free unsecured loans from companies, firms or other parties covered in the register maintained under section 301 of the Act from one party amounting to Rs. 0.03 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh
- (vi) In our opinion and according to informations and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business,
- (v) (a) All transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered.  
  
(b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lakhs, in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time;
- (vi) The company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under.
- (vii) *In our opinion the company has an internal audit system commensurate with its size and nature of its business. However it needs to be strengthened.*
- (viii) The maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act.
- (ix) The Company has accumulated losses and has sustained cash losses during the current financial year covered under our audit and the immediately preceding financial year.
- (x) The company has not defaulted in repayment of dues to a financial institution or bank .
- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) The provisions of any special statute applicable to chit fund/nidhi/ mutual benefit fund/societies are not applicable to the Company and therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.



- (xiii) As the company is not dealing or trading in shares, securities, debentures and other investments, the maintenance of proper records of the transactions and contracts and making timely entries of the shares, securities, debentures and other securities held by the company, are not applicable.
- (xiv) The company has not given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;
- (xv) The Company has not taken any term loan from any bank or financial institutions.
- (xvi) According to information and explanations given to us, and an overall examination of the Balance Sheet and fund flow statement of the Company, we report that the funds raised on short-term basis have not been used for long term investment and vice versa.
- (xvii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act .
- (xviii) According to information and explanations given to us, the company has not issued any debentures during the year and no securities were created by the company.
- (xix) The company has not raised money on public issue.
- (xx) On the basis of our examination of the books of accounts and other relevant records and information made available to us, prima-facie have not noticed any fraud on or by the Company, during the year. Further, the management has represented to us that no fraud on or by the Company has been reported during the year. However, we are unable to determine / verify as to whether any such reporting has been made, during the year.
- (xxi) All other provisions of the said order are not applicable to the company

**For M/s. P. CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 15.06.2007



## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	17,700,000.00	200,000.00
Reserves and surplus		-	-
		<b>17,700,000.00</b>	<b>200,000.00</b>
<b>LOAN FUNDS</b>			
Secured loans		-	-
Unsecured loans	3	-	-
ROHL		3,008.00	6,462,958.00
<b>TOTAL</b>		<b>17,703,008.00</b>	<b>6,662,958.00</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Gross Block		-	-
Less : Accumulated depreciation		-	-
Net block		-	-
Capital work-in-progress and advances		35,920.00	-
		<b>35,920.00</b>	<b>-</b>
<b>INVESTMENTS</b>		-	-
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories		-	-
Sundry debtors		-	-
Cash and bank balances	4	248,425.00	297,575.00
Loans and advances	5	15,067,781.00	5,000,000.00
		<b>15,316,206.00</b>	<b>5,297,575.00</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	6	51,017.00	35,420.00
<b>Net current assets</b>		<b>15,265,189.00</b>	<b>5,262,155.00</b>
<b>Miscellaneous Expenditure.</b> (to the extent not written-off or Adjusted)			
Preliminary Expenses		30,240.00	30,240.00
Profit & Loss account		2,371,659.00	1,370,563.00
<b>TOTAL</b>		<b>17,703,008.00</b>	<b>6,662,958.00</b>
Notes forming part of accounts	8		

As per our report of even date

For M/s. P. Chandrasekar  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

**Chander K. Baljee**  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

**Sunita Baljee**  
Director

## PROFIT AND LOSS ACCOUNT

	SSchedule	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
		Rs.	Rs.
<b>INCOME</b>		-	-
		-	-
<b>EXPENDITURE</b>			
Food and beverages consumed			
Employees cost		-	-
Other operating expenses		-	-
General and administration expenses	7	(986,096.00)	(1,036,763.00)
Finance charges		-	-
Depreciation		-	-
		<b>(986,096.00)</b>	<b>(1,036,763.00)</b>
<b>LOSS BEFORE TAX</b>		<b>(986,096.00)</b>	<b>(1,036,763.00)</b>
<b>Provision for tax</b>			
Fringe Benefit Tax		15,000.00	-
		<b>15,000.00</b>	-
<b>LOSS AFTER TAX</b>		<b>(1,001,096.00)</b>	<b>(1,036,763.00)</b>
Balance brought forward from the previous years		<b>(1,370,563.00)</b>	<b>(333,780.00)</b>
<b>Profit/loss carried to balance sheet</b>		<b>(2,371,659.00)</b>	<b>(1,370,563.00)</b>
Notes forming part of accounts	8		

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Sunita Baljee  
Director


**SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS**

	<b>31<sup>st</sup> March 2007</b>	<b>31<sup>st</sup> March 2006</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
Authorised		
2000000 Equity Shares of Rs.10 each	<b>20,000,000.00</b>	500,000.00
Issued, subscribed and paid up		
1770000 Equity Shares of Rs.10 each fully paid up	<b>17,700,000.00</b>	200,000.00
	<b>17,700,000.00</b>	200,000.00
<b>SCHEDULE 2</b>		
<b>RESERVES AND SURPLUS</b>		
Profit and Loss account		
Balance at the beginning of the period	<b>1,370,563.00</b>	333,780.00
Add: Loss for the year / period	<b>1,001,096.00</b>	1,036,783.00
Balance at the end of the year / period	<b>2,371,659.00</b>	1,370,563.00
<b>SCHEDULE 3</b>		
<b>UNSECURED LOANS</b>		
Royal Orchid Hotels Ltd	<b>3,008.00</b>	6,462,958.00
	<b>3,008.00</b>	6,462,958.00
<b>SCHEDULE 4</b>		
<b>CASH AND BANK BALANCES</b>		
Cash balances on hand	<b>98,000.00</b>	98,000.00
Banks balances with Scheduled Banks:		
In Current accounts	<b>150,425.00</b>	199,575.00
	<b>248,425.00</b>	297,575.00
<b>SCHEDULE 5</b>		
<b>LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received		
Deposit	<b>15,000,000.00</b>	5,000,000.00
Loans and advances	<b>35,000.00</b>	-
Others	<b>32,781.00</b>	-
<b>Total</b>	<b>15,067,781.00</b>	5,000,000.00

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 6</b>		
<b>CURRENT LIABILITIES</b>		
Sundry creditors	30,240.00	30,240.00
Duties/Taxes	15,601.00	-
Audit fees	5,176.00	5,180.00
<b>Total</b>	<b>51,017.00</b>	<b>35,420.00</b>
<b>SCHEDULE 7</b>		
<b>Profit and loss account</b>		
Rates & Taxes	209,362.00	25,000.00
Legal expenses	12,400.00	-
Professional charges	371,298.00	834,410.00
Travelling/Transportation	283,463.00	131,325.00
Audit fees	11,220.00	5,180.00
Tender fee	15,000.00	-
Bank charges	568.00	425.00
Others	82,785.00	40,443.00
<b>Total</b>	<b>986,096.00</b>	<b>1,036,783.00</b>

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Sunita Baljee  
Director



## **NOTES TO THE FINANCIAL STATEMENTS**

### **Schedule 8**

#### **1 Background**

Royal Orchid Hyderabad Pvt. Ltd. ("the Company") was incorporated on 12/09/05 to carry on the business of hotels/holiday resorts and related services. M/s. Royal Orchid Hotels Ltd holds 99.45% of equity shares and balance 0.55% by Mrs. Sunita Baljee.

The company has signed a lease agreement on 06/12/2004 with Bagga Group for a lease of the property for a period of 25 years and has paid an interest free deposit of Rs.150 Lakhs. The lease commences from the date of completion of the building and amenities proposed to be constructed at Hyderabad..As per information given by the management, the project is still under progress.

#### **2 Significant accounting policies**

##### **i. Basis of preparation**

The financial statement have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India (ICAI). The accounting policies have been consistently applied unless otherwise stated.

##### **ii Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals of leave encashment, bonus and gratuity.

##### **iii Revenue recognition**

The commercial opening of the hotel not been taken during the period under review.

##### **iv Taxes on income**

During the year no deferred tax has been recognized as there is no commercial activity.

##### **v Earnings per share**

Basic earning per share is calculated by dividing net profit/loss for the period divided by Number of shares. As there are no un-issued shares during the year the diluted earning will be the same as basic earning. As there was no commercial activity shares were not valued.

##### **vi Provisions and contingent liabilities**

The company creates a provision when there is a present obligation as a result of a past event that probably requires and outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or present obligation in respect of which the likelihood of outflow of resources is remote no provision or disclosure is made.

**3. Recoverability of loans and advances**

In the opinion of the board of directors, current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amounts at which they are stated and provisions for all known liabilities has been made in the accounts.

**4. Related party transactions**

Parties where control exists include

Name of the party	Nature of relationship
Royal Orchid Hotels Ltd	Entity controlled by Directors
Mr. C K Baljee	Entity controlled by Directors
Mrs. Sunita Baljee	Entity controlled by Directors

**5. SEGMENTAL INFORMATION**

The Company's business comprises of the operation of hotel, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the company derives its entire revenues from services rendered in India, consequently, the disclosure of business and geographic segment-wise information is not applicable to the company.

**6. PRIOR YEAR COMPARATIVES**

The Company has prepared financial statements, in accordance with AS-25. As this is the first year of operation, previous years figures have not been provided.

**7. DEFERRED INCOME TAXES**

The deferred tax asset was not taken into books for the period under review.

**For M/s. P. Chandrasekar**  
Chartered Accountants

**For and on behalf of the Board of Directors**

**P. Chandrasekar**  
Partner

**Chander K. Baljee**  
Director

**Sunita Baljee**  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007



## CASH FLOW STATEMENT

	Year ended 31 <sup>st</sup> March 2007
	Rs.
<b>A. Cash flows from operating activities</b>	
Net profit before taxation	- 986,096
Add: Adjustments for	
Depreciation	-
Assets written off	-
Finance charges	-
Provisional for Doubtful debts	-
<i>Operating profit before working capital changes</i>	- 986,096
Movement in working capital:	
Increase in sundry debtors	-
Increase in Inventories	-
Increase in loans and advances	-
Increase in current liabilities	15,597
Taxes paid	- 15,000
<b>Net cash from operative activities</b>	597
<b>B. Cash flows from investing activities</b>	
Purchase of fixed assets	- 35920
Net investment in term deposit	-
Purchase of investment	-
Loan to holding company	- 10067781
Loan repayment by holding company	- 6459950
Sales/matunity of investments	-
Interest received	-
<b>Net cash used in investing activities</b>	- 16563651
<b>C. Cash flows from financing activities</b>	
Share capital	17500000
Proceeding from long-term borrowings	-
Repayment of long-term borrowings	-
Interest paid	-
<b>Net cash used in financing activities</b>	-
<b>Net cash used in financing activities</b>	17500000
<b>A+B+C</b>	- 49150
<b>Cash balance and bank balance as on 1/4/06</b>	297575
<b>Cash balance and bank balance as on 31/03/07</b>	248425

For M/s. P. Chandrasekar  
Chartered Accountants

For and on behalf of the Board of Directors

P. Chandrasekar  
Partner

Chander K. Baljee  
Director

Sunita Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007



ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO  
THE COMPANIES ACT 1956

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

**i Registration details :**

Registration No:	37198	State code	8
Balance sheet date	31/03/2007		

**ii Capital raised during the year (Amounts in Rs.'000)**

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

**iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)**

Total Liabilities	17703	Total Assets	17703
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**Sources of fund**

Paid up capital	17700	Reserves & Surplus (P & L a/c)	0
Secured Loans	0	Unsecured loans	3

**Application of funds**

Net Fixed assets	36	Investments	0
Net current assets	15265	Preliminary expenses	30
Accumulated losses	2372		

**iv Performance of the Company (amount in Rs.'000)**

Turnover	0	Total Expenditure	986
Profit /(loss) after tax	1001	Earnings per share in Rs.	0
Divident rate%	Nil		

**v Generic names of three principal products/services of the company (as per monetary terms)**

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product description	Restaurant



## DIRECTORS' REPORT

Dear Shareholders,

We, the Directors of your Company, have pleasure in presenting the First Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2007.

### Financial Results :

The performance of the Company for the financial year ended 31st March 2007 is summarized below:

(Rs. In Lakhs)

Particulars	2006 – 07
Operating income	-
Non-operating income	-
Total revenue	-
Expenditure	50.24
Net loss before Depreciation & Tax	50.24
Depreciation	-
Loss after Depreciation but before Taxation	50.24

### Performance Analysis :

Your Company was incorporated on 25th August 2006 and has incurred a net loss of Rs. 50,23,978.

### Future Outlook

#### *Tourist arrivals remain healthy*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.2% surge in foreign tourist arrival in calendar year 2006 over the previous year.

#### *ARR expected to rise further*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next year. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.

#### *Company's performance*

With Industrial growth, including the Hospitality Industry, likely to remain strong, your Company's overall performance and operating results are expected to further improve in the current year. With the positive mood prevailing in the tourism industry, the outlook for the company promises to be brighter in the coming years.

### Directors

Pursuant to the provisions of Section 256, Mr. Chander K. Baljee- Director retires by rotation and being eligible offers himself for re-appointment. Also during the year, Mr. Arjun Baljee was co opted as Additional Director of the company after the Company became a subsidiary of A B Holdings Private Limited. As per the provisions of Section 260 of the Companies Act 1956, the appointment of additional director is subject to confirmation at the ensuing Annual General Meeting. Accordingly, suitable agenda has been inserted in the Notice convening the Annual General Meeting proposing confirmation of appointment of additional director. The shareholders are requested to consent to the same for benefit of the company.

**Auditors' and their Report:**

M/s. P. Chandrasekar, Chartered Accountants, retires at the ensuing Annual General Meeting and has expressed their willingness to continue in office if re-appointed. Since the proposal is in the best interests of the Company, your Directors propose their appointment as Statutory Auditors for the current year, for the approval of shareholders.

**Public Deposits**

During the year under review, your company has neither invited nor accepted any deposits from the public.

**Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has, in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iv. It has prepared the annual accounts on a going concern basis.

**Employees**

The details of employees as specified under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended upto date is not applicable.

**Statutory Information**

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out hereunder:

**(1) CONSERVATION OF ENERGY**

Your Company's efforts towards conservation of energy, which results in savings in consumption of electricity, a significant component of the energy cost, is an ongoing process.

**(2) RESEARCH AND DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION**

Your Company is engaged in Hotel & Hospitality Industry. Hence, your Company does not require Research & Development activities. Despite that, the Company is constantly upgrading and optimizing the Process parameters with emphasis on cost control and rationalization. The Company continues to strive for improving methodology of work and productivity of operations through continuous research. However, the actual expenditure incurred thereon is minimal.

**(3) FOREIGN EXCHANGE EARNINGS AND OUTGO**

There is no foreign exchange earnings and outgo during the year.

**Acknowledgments**

Your Directors acknowledge with gratitude and wish to place on record sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

For and on behalf of the Board of Directors of  
**ROYAL ORCHID EAST PRIVATE LIMITED**

Place : Bangalore  
Date : 15.06.2007

**CHANDER K. BALJEE**  
Chairman



## SECRETARIAL COMPLIANCE CERTIFICATE

**Registration No** : 08/38712

**Nominal Capital** : Rs 2,00,00,000/-

To

The Members,

**M/s ROYAL ORCHID EAST PRIVATE LIMITED**

No.1, Golf Avenue, Adjoining KGA Golf Course,

Airport Road,

Bangalore - 560 008.

Dear Sir,

I have examined the registers, records, books and papers of **M/s ROYAL ORCHID EAST PRIVATE LIMITED** as required to be maintained under the Companies Act, 1956 (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded.
2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, or other authorities as per the provisions of the Act and the rules made there under.
3. The Company is a Private Limited Company, which is a subsidiary of a company which is not a private Limited company within the meaning of section of 3 (1) (iv) of the companies Act 1956 and has the minimum prescribed paid up capital and its maximum number of members during the said financial year was 03 (Three) and the company during the year under scrutiny:
  - a. has not invited public to subscribe for its shares or debentures and
  - and
  - b. has not invited or accepted any deposits during the financial year under review.
4. The Board of directors duly met 5 times on 27.08.2006, 15.12.2006, 02.02.2007 10.03.2007 and 28.03.2007 in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose.
5. The Company has not closed its Register of Members during the financial year.
6. The First Annual General meeting for the financial year ended on 31.3.2007 is due to be held under the provisions of section 166 read with section 210 of the Companies Act, 1956.
7. Two Extra-Ordinary General Meeting were held during the financial year on 24.02.2007 and 31.03.2007.
8. The Company has not made any loan to Directors under the provisions of section 295 of the Companies Act 1956.
9. The Company has not entered in to any contracts falling within the purview of section 297 of the Act.
10. The Company has made necessary entries in the Register of Companies and firms in which Directors are interested maintained under Section 301(3) of the Act.
11. As there were no instances falling within the purview of Section 314 of the Act, the Company has not obtained any approvals from the Board of Directors, members or Central Government as the case may be.
12. The Company has not issued any duplicate share certificates during the financial year.
13.
  - a) There was allotment of Equity Shares during the financial year. There was no transfer/transmission of equity shares during the financial year.
  - b) The Company has not deposited any amount in a separate Bank Account as no Dividend was declared during the financial year.

- c) The Company has not posted warrants to any member of the Company as no Dividend was declared during the financial year.
- d) The company has duly complied with the requirements of Section 217 of the Act.
14. The Board of Directors of the Company is duly constituted. There was no appointment of Additional Director/Alternate Director or Directors to fill Casual vacancy during the financial year.
15. The Company has not appointed any Managing Director/Whole time Director/Manager during the financial year.
16. The Company has not appointed any sole selling agents during the financial year.
17. The Company was not required to obtain any approval of the Central Government, Company Law Board, Regional Director, Registrar of Companies and/or such authorities prescribed under the various provisions of the Act.
18. The directors have disclosed their interest in other firms/Companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under and hence the same has been recorded in the register maintained under section 301(3) of the Act.
19. The Company has issued Equity Shares during the financial year under review.
20. The Company has not bought back any shares during the financial year.
21. The company has not issued any preference shares or debentures and hence redemption thereof during the year does not arise.
22. There were no transactions necessitating the Company to keep in abeyance the rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The Company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A during the financial year.
24. The Company has not made any borrowings falling within the provisions of section 293(1) (d) of the Companies Act 1956.
25. The Company has not made any loans/investments or provided any guarantee or securities falling within the provisions of section 372A of the Act.
26. The Company has not altered the provisions of the Memorandum with respect to Situation of the Company's registered office from one State to another during the year under scrutiny.
27. The Company has not altered the provisions of the Memorandum with respect to the Objects of the Company during the year under scrutiny.
28. The Company has not altered the provisions of the Memorandum with respect to Name of the Company during the year under scrutiny.
29. The Company has altered the provisions of the Memorandum with respect to Share Capital of the Company during the year under scrutiny.
30. The Company has not altered the provisions of its Articles of Association during the year under scrutiny.
31. There were no prosecution initiated against or show cause notices received by the Company and no fines or penalties or any other punishment was imposed on the company during the financial year, for offences under the Act.
32. From the records, it has been observed that the Company has not received any money as security deposit from its employees during the financial year.
33. The Company has not collected any contribution towards Provident Fund from the employees during the financial year.

Place : Bangalore  
Date : 15.06.2007

Sd/- :  
Name : **Ramachandra Bhat. S**  
Company Secretary in Practice  
C.P.No. : 5421



## **ANNEXURE-A**

Name of the Company : **M/s ROYAL ORCHID EAST PRIVATE LIMITED**

Company No. : **08/31516**

Authorised Capital : **Rs.2,00,00,000/-**

Paid Up Capital : **Rs.2,00,00,000/-**

### **Registers as maintained by the Company:**

1. Register of Members u/s 150
2. Register of Companies and Firms in which Directors, etc., are interested u/s 301(3)
3. Minutes of Board Meetings/Annual General Meetings/Extra- Ordinary General Meetings u/s 193
4. Register of Directors u/s 303
5. Board Meeting Attendance Register
6. General Meeting Attendance Register
7. Register of share transfers.
8. Register of Contract u/s 301
9. Register of Directors share holding u/s 307

## **ANNEXURE-B**

### **Forms and Returns as filed by the Company with the Registrar of Companies, during the financial year ending on 31<sup>st</sup> March 2007.**

1. Form 32 in respect of changes in the office of Directors was filed with the ROC on 16.05.2007.
2. Form 5 in respect of enhancement of Authorised Share Capital of the Company was filed with the ROC on 13.02.2007
3. Form 23 for registration of Special resolution for Alteration of Articles of Association of the Company was filed with the ROC on 08.02.2007.
4. Form 2 in respect of allotment of Equity Shares done on 31.03.2007 is yet to be filed.
5. Form No.23 in respect of ordinary resolution passed in the EGM under Section 293(1)(d) of the Companies Act, 1956 is yet to be filed.

Place : Bangalore  
Date : 15.06.2007

Sd/- :  
Name : **Ramachandra Bhat. S**  
Company Secretary in Practice  
C.P.No. : 5421

## AUDITORS' REPORT

To

The Members

Royal Orchid East Private Limited

Bangalore

We have audited the attached Balance Sheet of **ROYAL ORCHID EAST PRIVATE LIMITED** as at 31<sup>st</sup> March 2007 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, the matters specified in paragraphs 4 & 5 of the said Order, are not applicable to the Company.

Further to our comments in the annexure attached hereto, we report that:

- A. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- B. In our opinion, proper books of account as required by law have been kept by Company, so far as appears from our examination of books;
- C. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
- D. In our opinion, the Balance Sheet & Profit & Loss Account comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956 ;
- E. In our opinion and to the best of our information and according to the explanations given to us, none of the Directors of the Company are disqualified from being appointed as Directors under clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.
- F. In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give the true and fair view in conformity with the accounting principles generally accepted in India.

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007.

(b) in the case of Profit and Loss Account, of the Loss of the Company for the period ended on the date.

For M/s. P. CHANDRASEKAR

Chartered Accountants

P. CHANDRASEKAR

Partner

Place : Bangalore

Date : 15.06.2007





## ANNEXURE TO THE AUDITORS' REPORT

**Annexure to the auditor's report of even date to the members of Royal Orchid East Private Limited ('the Company'), on the financial statements for the year ended 31 March 2007**

- (i) (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.  
(b) These Fixed Assets have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification.  
(c) no substantial part of Fixed Assets have been disposed off during the year, to affect the going concern.
- (ii) (a) The physical verification of inventory has been conducted at reasonable intervals by the Management. In our opinion the frequency of verification is reasonable having regard to the size of the company and the nature of its business.  
(b) The procedures of physical verification of inventory followed by the management is reasonable and adequate in relation to the size of the company and the nature of its business.  
(c) The company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) The company has not granted interest free unsecured loans to companies, firms or other parties covered in the register maintained under section 301 of the Act on the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh.  
(b) The company has taken interest free unsecured loans from companies, firms or other parties covered in the register maintained under section 301 of the Act from one party amounting to Rs. 445.67 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh  
(iv) In our opinion and according to informations and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business,
- (v) (a) All transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered.  
(b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lakhs, in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time;
- (vi) The company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under.
- (vii) *In our opinion the company has an internal audit system commensurate with its size and nature of its business. However it needs to be strengthened.*
- (viii) The maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act.



- (ix) The Company has accumulated losses and has sustained cash losses during the current financial year covered under our audit and the immediately preceding financial year.
- (x) The company has not defaulted in repayment of dues to a financial institution or bank.
- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) The provisions of any special statute applicable to chit fund/nidhi/ mutual benefit fund/societies are not applicable to the Company and therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
- (xiii) As the company is not dealing or trading in shares, securities, debentures and other investments, the maintenance of proper records of the transactions and contracts and making timely entries of the shares, securities, debentures and other securities held by the company, are not applicable.
- (xiv) The company has not given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;
- (xv) The Company has not taken any term loan from any bank or financial institutions.
- (xvi) According to information and explanations given to us, and an overall examination of the Balance Sheet and fund flow statement of the Company, we report that the funds raised on short-term basis have not been used for long term investment and vice versa.
- (xvii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.
- (xviii) According to information and explanations given to us, the company has not issued any debentures during the year and no securities were created by the company.
- (xix) The company has not raised money on public issue.
- (xx) On the basis of our examination of the books of accounts and other relevant records and information made available to us, prima-facie have not noticed any fraud on or by the Company, during the year. Further, the management has represented to us that no fraud on or by the Company has been reported during the year. However, we are unable to determine / verify as to whether any such reporting has been made, during the year.
- (xxi) All other provisions of the said order are not applicable to the company

**For M/s. P. CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 15.06.2007



## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007
		Rs.
<b>SOURCES OF FUNDS</b>		
<b>SHAREHOLDERS' FUNDS</b>		
Share Capital	1	5,000,000.00
Reserves and surplus		-
		<b>5,000,000.00</b>
<b>LOAN FUNDS</b>		
Secured loans		
Unsecured loans	2	44,567,548.00
<b>TOTAL</b>		<b>49,567,548.00</b>
<b>APPLICATION OF FUNDS</b>		
<b>FIXED ASSETS</b>		
Gross Block		-
Less : Accumulated depreciation		-
Net block		
Capital work-in-progress and advances		2,560,884.00
		<b>2,560,884.00</b>
<b>INVESTMENTS</b>		-
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>		
Inventories		-
Sundry debtors		-
Cash and bank balances	3	5,064,418.00
Loans and advances	4	40,166,068.00
		<b>45,230,486.00</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>		
Current Liabilities	5	3,256,100.00
<b>Net current assets</b>		<b>41,974,386.00</b>
<b>Miscellaneous Expenditure.</b> (to the extent not written-off or Adjusted)		
Preliminary Expenses		8,300.00
Profit & Loss account		5,023,978.00
<b>TOTAL</b>		<b>49,567,548.00</b>
Notes forming part of accounts	7	

As per our report of even date

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15.06.2006

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Place : Bangalore  
Dated : 15.06.2007

Sunita Baljee  
Director

## PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007
		Rs.
<b>INCOME</b>		-
		-
<b>EXPENDITURE</b>		
Food and beverages consumed		-
Employees cost		-
Other operating expenses		-
General and administration expenses	6	(5,023,978.00)
Finance charges		-
Depreciation		-
		<b>(5,023,978.00)</b>
<b>LOSS BEFORE TAX</b>		<b>(5,023,978.00)</b>
Provision for tax		
Fringe Benefit Tax		-
<b>LOSS AFTER TAX</b>		<b>(5,023,978.00)</b>
Profit/loss carried to balance sheet		<b>(5,023,978.00)</b>
Notes forming part of accounts	7	

As per our report of even date

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15.06.2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Place : Bangalore  
Dated : 15.06.2007

Sunita Baljee  
Director



## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	<b>31<sup>st</sup> March 2007</b>
	<b>Rs.</b>
<b>SCHEDULE 1</b>	
<b>SHARE CAPITAL</b>	
Authorised	
500000 Equity Shares of Rs.10 each	5,000,000.00
Issued, subscribed and paid up	
500000 Equity Shares of Rs.10 each fully paid up	5,000,000.00
	<b>5,000,000.00</b>
<b>SCHEDULE 2</b>	
<b>UNSECURED LOANS</b>	
AB Holdings Pvt Ltd.	44,567,548.00
	<b>44,567,548.00</b>
<b>SCHEDULE 3</b>	
<b>CASH AND BANK BALANCES</b>	
Cash balances on hand	191,700.00
Banks balances with Scheduled Banks:	
In Current accounts	4,872,718.00
	<b>5,064,418.00</b>
<b>SCHEDULE 4</b>	
<b>LOANS AND ADVANCES</b>	
(Unsecured, considered good)	
Deposits	40,000,000.00
Advances recoverable in cash or in kind or for value to be received	166,068.00
<b>Total</b>	<b>40,166,068.00</b>
<b>SCHEDULE 5</b>	
<b>CURRENT LIABILITIES</b>	
Duties and taxes	44,880.00
Audit fees payable	11,220.00
Lease rental payable	3,200,000.00
	<b>3,256,100.00</b>
<b>SCHEDULE 6</b>	
Profit and loss account	
Lease rental	3,200,000.00
Registration charges	1,525,800.00
Miscellaneous charges	174,200.00
Bank charges	3,010.00
Audit fees	11,220.00
Rates & Taxes	109,748.00
	<b>5,023,978.00</b>

**For M/s. P. Chandrasekar**  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 15.06.2007

**For and on behalf of the Board of Directors**

**Chander K. Baljee**  
Director

Place : Bangalore  
Dated : 15.06.2007

**Sunita Baljee**  
Director

## NOTES TO THE FINANCIAL STATEMENTS

## SCHEDULE 7

## 1. Background

Royal Orchid East Pvt. Ltd. ("the Company") was incorporated on 25.08.06 to carry on the business hotels/ holiday resorts and related services. M/s. AB Holdings Pvt. Ltd holds 96% of equity shares and balance 2% hold by Mr. Chander K. Baljee and 2% by Mrs. Sunita Baljee.

The company has entered in to a lease agreement with M/S. Sandhya Hotels Limited for an initial period of five years extendable up to fifteen years at a monthly rental of Rs. 16 Lakhs for lease of land, buildings, fittings, amenities for running and operating hotel at Hyderabad. The company has paid an interest free refundable deposit of Rs.400 Lakhs.

## 2. SIGNIFICANT ACCOUNTING POLICIES

## i Basis of preparation :

The financial statement have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India (ICAI). The accounting policies have been consistently applied unless otherwise stated.

## ii Use of Estimates :

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals of leave encashment, bonus and gratuity.

## iii Revenue recognition :

The commercial opening of the hotel not been taken during the period under review.

## iv Fixed assets :

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalized.

## v Depreciation :

Depreciation on fixed assets is provided on the Straight Line Method, using the higher of the rates specified in Schedule XIV of the Companies Act, 1956 or management estimates of the economic useful lives of such assets. These rates are specified below:

Assets category	Rates of depreciation used %
Plant and Machinery	4.75%
Office Equipment	1.75%
Computer and related equipment, including software	16.21%
Furniture and fittings	9.5%
Vehicles	9.5%

Assets individually costing less than Rs. 5000.00 are fully depreciated in the year of purchase. Improvements to buildings are amortized over the period of the lease. No depreciation charged period under review as no commercial activity.



**vi Impairment of assets :**

The company assessed at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

**vii Inventory :**

Inventory comprised stock of food and beverages and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the good to their present location and condition and determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale. There was no inventory during the year under review.

**viii Retirement benefits :**

The Company provides for gratuity and bonus, a defined benefit plan in accordance with the rules of the company based on actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized Provident Fund and Employees state Insurance scheme, which are defined contribution schemes, which are charged to the profit and loss account as incurred. As there was no commercial activity the company did not hire any employee.

**ix Leave Encashment :**

The company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary. As there was no commercial activity the company did not hire any employee.

**x Taxes on income :**

During the year no deferred tax has been recognized as there is no commercial activity.

**xi Earnings per share :**

Basic earning per share is calculated by dividing net profit/loss for the period divided by Number of shares. As there are no un-issued shares during the year the diluted earning will be the same as basic earning. As there was no commercial activity shares were not valued.

**xii Provisions and contingent liabilities :**

The company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or present obligation in respect of which the likelihood of outflow of resources is remote no provision or disclosure is made.

**3. RECOVERABILITY OF LOANS AND ADVANCES**

In the opinion of the board of directors, current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amounts at which they are stated and provisions for all known liabilities has been made in the accounts.

**4. RELATED PARTY TRANSACTIONS**

- i Parties where control exists include

Name of the party	Nature of relationship
AB Holdings Pvt. Ltd	Entity controlled by Directors
Mr. Chander K. Baljee	Entity controlled by Directors
Mrs. Sunita Baljee	Entity controlled by Directors

**5. SEGMENTAL INFORMATION**

The Company's business comprises the operation of hotel, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the company derives its entire revenues from services rendered in India, consequently, the disclosure of business and geographic segment-wise information is not applicable to the company.

**6. PRIOR YEAR COMPARATIVES**

The Company has prepared financial statements, in accordance with AS-25. As this is the first year of operation, previous years figures have not been provided.

**7. DEFERRED INCOME TAXES**

The deferred tax asset was not taken into books for the period under review.

For M/s. P. Chandrasekar  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 15.06.2007

For and on behalf of the Board of Directors

**Chander K. Baljee**  
Director

Place : Bangalore  
Dated : 15.06.2007

**Sunita Baljee**  
Director



## CASH FLOW STATEMENT

	Year ended 31 <sup>st</sup> March 2007
	Rs.
<b>A. Cash flows from operating activities</b>	
Net profit before taxation	- 5,023,978
Add: Adjustments for	
Depreciation	-
Assets written off	-
Finance charges	-
Provisional for Doubtful debts	-
<i>Operating profit before working capital changes</i>	- 5,023,978
Movement in working capital :	
Increase in sundry debtors	-
Increase in Inventories	-
Increase in loans and advances	- 40,166,068
Increase in current liabilities	3,256,100
Taxes paid	-
<b>Net cash from operative activities</b>	- 36,909,968
<b>B. Cash flows from investing activities</b>	
Purchase of fixed assets	- 2,560,884
Net investment in term deposit	-
Purchase of investment	-
Loan to holding company	44,567,548
Loan repayment by holding company	-
Sales/Maturity of investments	-
Interest received	-
	- 8,300
<b>Net cash used in investing activities</b>	41,998,364
<b>C. Cash flows from financing activities</b>	
Share capital	5,000,000
Proceeding from long-term borrowings	-
Repayment of long-term borrowings	-
Interest paid	-
<b>Net cash used in financing activities</b>	5,000,000
<b>A+B+C</b>	5,064,418
<b>cash and Bank balance as on 1/4/06</b>	-
<b>cash and Bank balance as on 31/03/07</b>	5,064,418

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15.06.2007

For and on behalf of the Board of Directors

Chander K. Baljee  
Director

Place : Bangalore  
Dated : 15.06.2007

Sunita Baljee  
Director



# **ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT 1956**

## **BALANCE SHEET ABSTRACT AND COMPNY'S GENERAL BUSINESS PROFILE**

### **i Registration details :**

Registraion No:	40290	State code	8
Balance sheet date	31/3/2007		

### **ii Capital raised during the year (Amounts in Rs.'000)**

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

### **iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)**

Total Liabilities	49568	Total Assets	49568
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#### **Sources of fund**

Paid up capital	5000	Reserves & Surplus (P & L a/c)	0
Secured Loans	0	Unsecured loans	44568

#### **Application of funds**

Net Fixed assets	2561	Investments	0
Net current assets	41975	Preliminary expenses	8
Accumulated losses	5024		

### **iv Performance of the Company (amount in Rs.'000)**

Turnover	0	Total Expenditure	5024
Profit /(loss) after tax	- 5024	Earnings per share in Rs.	0
Divident rate%	NIL		

### **v Generic names of three pricipal products/services of the company (as per monetary terms)**

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product description	Restaurant



## DIRECTORS' REPORT

Dear Shareholders,

We, the Directors of your Company, have pleasure in presenting the First Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2007.

### Financial Results :

The performance of the Company for the financial year ended 31st March 2007 is summarized below:

(Rs. In Lakhs)

Particulars	2006 - 07
Operating income	-
Non-operating income	-
Total revenue	-
Expenditure	18.23
Net loss before Depreciation & Tax	18.23
Depreciation	-
Loss after Depreciation but before Taxation	18.23
Fringe benefit tax	0.05
Loss after Depreciation and Taxation	18.28

### Performance Analysis

Your Company was incorporated on 9th November 2006 and has incurred a net loss of Rs.18, 28,628.

### Future Outlook

#### *Tourist arrivals remain healthy*

The hotel industry in India is witnessing a new high in all respects. Tourist arrival, occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as an outsourcing hub has led to a 13.2% surge in foreign tourist arrival in calendar year 2006 over the previous year.

#### *ARR expected to rise further*

With growing business, domestic and international leisure travel, room demand is going to rise further. Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next year. By the middle of 2008 we might see some capacities coming in. Till that time room rates are expected to rise further.

#### *Company's performance*

With Industrial growth, including the Hospitality Industry, likely to remain strong, your Company's overall performance and operating results are expected to improve in the current year. With the positive mood prevailing in the tourism industry, the outlook for the company promises to be brighter in the coming years.

### Directors

Pursuant to the provisions of Section 256, Mr.Arjun Baljee- Director retires by rotation and being eligible offers himself for re-appointment. Also during financial year 2007-08 Mr.Shekar Bhargav, Mr.K.V.Rao, Mr.Naresh K Malhotra and Mr.Prakash Gurbaxani- were co opted as Additional Directors of the company after the Company became a wholly owned subsidiary of Royal Orchid Hotels Limited. As per the provisions of Section 260 of the Companies Act 1956, the appointment of additional directors is subject to confirmation at the ensuing Annual General Meeting. Accordingly, suitable agenda has been inserted in the Notice convening the Annual General Meeting proposing confirmation of appointment of additional directors. The shareholders are requested to consent to the same for benefit of the company.

**Auditors' and their Report:**

M/s. P. Chandrasekar, Chartered Accountants, retires at the ensuing Annual General Meeting and has expressed their willingness to continue in office if re-appointed. Since the proposal is in the best interests of the Company, your Directors propose their appointment as Statutory Auditors for the current year, for the approval of shareholders.

**Public Deposits**

During the year under review, your company has neither invited nor accepted any deposits from the public.

**Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Management, hereby confirms that:

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. It has, in the selection of the accounting policies, consulted the Statutory Auditors and has applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2007 and of the profit of the Company for that period.
- iii. It has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, to the best of its knowledge and ability. There are however, inherent limitations, which should be recognized while relying on any system of internal control and records.
- iv. It has prepared the annual accounts on a going concern basis.

**Employees**

The details of employees as specified under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended upto date is not applicable.

**Statutory Information**

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out hereunder:

***(1) CONSERVATION OF ENERGY***

Your Company's efforts towards conservation of energy, which results in savings in consumption of electricity, a significant component of the energy cost, is an ongoing process.

***(2) RESEARCH AND DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION***

Your Company is engaged in Hotel & Hospitality Industry. Hence, your Company does not require Research & Development activities. Despite that, the Company is constantly upgrading and optimizing the Process parameters with emphasis on cost control and rationalization. The Company continues to strive for improving methodology of work and productivity of operations through continuous research. However, the actual expenditure incurred thereon is minimal.

***(3) FOREIGN EXCHANGE EARNINGS AND OUTGO***

There is no foreign exchange earnings and outgo during the year.

**Acknowledgments**

Your Directors acknowledge with gratitude and wish to place on record sincere thanks and appreciation for the co-operation received by the Company from customers, suppliers, bankers, Central and State Governments and other statutory authorities and others associated with the Company.

Your Directors take this opportunity to thank all employees for rendering outstanding services. Your Directors thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

For and on behalf of the Board of Directors of  
**A B HOLDINGS PRIVATE LIMITED**

Place : Bangalore  
Date : 15.06.2007

**ARJUN BALJEE**  
Chairman



## SECRETARIAL COMPLIANCE CERTIFICATE

**Registration No** : 08/040894  
**Nominal Capital** : Rs 15,00,00,000/-

To

The Members,  
**M/s AB HOLDINGS PRIVATE LIMITED**  
No. 47/1, Dickenson Road,  
Bangalore - 560 042.

Dear Sir,

I have examined the registers, records, books and papers of **M/s A B HOLDINGS PRIVATE LIMITED** as required to be maintained under the Companies Act, 1956 (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded.
2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, or other authorities as per the provisions of the Act and the rules made there under.
3. The Company is a Private Limited Company, which is a wholly owned subsidiary of a company which is not a private Limited company within the meaning of section of 3 (1) (iv) of the companies Act 1956 and has the minimum prescribed paid up capital and its maximum number of members during the said financial year was 03 (Three) and the company during the year under scrutiny:
  - a. has not invited public to subscribe for its shares or debentures and
  - b. has not invited or accepted any deposits during the financial year under review.
4. The Board of directors duly met 3 times on 10.11.2006, 01.03.2007 and 31.03.2007 in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose.
5. The Company has not closed its Register of Members during the financial year.
6. The First Annual General meeting for the financial year ended on 31.3.2007 is due to be held under the provisions of section 166 read with section 210 of the Companies Act, 1956.
7. Two Extra-Ordinary General meeting was held during the financial year on 15.11.2006 & on 26.03.2007
8. The Company has not made any loan to Directors under the provisions of section 295 of the Companies Act 1956.
9. The Company has not entered in to any contracts falling within the purview of section 297 of the Act.
10. The Company has made necessary entries in the Register of Companies and firms in which Directors are interested maintained under Section 301(3) of the Act.
11. As there were no instances falling within the purview of Section 314 of the Act, the Company has not obtained any approvals from the Board of Directors, members or Central Government as the case may be.
12. The Company has not issued any duplicate share certificates during the financial year.
13.
  - a) There was an allotment of Equity Shares during the financial year. There was transfer of equity shares during the financial year.
  - b) The Company has not deposited any amount in a separate Bank Account as no Dividend was declared during the financial year.
  - c) The Company has not posted warrants to any member of the Company as no Dividend was declared during the financial year.
  - d) The company has duly complied with the requirements of Section 217 of the Act.

14. The Board of Directors of the Company is duly constituted. There was no appointment of an Additional Director during the financial year. However four additional Directors were appointed by the Board in the Board meeting held on 16.04.2007. There was no appointment of Alternate Directors or Directors to fill Casual vacancy during the financial year.
15. The Company has not appointed any Managing Director/Whole time Director/Manager during the financial year. However the Board has appointed Mr. Arjun Baljee as Managing Director of the Company w.e.f. 01.04.2007 in the Board Meeting held on 16.04.2007
16. The Company has not appointed any sole selling agents during the financial year.
17. The Company was not required to obtain any approval of the Central Government, Company Law Board, Regional Director, Registrar of Companies and/or such authorities prescribed under the various provisions of the Act.
18. The directors have disclosed their interest in other firms/Companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under and hence the same has been recorded in the register maintained under section 301(3) of the Act.
19. The Company has issued Equity Shares during the financial year under review.
20. The Company has not bought back any shares during the financial year.
21. The company has not issued any preference shares or debentures and hence redemption thereof during the year does not arise.
22. There were no transactions necessitating the Company to keep in abeyance the rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The Company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A during the financial year.
24. The Company has not made any borrowings falling within the provisions of section 293(1) (d) of the Companies Act 1956.
25. The Company has not made any loans/investments or provided any guarantee or securities falling within the provisions of section 372A of the Act.
26. The Company has not altered the provisions of the Memorandum with respect to Situation of the Company's registered office from one State to another during the year under scrutiny.
27. The Company has not altered the provisions of the Memorandum with respect to the Objects of the Company during the year under scrutiny.
28. The Company has not altered the provisions of the Memorandum with respect to Name of the Company during the year under scrutiny.
29. The Company has altered the provisions of the Memorandum with respect to Share Capital of the Company during the year under scrutiny
30. The Company has altered Capital Clause of the Articles of Association during the year under scrutiny.
31. There were no prosecution initiated against or show cause notices received by the Company and no fines or penalties or any other punishment was imposed on the company during the financial year, for offences under the Act.
32. From the records, it has been observed that the Company has not received any money as security deposit from its employees during the financial year.
33. The Company has not collected any contribution towards Provident Fund from the employees during the financial year.

Place : Bangalore  
Date : 15.06.2007

Sd/- :  
Name : **Ramachandra Bhat. S**  
Company Secretary in Practice  
C.P.No. : 5421



## **ANNEXURE-A**

Name of the Company : **AB HOLDINGS PVT. LTD.**

Company No. : **08/040894**

Authorised Capital : **Rs. 15 Crores**

Paid Up Capital : **Rs. 26 Lakhs**

### **Registers as maintained by the Company:**

1. Register of Members u/s 150
2. Register of Companies and Firms in which Directors, etc., are interested u/s 301(3)
3. Minutes of Board Meetings/Annual General Meetings/Extra- Ordinary General Meetings u/s 193
4. Register of Directors u/s 303
5. Board Meeting Attendance Register
6. General Meeting Attendance Register
7. Register of share transfers.
8. Register of Contract u/s 301
9. Register of Directors share holding u/s 307

## **ANNEXURE-B**

**Forms and Returns as filed by the Company with the Registrar of Companies, during the financial year ending on 31<sup>st</sup> March 2007.**

1. Form 32 in respect of changes in the office of Directors was filed with the ROC on 16.05.2007.
2. Form 5 in respect of enhancement of Authorised Share Capital of the Company was filed with the ROC on 13.02.2007
3. Form 23 for registration of Special resolution for Alteration of Articles of Association of the Company was filed with the ROC on 08.02.2007.
4. Form 2 in respect of allotment of Equity Shares done on 31.03.2007 is yet to be filed.
5. Form No. 23 in respect of ordinary resolution passed in the EGM under Section 293(1)(d) of the Companies Act, 1956 is yet to be filed.

Place : Bangalore  
Date : 15.06.2007

Sd/- :  
Name : **Ramachandra Bhat. S**  
Company Secretary in Practice  
C.P.No. : 5421

## AUDITORS' REPORT

To

The Members  
AB Holdings Private Limited  
Bangalore

We have audited the attached Balance Sheet of **AB Holdings Private Limited** as at 31<sup>st</sup> March 2007 and also the Profit and Loss Account for the period ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, the matters specified in paragraphs 4 & 5 of the said Order, are not applicable to the Company.

Further to our comments in the annexure attached hereto, we report that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
2. In our opinion, proper books of account as required by law have been kept by Company, so far as appears from our examination of books;
3. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
4. In our opinion, the Balance Sheet & Profit & Loss Account comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956 ;
5. In our opinion and to the best of our information and according to the explanations given to us, none of the Directors of the Company are disqualified from being appointed as Directors under clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.
6. In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give the true and fair view in conformity with the accounting principles generally accepted in India.

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007.

(b) in the case of Profit and Loss Account, of the Loss of the Company for the period ended on the date.

For M/s. **P. CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 15.06.2007





## ANNEXURE TO THE AUDITORS' REPORT

**Annexure to the auditors' report of even date to the members of A B Holdings Private Limited ("the Company"), on the financial statement for the year ended 31<sup>st</sup> March 2007**

In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit, we report that :

- (i) (a) The company does not have any fixed assets an clause (i)(a)(b)(c) of this order are not applicable.
- (ii) (a) The Company does not hold any inventory and hence clause ii(a)(b)(c) of this order are not applicable.
- (iii) (a) The company has granted interest free unsecured loans from one companies, firms or other parties covered in the register maintained under section 301 of the Act from one party amounting to Rs. 444.67 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh.  
  
(b) The company has taken interest free unsecured loans from companies, firms or other parties covered in the register maintained under section 301 of the Act from four parties amounting to Rs. 552.16 Lakhs and the terms and conditions of loans taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There is no amount overdue for more than Rupees One Lakh
- (iv) In our opinion and according to information's and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business,
- (v) (a) All transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered.  
  
(b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lakhs, in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time;
- (vi) The company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under.
- (vii) *In our opinion the company has an internal audit system commensurate with its size and nature of its business. However it needs to be strengthened.*
- (viii) The maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act.
- (ix) The Company has no accumulated losses and has sustained cash losses during the current financial year covered under our audit and the immediately preceding financial year.
- (x) The company has not defaulted in repayment of dues to a financial institution or bank .
- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) The provisions of any special statute applicable to chit fund/nidhi/ mutual benefit fund/societies are not applicable to the Company and therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
- (xiii) As the company is not dealing or trading in shares, securities, debentures and other investments, the maintenance of proper records of the transactions and contracts and making timely entries of the shares, securities, debentures and other securities held by the company, are not applicable.



- (xiv) The company has not given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;
- (xv) The Company has not taken any term loan from any bank or financial institutions.
- (xvi) According to information and explanations given to us, and an overall examination of the Balance Sheet and fund flow statement of the Company, we report that the funds raised on short-term basis have not been used for long term investment and vice versa.
- (xvii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act .
- (xviii) According to information and explanations given to us, the company has not issued any debentures during the year and no securities were created by the company.
- (xix) The company has not raised money on public issue.
- (xx) On the basis of our examination of the books of accounts and other relevant records and information made available to us, prima-facie have not noticed any fraud on or by the Company, during the year. Further, the management has represented to us that no fraud on or by the Company has been reported during the year. However, we are unable to determine / verify as to whether any such reporting has been made, during the year.
- (xxi) All other provisions of the said order are not applicable to the company

For M/s. **P. CHANDRASEKAR**  
Chartered Accountants

**P. CHANDRASEKAR**  
Partner

Place : Bangalore  
Date : 15.06.2007



## BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007
		<b>Rs.</b>
<b>SOURCES OF FUNDS</b>		
<b>SHAREHOLDERS' FUNDS</b>		
Share Capital	1	2,600,000.00
Reserves and surplus		-
		<b>2,600,000.00</b>
<b>LOAN FUNDS</b>		
Secured loans		-
Unsecured loans	2	54,484,102.00
<b>TOTAL</b>		<b>57,084,102.00</b>
<b>APPLICATION OF FUNDS</b>		
<b>FIXED ASSETS</b>		
Gross Block		-
Less : Accumulated depreciation		-
Net block		-
Capital work-in-progress and advances		947,300.00
		<b>947,300.00</b>
<b>INVESTMENTS</b>	3	4,800,000.00
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>		
Inventories		-
Sundry debtors		-
Cash and bank balances	4	116,500.00
Loans and advances	5	51,232,812.00
		<b>51,349,312.00</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>		
Current Liabilities	6	1,841,138.00
<b>Net current assets</b>		<b>49,508,174.00</b>
<b>Miscellaneous Expenditure.</b> (to the extent not written-off or Adjusted)		
Preliminary Expenses		-
Profit & Loss account	7	1,828,628.00
<b>TOTAL</b>		<b>57,084,102.00</b>
<b>Notes forming part of accounts</b>	8	

As per Report of Even date

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

K.V. Rao  
Director

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

## PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007
		Rs.
<b>INCOME</b>		-
		-
<b>EXPENDITURE</b>		
Food and beverages consumed		-
Employees cost		-
Other operating expenses		-
General and administration expenses	7	(1,823,628.00)
Finance charges		-
Depreciation		-
		<b>(1,823,628.00)</b>
<b>LOSS BEFORE TAX</b>		<b>(1,823,628.00)</b>
Provision for tax		-
Fringe Benefit Tax		5,000.00
<b>LOSS AFTER TAX</b>		<b>(1,828,628.00)</b>
<b>Profit/loss carried to balance sheet</b>		<b>(1,828,628.00)</b>
Notes forming part of accounts	8	

For M/s. P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

K.V. Rao  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

Arjun Baljee  
Director


**SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS**

	<b>31<sup>st</sup> March 2007</b>
	<b>Rs.</b>
<b>SCHEDULE 1</b>	
<b>SHARE CAPITAL</b>	
<b>Authorized</b>	
300000 Equity Shares of Rs.10 each	3,000,000.00
<b>Issued, subscribed and paid up</b>	
2600000 Equity Shares of Rs.10 each fully paid up	2,600,000.00
	<b>2,600,000.00</b>
<b>SCHEDULE 2</b>	
<b>UNSECURED LOANS</b>	
Royal Orchid Hotels Ltd	51,951,321.00
Others	32,781.00
Mr. C K Baljee	2,500,000.00
	<b>54,484,102.00</b>
<b>SCHEDULE 3</b>	
<b>INVESTMENTS</b>	
Long term Non trade - (Investment in subsidiary company)	
480000 equity shares of Rs. 10/-each fully paid in Royal Orchid East (P) Ltd.	4,800,000.00
	<b>4,800,000.00</b>
<b>SCHEDULE 4</b>	
<b>CASH AND BANK BALANCES</b>	
Cash balances on hand	104,282.00
Banks balances with Scheduled Banks:	
In Current accounts	12,218.00
	<b>116,500.00</b>
<b>SCHEDULE 5</b>	
<b>LOANS AND ADVANCES</b>	
(Unsecured, considered good)	
Advances recoverable in cash or in kind or for value to be received	
Advance payment	665,264.00
Royal Orchid East Pvt Ltd	44,567,548.00
Security deposit	6,000,000.00
	<b>51,232,812.00</b>

	31 <sup>st</sup> March 2007
	Rs.
<b>SCHEDULE 6</b>	
<b>CURRENT LIABILITIES</b>	
Provision for FBT	5,000.00
Duties/Taxes	42,878.00
Others	1,782,040.00
Audit fees	11,220.00
	<b>1,841,138.00</b>
<b>SCHEDULE 7</b>	
Profit and loss account	
Audit fees	11,220.00
Rates & Taxes	691,090.00
Salaries/security charges/staff welfare	42,919.00
Professional charges	976,082.00
Travelling/Transportation	17,492.00
Advertisement charges	22,040.00
Electricity/water charges	47,152.00
Telephone/mobile	3,553.00
Bank charges	2,530.00
Others	9,460.00
	<b>1,823,538.00</b>

For M/s. P. Chandrasekar  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

For and on behalf of the Board of Directors

**K.V. Rao**  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

**Arjun Baljee**  
Director



## NOTES TO THE FINANCIAL STATEMENTS

### SCHEDULE 8

#### 1. Background

AB Holding Pvt. Ltd. ("the Company") was incorporated on 09.11.06 to carry on the business hotels/holiday resorts and related services. M/s. Royal Orchid Hotels Ltd holds 100% of equity shares.

The company has taken a commercial property of lease at Bangalore for a period of five years and has given interest free security deposit of Rs. 60 Lakhs. The lease rentals of Rs. 6 Lakhs per month shall commence from 01.07.2007

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### *i Basis of preparation*

The financial statement have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India (ICAI). The accounting policies have been consistently applied unless otherwise stated.

##### *ii Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals of leave encashment, bonus and gratuity.

##### *iii Revenue recognition*

The commercial opening of the hotel not been taken during the period under review.

##### *iv Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalized.

##### *v Depreciation*

Depreciation on fixed assets is provided on the Straight Line Method, using the higher of the rates specified in Schedule XIV to the Companies Act, 1956 or management estimates of the economic useful lives of such assets. These rates are specified below:

Assets category	Rates of depreciation used %
Plant and Machinery	4.75%
Office Equipment	1.75%
Computer and related equipment, including software	16.21%
Furniture and fittings	9.5%
Vehicles	9.5%

Assets individually costing less than Rs. 5000.00 are fully depreciated in the year of purchase. Improvements to buildings are amortized over the period of the lease. No depreciation charged period under review as no commercial activity.

*vi Impairment of assets*

The company assessed at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

*vii Inventory*

Inventory comprised stock of food and beverages and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the good to their present location and condition and determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale. There were no inventory during the year under review.

*viii Retirement benefits*

The Company provides for gratuity and bonus, a defined benefit plan in accordance with the rules of the company based on actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized Provident Fund and Employees state Insurance scheme, which are defined contribution schemes, which are charged to the profit and loss account as incurred. As there was no commercial activity the company did not hire any employee.

*ix Leave Encashment*

The company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary. As there was no commercial activity the company did not hire any employee.

*x Taxes on income*

During the year no deferred tax has been recognized as there is no commercial activity.

*xi Earnings per share*

Basic earning per share is calculated by dividing net profit/loss for the period divided by Number of shares. As there are no un-issued shares during the year the diluted earning will be the same as basic earning. As there was no commercial activity shares were not valued.

*xii Provisions and contingent liabilities*

The company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or present obligation in respect of which the likelihood of outflow of resources is remote no provision or disclosure is made.

**3. RECOVERABILITY OF LOANS AND ADVANCES**

In the opinion of the board of directors, current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amounts at which they are stated and provisions for all known liabilities has been made in the accounts.

**4. RELATED PARTY TRANSACTIONS**

- i. Parties where control exists include

Name of the party	Nature of relationship
Royal Orchid Hotels Ltd	Entity controlled by Directors
Mr. Arjun Baljee	Entity controlled by Directors
Mrs. Sunita Baljee	Entity controlled by Director

**5. SEGMENTAL INFORMATION**

The Company's business comprises the operation of hotel, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the company derives its entire revenues from services rendered in India, consequently, the disclosure of business and geographic segment-wise information is not applicable to the company.

**6. PRIOR YEAR COMPARATIVES**

The Company has prepared financial statements, in accordance with AS-25. As this is the first year of operation, previous years figures have not been provided.

**7. DEFERRED INCOME TAXES**

The deferred tax asset was not taken into books for the period under review.

**For M/s P. Chandrasekar**  
Chartered Accountants

**P. Chandrasekar**  
Partner

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007

**For and on behalf of the Board of Directors**

**K.V. Rao**  
Director

**Arjun Baljee**  
Director

Place : Bangalore  
Dated : 15<sup>th</sup> June 2007



## CASH FLOW STATEMENT

	Year ended 31 <sup>st</sup> March 2007
	Rs.
<b>A. Cash flows from operating activities</b>	
Net profit before taxation	- 1,823,628
Add: Adjustments for	
Depreciation	-
Assets written off	-
Finance charges	-
Provisional for Doubtful debts	-
<i>Operating profit before working capital changes</i>	- 1,823,628
Movement in working capital :	
Increase in sundry debtors	-
Increase in Inventories	-
Increase in loans and advances	- 51,232,812
Increase in current liabilities	1,841,138
Taxes paid	- 5,000
<b>Net cash from operative activities</b>	- 49,396,674
<b>B. Cash flows from investing activities</b>	
Purchase of fixed assets	- 947,300.00
Net investment in term deposit	-
Purchase of investment	-
Loan to holding company	54,484,102.00
Loan repayment by holding company	-
Sales/Maturity of investments	-
Interest received	-
<b>Net cash used in investing activities</b>	53,536,802.00
<b>C. Cash flows from financing activities</b>	
Share capital	2,600,000.00
Proceeding from long-term borrowings	-
Repayment of long-term borrowings	-
Interest paid	-
<b>Net cash used in financing activities</b>	- 4,800,000.00
	2,200,000.00
<b>A+B+C</b>	116,500.00
Cash and bank balance as on 1/4/06	-
Cash and bank balance as on 31/03/07	116,500.00

For M/s P. Chandrasekar  
Chartered Accountants

P. Chandrasekar  
Partner

Place : Bangalore  
Dated : 15.06.2007

For and on behalf of the Board of Directors

Arjun Baljee  
Director

Place : Bangalore  
Dated : 15.06.2007

K.V. Rao  
Director



# **ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT 1956**

## **BALANCE SHEET ABSTRACT AND COMPNY'S GENERAL BUSINESS PROFILE**

### **i Registration details :**

Registraion No:	40894	State code	8
Balance sheet date	31/3/2007		

### **ii Capital raised during the year (Amounts in Rs.'000)**

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	2500

### **iii Position of Mobilisation and deployment of funds (amounts in Rs.'000)**

Total Liabilities	57084	Total Assets	57084
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#### **Sources of fund**

Paid up capital	2600	Reserves & Surplus (P & L a/c)	Nil
Secured Loans	Nil	Unsecured loans	54484

#### **Application of funds**

Net Fixed assets	Nil	Investments	4800
Net current assets	49508	Preliminary expenses	0
Accumulated losses	0		

### **iv Performance of the Company (amount in Rs.'000)**

Turnover	0	Total Expenditure	1824
Profit /(loss) after tax	- 1829	Earnings per share in Rs.	Nil
Divident rate%	NIL		

### **v Generic names of three pricipal products/services of the company (as per monetary terms)**

Item code No: (ITC code)	591001006
Product description	Hotel
Item code No.(ITC code)	390001002
Product description	Restaurant

## AUDITORS' REPORT

The Board of Directors  
Royal Orchid Hotels Limited

1. We have audited the attached Consolidated Balance Sheet of Royal Orchid Hotels Limited ('the Company') and its subsidiaries, collectively referred to as 'the Group' as at 31 March 2007 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have not audited the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs 234,166,244 as at 31 March 2007 and total revenues of Rs 69,761,992 and cash flows amounting to Rs 41,374,799 during the year ended 31 March 2007. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us and our opinion in respect thereof is based solely on the report of the other auditors.
4. *As more fully discussed in Note b of Schedule 13, during the year ended 31 March 2006, the Company acquired a 51 per cent equity interest in Maruti Comforts and Inn Private Limited ('the subsidiary'). In accordance with the terms of the shareholder's partnership agreement, the Company or its subsidiary would not be liable for any amounts to the previous promoter group on account of any dues or loans existing prior to the date of the Company's investment. However, the subsidiary continues to record a current liability of Rs 23,374,098 representing amounts due to the previous promoters, as it is currently under discussion with them for this amount. Consequently, as at 31 March 2007, subject to the effect of the adjustments based on the discussions above, the current liabilities of the Group and the goodwill on this consolidation are overstated by Rs 23,374,098 in these consolidated financial statements.*
5. *As more fully discussed in note 7 to Schedule 22, the Company's subsidiary, Icon Hospitality Private Limited has recorded remuneration payable to its directors in excess of the limits specified by Section 309 of the Companies Act, 1956 by Rs 7,128,080, without the prior approval of the Central Government, the Company has applied to the Central Government for the said approval, which is currently awaited.*
6. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.
7. *Subject to our comments in paragraph 4 and 5 above, and on consideration of the report of the other auditor on the separate financial statements of the entities not audited by us, we are of the opinion that to the best of our information and according to the explanations given to us, the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:*
  - (a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at 31<sup>st</sup> March 2007;
  - (b) in the case of the Consolidated Profit and Loss Account, of the profit for the year ended on that date; and
  - (c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows for the year ended on that date.

For Walker, Chandio & Co  
Chartered Accountants

Aashish Arjun Singh  
Partner  
Membership No. 210122

Bangalore  
15 June 2007



## CONSOLIDATED BALANCE SHEET

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2007 Rs.
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Capital	1	272,339,650	272,339,650
Reserves and surplus	2	1,426,192,748	1,264,798,535
		<b>1,698,532,398</b>	<b>1,537,138,185</b>
<b>MINORITY INTEREST</b>	3	58,091,391	43,229,617
<b>LOAN FUNDS</b>			
Secured loans	4	224,555,056	274,161,062
Unsecured loan	5	89,080,376	9,080,376
		<b>313,635,432</b>	<b>283,241,438</b>
<b>DEFERRED TAX LIABILITY</b>	6	36,170,000	36,400,000
		<b>2,106,429,221</b>	<b>1,900,009,240</b>
<b>APPLICATION OF FUNDS</b>			
<b>GOODWILL</b>		61,732,120	61,732,120
<b>FIXED ASSETS</b>	7		
Gross block		752,326,775	604,747,682
Less: Accumulated depreciation		174,366,620	130,384,622
Net block		577,960,155	474,363,040
Capital work-in-progress and advances		14,680,780	9,463,900
		<b>592,640,935</b>	<b>483,826,960</b>
<b>INVESTMENTS</b>	8	225,000	25,000
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	9	8,030,843	6,960,850
Sundry debtors	10	68,585,651	46,491,738
Unbilled revenues		3,846,119	7,722,683
Cash and bank balances	11	1,284,089,739	1,440,313,211
Loans and advances	12	478,588,634	173,239,943
		<b>1,843,140,986</b>	<b>1,674,728,425</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
Liabilities	13	194,417,120	159,366,071
Provisions	14	196,951,400	160,937,194
		<b>391,368,520</b>	<b>320,303,265</b>
<b>NET CURRENT ASSETS</b>		<b>1,451,772,466</b>	<b>1,354,425,160</b>
Miscellaneous expenditure		58,700	-
		<b>2,106,429,221</b>	<b>1,900,009,240</b>
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>	22		

The schedules referred to above form an integral part of the consolidated financial statements.  
This is the consolidated balance sheet referred to in our report of even date.

**For Walker, Chandiok & Co**  
Chartered Accountants

**Aashish Arjun Singh**  
Partner

Membership No. 210122  
Bangalore  
15 June 2007

**For and on behalf of the board of directors**

**Chander K. Baljee**  
Managing Director

Bangalore  
15 June 2007

**Naresh K Malhotra**  
Director

**Someswara Rao**  
Company Secretary

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Schedule	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2007 Rs.
<b>INCOME</b>			
Operating Income	15	1,137,019,835	834,519,916
Other income	16	104,560,618	25,273,895
		<b>1,241,580,453</b>	<b>859,793,811</b>
<b>EXPENDITURE</b>			
Food and beverages consumed	17	98,729,586	61,396,579
Employee costs	18	113,893,097	79,369,268
Operating expenses	19	258,654,719	192,409,781
Selling, general and administrative expenses	20	198,954,252	142,171,312
Interest	21	25,296,369	16,083,447
Depreciation	7	43,981,998	30,223,717
		<b>739,510,021</b>	<b>521,654,104</b>
<b>PROFIT BEFORE TAX, MINORITY INTEREST AND SHARE IN EARNINGS OF AFFILIATE</b>		<b>502,070,432</b>	<b>338,139,707</b>
<b>Provision for income tax</b>			
- Current		(132,270,000)	(79,098,702)
- Deferred		230,000	(9,900,000)
- Fringe benefit tax		(1,953,007)	(1,593,514)
- Provision for income tax of prior years written back		-	200,000
		<b>368,077,425</b>	<b>247,747,491</b>
<b>PROFIT AFTER TAX AND BEFORE MINORITY INTEREST</b>			
Minority Interest	3	(15,508,948)	(17,754,425)
Share in earnings of affiliates	3	-	495,332
<b>NET PROFIT</b>		<b>352,568,477</b>	<b>230,488,398</b>
<b>Balance brought forward from the previous year</b>		<b>110,412,131</b>	<b>155,889,605</b>
Balance available for appropriations		<b>462,980,608</b>	<b>386,378,003</b>
Minority shareholders' share of losses absorbed	3	-	(2,294,149)
<b>Balance available for appropriations</b>		<b>462,980,608</b>	<b>384,083,854</b>
<b>APPROPRIATIONS</b>			
Proposed Dividend		(163,403,790)	(136,169,825)
Tax on distribution of dividend		(27,770,474)	(19,097,818)
Transfer to General Reserve		(33,944,202)	(21,204,380)
Bonus shares issued		-	(97,199,700)
<b>Balance carried to balance sheet</b>		<b>237,862,142</b>	<b>110,412,131</b>
<b>EARNINGS PER SHARE (Rs 10 par value)</b>			
Basic and diluted earnings (Refer Note 4 in Schedule 22).		<b>12.95</b>	<b>10.98</b>
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>	22		

The schedules referred to above form an integral part of the consolidated financial statements.  
This is the consolidated profit and loss account referred to in our report of even date.

For Walker, Chandio & Co  
Chartered Accountants

Aashish Arjun Singh  
Partner

Membership No. 210122  
Bangalore  
15 June 2007

For and on behalf of the board of directors

Chander K. Baljee  
Managing Director

Bangalore  
15 June 2007

Naresh K Malhotra  
Director

Someswara Rao  
Company Secretary



## CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>A. Cash flow from operating activities</b>		
Net profit before taxation	502,070,432	338,139,707
Adjustments for:		
Depreciation	43,981,998	30,223,717
Loss on disposal of investments		427,000
Advances written off		2,474,834
Interest income	(87,678,937)	(17,593,276)
Interest expense	28,913,043	16,076,856
Provision for doubtful debts	6,061,593	2,739,919
Bad debts written off		1,369,380
<i>Operating profit before working capital changes</i>	<b>493,348,129</b>	<b>373,858,137</b>
Movements in working capital :		
(Increase) in sundry debtors	(22,972,519)	(18,296,969)
(Increase) in inventories	(385,619)	(1,319,241)
(Increase) in margin monies	(1,710,982)	(5,312,645)
(Increase) / Decrease in unbilled revenue	1,362,503	(4,172,648)
(Increase) in loans and advances	(333,484,594)	(49,156,951)
Increase / (Decrease) in current liabilities and provisions	45,550,242	8,972,599
<i>Cash generated from operations</i>	<b>181,707,161</b>	<b>304,572,282</b>
Direct taxes paid (net of refunds)	(101,291,401)	(60,182,840)
<b>Net cash from operating activities</b>	<b>80,415,760</b>	<b>244,389,442</b>
<b>B. Cash flows from investing activities</b>		
Purchase of fixed assets	(158,992,705)	(86,681,001)
Proceeds from sale of fixed assets		-
Net investment in term deposit	20,878,016	(1,181,984,368)
Purchase of investments	(200,000)	(58,951,000)
Sale / maturity of investments		
Interest received	67,785,631	3,070,439
<b>Net cash used in investing activities</b>	<b>(70,529,058)</b>	<b>(1,324,545,930)</b>
<b>C. Cash flows from financing activities</b>		
Proceeds from issuance of share capital (including premium)		1,280,499,850
Dividend paid	(155,267,643)	-
Share issue expenses paid	(9,449,821)	(61,975,684)
Proceeds from long-term borrowings	77,500,000	92,857,345
Repayment of long-term borrowings	(56,387,029)	(34,279,807)
Proceeds from short term borrowings	1,002,869	-
Interest Paid	(21,797,569)	(15,996,910)
<b>Net cash used in financing activities</b>	<b>(164,399,193)</b>	<b>1,261,104,794</b>
<b>Net increase in cash and cash equivalents (A + B + C)</b>	<b>(154,512,491)</b>	<b>180,948,306</b>
Cash and cash equivalents at the beginning of the year	227,278,799	46,330,493
Cash and cash equivalents at the end of the year	<b>72,766,308</b>	<b>227,278,799</b>

**Note:**

- a) The Group considers all highly liquid investments with a remaining maturity, at the date of purchase/investment, of three months or less to be cash equivalents.

**Components of cash and cash equivalents as at year end**

	<b>2007</b>	<b>2006</b>
Cash and bank balances at 31 March	<b>1,284,089,739</b>	1,440,313,211
Less : Bank deposits and margin monies considered separately (Refer note above )	<b>1,211,323,431</b>	(1,213,034,412)
	<b>72,766,308</b>	<b>227,278,799</b>

This is the Consolidated Cash Flow Statement referred to in our report of even date.

**For Walker, Chandiok & Co**  
Chartered Accountants

**Aashish Arjun Singh**  
Partner  
Membership No. 210122

Bangalore  
15 June 2007

**For and on behalf of the Board of Directors**

**Chander K. Baljee**  
Managing Director

Bangalore  
15 June 2007

**Naresh K. Malhotra**  
Director

**A Someswara Rao**  
Company Secretary



## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 1</b>		
<b>CAPITAL</b>		
<b>Authorised</b>		
30,000,000 (31 March 2006 : 30,000,000) Equity Shares of Rs.10 each	<b>300,000,000</b>	300,000,000
<b>Issued, subscribed and paid up</b>		
27,233,965 (31 March, 2006 : 27,233,965) Equity shares of Rs.10 each fully paid up	<b>272,339,650</b>	272,339,650
	<b>272,339,650</b>	272,339,650

**Note:**

- Of the above 6,000,000 (31 March 2006: 6,000,000) equity shares have been allotted as fully paid up, by capitalizing the interest free refundable deposit due to the Managing Director. Pursuant to an agreement entered between the Company and the Managing Director, in 1992, the Company has been granted the right to use his interest in the land leased from the Karnataka State Tourism Development Corporation ('KSTDC') pertaining to the Royal Orchid Hotel, for the period of the lease arrangement.
- At the Annual General Meeting held on 28 September 2005, the members of the Company approved a bonus issue of one equity share for every equity share held on 1 September 2005. Consequently, of the above outstanding shares, 9,719,970 (31 March 2006 – 9,719,970) equity shares have been allotted as fully paid up by way of bonus shares by capitalising the balance in the profit and loss account.
- On January 30, 2006, the Company issued 6,820,000 equity shares of Rs.10 each at a premium of Rs.155 per equity share through an Initial Public Offer ('IPO') of equity shares. (Refer Schedule 2).

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
<b>SCHEDULE 2</b>		
<b>RESERVES &amp; SURPLUS</b>		
<b>Share Premium</b>		
Balance at the beginning of the year	<b>1,130,684,095</b>	-
Add: Premium received on equity shares issued during the year (a)	-	1,202,109,600
Less: Utilisation towards IPO issue expenses	-	71,425,505
Balance at the end of the year	<b>1,130,684,095</b>	1,130,684,095
<b>Foreign Exchange Earnings Reserve</b>	<b>1,750,000</b>	1,750,000
<b>General Reserve</b>		
Balance at the beginning of the year	<b>21,204,380</b>	-
Add: Transfer during the year	<b>33,944,202</b>	21,204,380
Balance at the end of the year	<b>55,148,582</b>	21,204,380
<b>Capital Reserve (b)</b>	<b>747,929</b>	747,929
<b>Profit and Loss Account</b>		
Balance at the beginning of the year	<b>110,412,131</b>	155,889,605
Add: net profit for the year	<b>352,568,477</b>	230,488,398
Less: Proposed Dividend	<b>163,403,790</b>	136,169,825
Less: Tax on distribution of dividend	<b>27,770,474</b>	19,097,818
Less: Transfer to General Reserve	<b>33,944,202</b>	21,204,380
Less: Minority Share in pre-acquisition losses absorbed	-	2,294,149
Less: Issue of bonus shares	-	97,199,700
Balance at the end of the year	<b>237,862,142</b>	110,412,131
	<b>1,426,192,748</b>	1,264,798,535

**Note:**

- Share premium includes an amount Rs 1,057,100,000 received on allotment of 6,820,000 equity shares pursuant to the Company's IPO in January 2006. Also Refer Schedule 1.
- Capital reserve represents the excess of the Company's share in the equity of Icon Hospitality Private Limited over the cost of the investment at the date of the shareholders' partnership agreement (Refer Note 2 on Schedule 22).
- At the Annual General Meeting held on 28 September 2005, the members of the Company approved a bonus issue of one equity share for every equity share held on 1 September 2005. Of the above outstanding shares, 9,719,970 (31 March 2006 – 9,719,970) equity shares have been allotted as fully paid up by way of bonus shares by capitalising the balance in the profit and loss account.



## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

## SCHEDULE 3

## MINORITY INTEREST

- a) As discussed in Note 2 of Schedule 22, Minority Interest represents the interest of the minority shareholders in the company's subsidiaries and includes their share of applicable profits.
- b) During the year ended 31 March 2006, the Company acquired a 51% equity interest in Maruti Comforts and Inn Private Limited. However on the date of acquisition, the minority shareholders' share in the losses of Maruti Comforts and Inn Private Limited exceeded their interest in the equity by Rs 2.3 million with no binding obligation on them to make good the losses. Consequently, this amount has been adjusted against the Company's reserves in these consolidated financial statements. Subsequent profits are being allocated to the Company until these losses are fully recovered.

		31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
		Rs.	Rs.
<b>SCHEDULE 4</b>			
<b>SECURED LOANS</b>			
Term loans from banks	(a)	213,650,992	263,650,987
Other loans	(b)	9,079,366	9,098,529
Interest accrued and due		1,824,698	1,411,546
		<b>224,555,056</b>	<b>274,161,062</b>

## Note:

- a) During the year ended 31 March 2004, the Company availed a term loan facility of Rs 250 million from the Housing and Urban Development Corporation of India ('HUDCO') for the expansion activities of the Company that carried an interest rate of 11.25 % per annum which was subsequently revised to 9.75 % per annum. Of the above, the Company availed Rs 208 million with the balance facility remaining unutilised. This loan was repayable in 36 quarterly instalments of Rs 6.9 million each ending in June 2013 and was secured against the land and buildings of Royal Orchid Hotel and Royal Orchid Harsha with an escrow over the collections from sales settled through credit cards at both hotels. Additionally, this borrowing was backed by the personal guarantees of Mr. Chander K. Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited, a company under the same management.
- On 16 December 2004, the Company was sanctioned a term loan from the State Bank of Hyderabad ('the Bank') for Rs 300 million. The company drew down Rs.192 million of which Rs.154 million was utilised towards the repayment of the loan outstanding from HUDCO with the balance of Rs.38 million being utilised for the purposes of the expansion by the Company. This loan carries an interest rate of 3 % below the Prime Lending Rate ('PLR') of the Bank subject to a maximum of 9.75 % per annum. This loan is secured by way of an equitable mortgage of the land and building of the Royal Orchid Hotel and a first charge on the present and future fixed assets of the Company. The key covenants include cost overruns on expansion being met directly by the Company, and new plant and machinery acquired to be insured jointly in the names of the Company and the Bank. Further, the arrangement also requires all expenditure in excess of the budgets and any other expansion activities to be pre-approved by the Bank.
- b) Other loans represent loans taken to purchase vehicles that are secured by the hypothecation of the vehicles concerned. These loans carry interest rates varying from 6.29 % to 8.5 % and are repayable through 2010.

Amounts due in one year are as follows:

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
	Rs.	Rs.
Term loans	50,000,000	50,000,000
Other loans	1,536,821	2,994,068
	<b>51,536,821</b>	<b>52,994,068</b>



	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
<b>SCHEDULE 5</b>	<b>Rs.</b>	<b>Rs.</b>
<b>UNSECURED LOANS</b>		
From Others	<b>89,080,376</b>	9,080,376
	<b>89,080,376</b>	9,080,376

**Note:**

Loans represent loans taken by the Company's subsidiaries, Maruti Comforts and Inn Private Limited and Icon Hospitality Private Limited, from its directors. The loan of Maruti Comforts and Inn Private Limited is interest free and repayable on demand. The loan of Icon Hospitality Private Limited amounting to Rs 77.5 million carries a interest of 10% and is also repayable on demand.

	31 <sup>st</sup> March 2007	31 <sup>st</sup> March 2006
<b>SCHEDULE 6</b>	<b>Rs.</b>	<b>Rs.</b>
<b>DEFERRED TAX LIABILITY NET</b>		
Deferred tax liability arising on account of : Depreciation	<b>40,035,285</b>	39,895,365
Less: deferred tax asset arising account of : Employee benefits	<b>1,510,341</b>	1,930,981
Provision for doubtful debts	<b>1,678,324</b>	973,177
Other deductions on payment basis		-
Lease rentals	<b>676,620</b>	591,207
Deferred revenue expenditure		-
	<b>36,170,000</b>	36,400,000

The Company is eligible for a deduction of 30 percent of its profits from the Royal Orchid Hotel, being a new industrial undertaking as defined under Section 80IB of the Income-tax Act, 1961. This benefit is available for a period of ten consecutive years ending on 31 March 2010. Consequently, the deferred tax assets and liabilities as at 31<sup>st</sup> March 2007 have been recorded to the extent of the timing differences that reverse outside the tax holiday period.

**SCHEDULE 7**
**FIXED ASSETS**

Assets	Gross block				Depreciation Block				Net block	
	As at 1 <sup>st</sup> April 2006	Additions	Deletions	As at 31 <sup>st</sup> March 2007	As at 1 <sup>st</sup> April 2006	Charge for the year	Deletions	As at 31 <sup>st</sup> March 2007	As at 31 <sup>st</sup> March 2007	As at 31 <sup>st</sup> March 2006
Goodwill	-	4,554,452	-	4,554,452	-	555,790	-	555,790	3,998,662	-
Building	291,621,121	25,364,662	-	316,985,783	40,711,469	9,824,124	-	50,535,593	266,450,190	250,909,652
Plant and Machinery	129,682,611	56,179,422	-	185,862,033	33,989,209	8,914,864	-	42,904,073	142,957,960	95,683,402
Office Equipment	8,961,310	1,427,591	-	10,388,901	3,241,706	695,296	-	3,937,002	6,451,899	5,719,604
Computers and related software	10,417,395	7,034,153	-	17,451,548	3,688,389	2,003,630	-	5,692,019	11,759,529	6,729,006
Furniture and fixture	142,672,389	28,158,815	-	170,831,204	44,479,193	18,690,534	-	63,169,727	107,661,477	98,193,196
Vehicles	21,392,856	24,859,998	-	46,252,854	4,274,656	3,297,760	-	7,572,416	38,680,438	17,118,200
Total	604,747,682	147,579,093	-	752,326,775	130,384,622	43,981,998	-	174,366,620	577,960,155	474,363,060
Previous year	320,467,305	284,271,377	-	604,747,682	100,160,905	30,223,717	-	130,384,620	474,363,060	234,440,830

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 8</b>		
<b>INVESTMENTS</b> [Long Term, unquoted, at cost (non-traded)]		
Investment in Government Securities	225,000	25,000
	225,000	25,000
<b>SCHEDULE 9</b>		
<b>INVENTORY</b>		
Food and beverages	5,375,835	4,279,497
Stores and spare parts	2,655,008	2,681,353
	8,030,843	6,960,850
<b>SCHEDULE 10</b>		
<b>SUNDRY DEBTORS</b> (Unsecured)		
Debts outstanding for a period exceeding six months:		
- Considered good	6,975,469	50,072
- Considered doubtful	-	3,364,139
	6,975,469	3,414,211
Other debts		
- Considered good	68,585,651	46,487,587
- Considered doubtful	-	403,727
	75,561,120	50,305,525
Less: Provision for doubtful debts	6,975,469	3,813,787
	68,585,651	46,491,738
A reconciliation of the provision for doubtful debts is provided below:		
Balance at the beginning of the year	3,813,787	1,073,857
Add: Additional provisions created during the year	4,692,752	3,217,330
Less: Debts written off	1,531,070	477,400
Balance at the end of the year	6,975,469	3,813,787
<b>SCHEDULE 11</b>		
<b>CASH AND BANK BALANCES</b>		
Cash balances on hand	3,732,335	5,812,605
Banks balances with Scheduled banks :		
In Current Accounts (a)	67,925,751	215,560,867
In Exchange Earners Foreign Currency Account	1,108,222	5,905,326
In Deposit Account (b)	1,191,491,444	1,196,611,719
In Margin Money (c)	19,831,987	16,422,694
	1,284,089,739	1,440,313,211

**Note:**

- At 31<sup>st</sup> March 2007, current accounts include Rs. 5,511,556 (31<sup>st</sup> March 2006 – Rs 82,489,172) representing unutilised proceeds from the Company's IPO.
- As at 31<sup>st</sup> March 2007, deposit accounts include unutilised public issue proceeds amounting to Rs 1,031,664,797 (2006 - Rs 1,000,000,000) which has been temporarily invested with banks until utilization for the specific objects of the IPO.
- Margin Money represents bank guarantee given by the Company for imports at concessional duty rates under various Export Promotion Capital Goods ('EPCG') licenses and proposed projects and letters of credit for imported purchases. These deposits are to be released between years 2012 and 2014.



		<b>31<sup>st</sup> March 2007 Rs.</b>	<b>31<sup>st</sup> March 2006 Rs.</b>
<b>SCHEDULE 12</b>			
<b>LOANS AND ADVANCES</b> (Unsecured, considered good)			
Security deposits	(a)	<b>386,224,534</b>	108,570,041
prepaid expenses	(b)	<b>27,845,964</b>	23,234,124
Advances to suppliers		<b>16,986,867</b>	3,055,502
Due from related parties	(c)	<b>142,191</b>	16,242,226
Advance tax (net of provision)		<b>15,188,198</b>	827,591
Interest Accrued and not due		<b>321,715</b>	14,628,274
Others		<b>31,879,165</b>	6,682,185
		<b>478,588,634</b>	173,239,943

**Note:**

- a) Security deposits includes Rs 60,000,000 (31 March 2006 – Rs 60,000,000) being a interest-free, refundable security deposit with the Managing Director for his 50 percent interest in the land taken on lease from the KSTDC for the Royal Orchid Hotel. This deposit is repayable on the expiration of the lease agreement with the KSTDC. (Refer Notes 6 and 9 in Schedule 22).  
Security deposits also include Rs 10,000,000 (31 March 2006 – Rs 10,000,000) being an interest free, refundable lease deposit with companies under the same management for the buildings and assets at Royal Orchid Harsha. This amount is repayable on the termination of the lease. (Refer Notes 6 and 9 in Schedule 22).  
Security deposits also include Rs 11,253,000 (31 March 2006 – 11,253,000) being amount paid to National Stock Exchange as a security deposit for the public issue of equity shares in accordance with Clause 42 of the Listing Agreement. This deposit is refundable on receipt of a No-Objection Certificate from the Securities Exchange Board of India in accordance with the SEBI (Disclosure and Investor Protection) Guidelines, 2000.
- b) Prepaid expenses include Rs. 12,116,115 (31 March 2006 – Rs 9,989,041) representing insurance premium paid towards two Keyman Insurance policies taken by the subsidiary Icon Hospitality Private Limited for two of its directors. The premiums are for the period from 31 March 2007 to 31 March 2008
- c) Dues from related parties represent amounts dues from companies under the same management. The maximum amount outstanding during the year ended 31 March 2007 was Rs 16,244,226 (31 March 2006 - Rs. 16,242,226).

		<b>31<sup>st</sup> March 2007 Rs.</b>	<b>31<sup>st</sup> March 2006 Rs.</b>
<b>SCHEDULE 13</b>			
<b>LIABILITIES</b>			
Sundry creditors		<b>40,316,278</b>	33,323,515
Accrued expenses		<b>31,444,708</b>	26,013,979
Dues to employees		<b>12,564,137</b>	8,762,070
Duties and taxes payable		<b>29,158,313</b>	22,226,664
Dues to related parties		<b>19,260</b>	441,793
Security deposits	(a)	<b>3,035,500</b>	2,894,710
Lease rent payable		<b>11,602,672</b>	-
Other liabilities	(b)	<b>66,276,252</b>	65,703,340
		<b>194,417,120</b>	159,366,071

**Note:**

- a) Security deposit includes Rs 2,980,000 (31 March 2006 – Rs 2,500,000) received from an entity under the same management for premises space provided to them for no charge. This amount is repayable on vacation of the aforesaid premises. (Refer Note 9 in Schedule 22).

- b) The Company acquired a 51 percent equity interest in Maruti Comforts and Inn Private Limited through the shareholders' partnership agreements dated 21 November 2005 and 31 January 2006. In accordance with the terms of these agreements between the Company, its subsidiary and the erstwhile promoters, the Company or its subsidiary would not be liable for any amounts to the previous promoters/directors/members or relatives of such directors on account any dues or loans or any such dues, prior to the date of the Company's investment. However, the subsidiary continues to record a current liability of Rs 23.3 million representing amounts due to the promoters and their relatives as it is currently under discussions. Accordingly, the current liabilities of the Company and the goodwill on this investment are overstated by Rs 23.3 million in these consolidated financial statements.

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 14</b>		
<b>PROVISIONS</b>		
Provision for leave encashment	2,070,293	2,416,333
Provision for gratuity	3,706,843	3,253,218
Proposed dividend	163,403,790	136,169,825
Tax on proposed dividend	27,770,474	19,097,818
	<b>196,951,400</b>	<b>160,937,194</b>
A reconciliation of the provision for leave encashment is provided below:		
Balance at the beginning of the year	2,416,333	759,748
Add: Additional provisions created during the year	-	1,743,623
Less: Payments made during the year	346,040	87,038
Balance at the end of the year	<b>2,070,293</b>	<b>2,416,333</b>
A reconciliation of the provision for gratuity is provided below:		
Balance at the beginning of the year	3,253,218	1,620,440
Add: Additional provisions created during the year	1,181,370	1,687,462
Less: Paid during the year	727,745	54,684
Balance at the end of the year	<b>3,706,843</b>	<b>3,253,218</b>
<b>SCHEDULE 15</b>		
<b>OPERATING INCOME</b>		
Room revenues	824,890,519	629,687,450
Food and beverages	284,814,375	182,534,187
Other service charges	27,314,941	22,298,279
Management fees	-	771,836
	<b>1,137,019,835</b>	<b>835,291,752</b>
<b>SCHEDULE 16</b>		
<b>OTHER INCOME</b>		
Interest income [Tax deducted at source Rs. 19,176,033 (2006- Rs 4,026,636)]	83,253,982	17,593,276
Gain from sale of mutual funds	7,721,320	-
Miscellaneous income	13,585,316	6,908,783
	<b>104,560,618</b>	<b>24,502,059</b>



	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 17</b>		
<b>FOOD AND BEVERAGES CONSUMED</b>		
Opening stock	<b>6,960,852</b>	37,220,559
Add: Purchases during the year	<b>97,144,569</b>	31,136,872
	<b>104,105,421</b>	68,357,431
Less: Closing stock	<b>5,375,835</b>	6,960,852
Consumption for the year	<b>98,729,586</b>	61,396,579
<b>Note:</b>		
Consumption above is net of Rs 5,495,550 (31 March 2006 – Rs 3,986,284) representing amounts utilised for internal consumption which has been classified under staff welfare.		
<b>SCHEDULE 18</b>		
<b>EMPLOYEE COSTS</b>		
Salaries, wages and bonus	<b>98,168,211</b>	64,280,148
Contribution to provident fund	<b>5,895,736</b>	4,238,498
Staff welfare	<b>9,326,377</b>	9,475,134
Gratuity	<b>502,773</b>	1,375,488
	<b>113,893,097</b>	79,369,268
<b>SCHEDULE 19</b>		
<b>OTHER OPERATING EXPENSES</b>		
Lease rent for hotel properties	<b>99,816,064</b>	79,644,775
Linen and room supplies	<b>26,774,954</b>	12,158,591
Catering supplies	<b>7,108,421</b>	2,723,670
Other kitchen supplies	<b>8,231,065</b>	10,015,656
Linen, uniform washing and laundry expenses	<b>8,866,399</b>	7,168,981
Power, fuel and water	<b>61,932,713</b>	48,483,974
Hiring charges	<b>11,712,100</b>	3,621,722
Repairs and maintenance		
- Building	<b>24,027,559</b>	7,769,545
- Machinery	<b>3,785,140</b>	2,989,466
- Furniture and fixtures	<b>-</b>	6,847,187
- Others	<b>3,266,026</b>	8,857,081
Contractor charges	<b>2,342,671</b>	1,522,687
Management fees	<b>791,607</b>	606,446
	<b>258,654,719</b>	192,409,781
<b>SCHEDULE 20</b>		
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Commission, brokerage and discount	<b>39,515,914</b>	27,954,554
Advertising and business promotion	<b>16,932,027</b>	13,320,425
Legal and professional charges	<b>16,070,825</b>	8,770,936
Rates and taxes	<b>21,112,974</b>	10,121,278
Communication expenses	<b>11,189,306</b>	8,987,941

	31 <sup>st</sup> March 2007 Rs.	31 <sup>st</sup> March 2006 Rs.
<b>SCHEDULE 20 (Contd...)</b>		
Printing and stationary	9,251,713	4,904,699
Travelling and conveyance	9,197,193	6,559,684
Directors' remuneration	17,904,827	13,419,491
Directors' commission	8,820,434	5,587,282
Audit fees	1,611,771	1,462,069
Provision for doubtful debts	4,692,752	3,217,319
Bad debts written off	-	891,980
Advance written off	-	2,274,834
Insurance	13,308,409	12,484,702
Music and entertainment	4,426,168	4,751,867
Carriage inwards	1,829,603	1,584,172
Security charges	4,511,362	3,076,146
Bank charges	825,226	614,011
Loss on disposal of investment	-	427,000
Miscellaneous expenses	17,753,748	11,760,922
	<b>198,954,252</b>	<b>142,171,312</b>
<b>SCHEDULE 21</b>		
<b>INTEREST</b>		
Interest on term loan	17,508,984	15,376,072
Other finance charges	2,942	-
Interest on vehicle loan	681,019	652,154
Interest on overdraft	-	55,221
Interest on unsecured loans	7,103,424	-
	<b>25,296,369</b>	<b>16,083,447</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SCHEDULE - 22

#### 1. Background

Royal Orchid Hotels Limited ('the Company') was incorporated on 3<sup>rd</sup> January 1986 as Universal Resorts Limited to carry on the business and management of hotels/holiday resorts and related services. The name of the Company was changed to Royal Orchid Hotels Limited on 10<sup>th</sup> April 1997. The Company currently operates five properties - Royal Orchid Hotel, Bangalore, Royal Orchid Harsha, Bangalore, Royal Orchid Metropole, a heritage property in Mysore, Royal Orchid Jaipur, in Jaipur and Maruti Comforts and Inn. Additionally the Company has also entered into a hotel operation agreement for Royal Orchid Central, with its subsidiary, Icon Hospitality Private Limited ('Icon') and with Maruti Comforts and Inn Private Limited.

The Company acquired the business of Royal Orchid Harsha effective 1<sup>st</sup> July 2002 on an ongoing basis. Prior to 1<sup>st</sup> July 2002, Royal Orchid Harsha was managed and operated by a company under the same management. Pursuant to this arrangement, the Company has not acquired the underlying land, building and the related assets, which continue to be leased from the owners. Consequently, in the financial statements of the Company, only the transactions and related working capital balances, such as sundry debtors and creditors, have been included with that of the Company.

The Company has leased Royal Orchid Metropole (including the land and buildings), from the Government of Karnataka for a non-cancellable period of 15 years. *For further details refer to Note 5.*

Icon Hospitality Private Limited was incorporated on 28<sup>th</sup> January 2003 as a private limited company in India providing hospitality services. The Company operates Royal Orchid Central in Bangalore, India and has leased the land, building and certain assets from Sacred Hospitality Private Limited for a period of 25 years.

#### 2. Basis of consolidation and group structure

On 4<sup>th</sup> April 2003, the Company entered into a tri-partite Shareholders' Partnership Agreement ('the Agreement') with Icon and the minority shareholders. As per the terms of the Agreement, equity shares of the subsidiary would be held by the Company and the minority holders in the ratio of 51.22 percent and 48.78 percent, with the ratio required to be maintained throughout the tenure of the arrangement. Any changes in this ratio would result in the issuance and allotment of additional shares to ensure the consistency of the agreed ratio.

Further, the Agreement also provided for the Company to appoint the majority of the directors to the Board of Icon, of which one would be the Managing Director having a casting vote on all matters subject to a vote. Pursuant to this agreement, the Company invested Rs 3,500,000 in February and March 2003 which was recorded as share application money pending allotment. The shares against this application were allotted on 24<sup>th</sup> March 2004.

Although in April 2003, the Company did not have control over the subsidiary through ownership of more than 50 per cent of the voting power, on entering into the Agreement, the Company obtained the right to control the Board of Directors of Icon. Consequently, in accordance with Accounting Standard 21 – Consolidated Financial Statements, the operations of the subsidiary were been consolidated with the operations of the Company effective 4<sup>th</sup> April 2003.

As mentioned above, these shares were allotted on 24<sup>th</sup> March 2004 and represent 58.33 per cent of the paid up share capital of the subsidiary. As the Agreement provides for the shareholding ratio to be maintained, any excess allotment of equity shares does not provide additional control over the operations of the subsidiary. Consequently, Minority Interest has been recorded at 48.78 percent of the voting capital of the subsidiary as against 41.67 percent for all periods (which represented the percentage of shares held by the minority shareholders). Further, on 1<sup>st</sup> April 2005, the Company transferred 4,270 equity shares held by it in Icon Hospitality Private Limited, to the minority shareholders, for no consideration, thereby making the equity interest of the Company and minority shareholders consistent with the provisions of the Agreement.



During the year ended 31<sup>st</sup> March 2006, the Company acquired a 51% equity interest in Maruti Comforts and Inn Private Limited through a step acquisition, wherein it acquired 25% effective November 2005 and subsequently an additional 25% effective February 2006.

The list of the Company's subsidiaries with the percentage holding as at 31<sup>st</sup> March 2007 is as follows :

Name of subsidiary	Country of incorporation	Percentage of holding
Icon Hospitality Private Limited	India	51.22%
Maruti Comforts and Inn Private Limited	India	51.00%
Royal Orchid Hyderabad Private Limited	India	100.00%
AB Holdings Private Limited	India	100.00%
Royal Orchid Jaipur Private Limited	India	100.00%
Royal Orchid South Private Limited	India	100.00%
Royal Orchid East Private Limited (subsidiary of AB Holdings Private Limited)	India	96.00%

The consolidated operations of the Company and its subsidiaries are hereinafter collectively referred to as 'the Group'.

Capital reserve represents the excess of the Company's share in the equity of Icon Hospitality Private Limited over the cost of the investment at the date of the shareholders' partnership agreement. Goodwill represents the excess of the cost of the company's investment over the net asset of Maruti Comforts and Inn Private Limited at the date of the investment.

### 3. Significant accounting policies

#### i. Basis of preparation

The financial statements are prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India ('ICAI'). The accounting policies have been consistently applied unless otherwise stated.

#### ii. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by management in the preparation of these financial statements include the estimates of the economic useful lives of the fixed assets, provision for bad and doubtful debts.

#### iii. Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries, which are more than 50% owned or controlled. Please refer to Note 1 for the description of the Group.

The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under Accounting Standard -21 prescribed by the ICAI. The consolidated financial statements have been combined on a line-by-line basis by adding the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances/transactions and resulting unrealized profits in full. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the parent company and its share in the post-acquisition increase in the relevant reserves of the consolidated entity.



Minority interest represents the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and its share of movements in the equity since that date. Any excess consideration received from minority shareholders of subsidiaries over the amount of equity attributable to the minority on the date of investment is reflected under Reserves and Surplus.

Consolidated financial statements are prepared using uniform accounting policies across the Group.

*iv. Revenue recognition*

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the hotel. Room revenue is recognized based on occupation and from sale of food and beverages and other allied services, as the services are rendered.

Unbilled revenues represent revenues recognized which have not been billed to the customers at the balance sheet date and are billed subsequently.

*v. Fixed assets*

Fixed assets are stated at cost less accumulated depreciation. All costs relating to acquisition and installation of fixed assets are capitalised. Advances paid towards acquisition of fixed assets before the financial year ended are classified as capital work in progress.

Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

The carrying amounts are reviewed at each balance sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

Expenditure directly relating to expansion is capitalized only if it increases the life or functionality of an asset beyond its original standard of performance.

*vi. Depreciation*

Depreciation on fixed assets is provided on the Straight Line method, using the higher of the rates specified in Schedule XIV to the Companies, Act, 1956 or rates based on management estimates of the economic useful lives of such assets. These rates are specified below:

<b>Asset Category</b>	<b>Rates of Depreciation (%)</b>
Plant and machinery	4.75% to 20%
Office equipment	4.75%
Computers and related equipment, including Software	16.21%
Furniture & fittings	9.50%
Vehicles	9.50%

Assets individually costing less than Rs 5,000 are fully depreciated in the year of purchase. Leasehold improvements (including improvements to buildings) are amortized over the period of the lease.

*vii. Goodwill*

Goodwill on consolidation is not amortised and is tested for impairment on an annual basis. Goodwill on acquisition of entities is amortised over a period of five years.

*viii. Impairment of assets*

The Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

*ix. Inventory*

Inventory comprises stock of food and beverages and operating supplies and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the goods to their present location and condition and is determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

*x. Foreign currency transactions*

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into rupees at the rates of exchange prevailing on the balance sheet date. The differences in translation of monetary assets and liabilities and realised gains and losses on foreign currency transactions, other than those related to fixed assets are recognised in the profit and loss account. Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted in the carrying cost of fixed assets.

*xi. Leases**Finance leases*

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

For hotel properties i.e. land and buildings, taken on leases along with related assets as a part of a combined lease arrangement, the Group determines whether these assets acquired are integral to the land and building. If these assets are integral, the Group analyses the nature of the lease arrangement on a combined basis for all assets. If the assets are not integral to the land and building, the Group evaluates each asset individually, to determine the nature of the lease.

If there is no reasonable certainty that the Group will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

*Operating leases*

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

*xii. Retirement benefits*

The Group provides for gratuity, a defined benefit plan in accordance with the rules of the Group based on an actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized provident fund and Employee State Insurance Scheme, which are defined contribution schemes, are charged to the profit and loss account as incurred.


**xiii. Leave encashment**

The Group provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

**xiv. Taxes on income**

Tax expense comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

**xv. Earnings per share**

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

**xvi. Provisions and contingent liabilities**

The Group creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

**4. Earnings Per Share ('EPS')**

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
Weighted average number of shares outstanding during the year	27,233,965	20,994,370
	(Rs)	(Rs.)
Net profit after tax attributable to equity shareholders	352,568,477	230,488,398
Basic and diluted earnings per share	12.95	10.98
Nominal value per equity share	10	10

On 28<sup>th</sup> September 2005, at the Annual General Meeting members of the Company approved the issuance of a bonus share for every equity share held in the Company on 1<sup>st</sup> September 2005. For the purpose of calculating EPS, the effect of the bonus issue has been considered for all periods presented.

## 5. Leases

*Operating leases*

The key operating lease arrangements entered into by the Company are summarised below:

*Hotel Royal Orchid*

The Company has entered into various non-cancellable tri-partite agreements along with its Managing Director and the Karnataka State Tourism Development Corporation ('KSTDC') to lease lands on which the hotel premises has been constructed and adjacent areas. The primary lease periods for these agreements is 30 years and are further extendable by a period between 10 to 30 years at the option of the Company and carry an escalation provision for the increase in annual rent by 15 per cent every 10 years thereafter.

Additionally, the Company has also entered into an agreement with its managing director for the use of his 50 percent interest in the leased lands with the value of this consideration being determined at Rs 60 million, payable as an interest free security deposit repayable on the termination of the lease with KSTDC. This consideration could be discharged either in cash or through the issue of equity shares of the Company. The Company discharged this consideration through the allotment of 6 million equity shares at par through July 1999. (Refer Schedule 1 and Schedule 12).

*Royal Orchid Harsha*

Effective July 2002, the Company entered into a tri-partite agreement with Hotel Stay Longer Private Limited and Baljees Hotels and Real Estates Private Limited, Companies under the same management, to lease the hotel premises and related assets at Royal Orchid Harsha. This agreement was for an initial period of 11 months, renewable at the option of the Company and it has deposited an interest-free security deposit of Rs 10 million with Baljees Hotels and Real Estate Private Limited which is repayable on the termination of the lease agreement.

This agreement has been revised effective 1<sup>st</sup> September 2005 for a period of eleven months with an option to renew for a further 22 months. As per the agreement, the Company is required to make annual payments at 33 % of gross room revenues or a minimum committed amount, whichever is higher. This lease charge is paid to Hotel Stay Longer Private Limited and Baljees Hotels and Real Estates Private Limited at a pre-determined ratio of 20% and 80% respectively. (Refer Note 8).

*Royal Orchid Metropole*

In May 2004, the Company entered into a lease agreement with Jungle Lodges and Resorts Limited ('JLR'), a Government of Karnataka Undertaking for the use of the land and building representing Royal Orchid Metropole at Mysore for a non-cancellable period of 15 years. As a consideration, the Company is required to pay an annual amount comprising a fixed charge per annum and a revenue share representing 10% of the annual revenues in excess of Rs 25 million. As the commercial operations commenced only in October 2004, no revenue share charge has been recorded during the period ended 30 September 2005. As a part of this consideration, the Company has also issued a bank guarantee of Rs 6 million to the lessor for the period of the lease.

*Royal Orchid Central*

As indicated in Note 1 of this schedule, the business of Icon comprises revenues from the operation of the Royal Orchid Central at Bangalore. This operation is carried out through a lease entered into with Sacred Hospitality Company Limited in January 2003. As per the provisions of this arrangement, the Company has leased the land, the associated hotel building and other assets necessary for the operation of the hotel under a non-cancellable operating lease arrangement for a period of five years. This agreement was renewed in June 2004 extending the period of the lease for a further period of 20 years ending on 30<sup>th</sup> January 2028.

As per the agreement, the Company is required to make annual payments at 33 percent of net room revenues determined after reducing certain allowable expenses from the room revenues for the period, or a minimum committed amount, whichever is higher. This lease includes an escalation provision of 15 percent from the previous rent, every three years



commencing from July 2010. This agreement also requires the Company to invest Rs 50 million towards renovation and improvement of the concerned property within three years from the date of the arrangement or within six months from obtaining a favourable order from the Supreme Court of India (refer section 6 (a)) on the matter currently pending before it.

#### *Royal Orchid Brindavan*

In March 2006, the Company entered into a lease agreement with Jungle Lodges and Resorts Limited ('JLR'), a Government of Karnataka Undertaking for the use of the land and building representing Hotel Krishna Raja Sagar at Mysore for a non-cancellable period of 15 years commencing from the readiness date. As a consideration, the Company is required to pay an annual amount comprising a fixed charge per annum and a revenue share representing 10% of the annual revenues in excess of Rs 25 million..

#### *Property at Hyderabad*

In December 2004, the Company has entered into a lease arrangement for leasing a hotel property in Hyderabad. This arrangement has an initial period of 25 years which commence on the handover of the constructed property to the Company by the lessor. The lease rent comprises a fixed rate per square foot constructed which maybe enhanced by 12% every three years from the commencement of the lease period. In the event that the Company withdraws from the arrangement during the construction period, the Company is liable to pay the lessor, a sum of Rs 5 million (if the withdrawal is within 12 months of the date of construction and Rs 10 million, if the withdrawal is after that period.

#### *Lease expense*

The lease expense for cancellable and non-cancellable operating leases for the year ended 31<sup>st</sup> March 2007 was Rs 99,816,064 (31<sup>st</sup> March 2006 – Rs 79,644,775), as the same is currently under renovation.

The details of lease commitments in terms of minimum lease payments within the non-cancellable period are as follows :

	2007 Amount (Rs.)	2006 Amount (Rs.)
<b>Payments falling due:</b>		
Within 1 year	47,828,611	46,678,611
Later than one year but not later than five years	193,196,073	179,066,157
Later than 5 years	1,095,994,901	1,153,953,428
<b>TOTAL</b>	<b>1,337,019,585</b>	<b>1,379,698,196</b>

The above commitments does not include the lease payments amounting to Rs.137 million in respect of Hotel Krishna Raja Sagar, for the property at Mysore payable over 15 years from the date of readiness.

## **6. Commitments and contingencies**

### **a) Litigation**

- The Company has been named as a defendant in two civil suits filed restraining the Company from using certain parts of land taken on lease from the KSTDC for the operation of the Royal Orchid Hotel, which are adjacent to the hotel premises. Consequently, these lands are currently not being utilised by the Company. These cases are pending with the Civil Courts and scheduled for hearings shortly. Management believes that these cases will be settled in its favour and will not adversely effect its operations.

### **b) Capital commitments**

Estimated amount of contracts remaining to be executed on capital account and not provided for as at 31<sup>st</sup> March 2007 - Rs. 4,570,600(31<sup>st</sup> March 2006 – Rs 25,025,224).



**c) Export obligation**

The Company has received various Export Promotion Capital Goods ('EPCG') licenses which entitles it to import capital goods at a concessional rate of duty. Against these imports the Company has an export obligation equal to eight times the duty amount saved. The Company's export turnover till date is in excess of this obligation.

**d) Other matters**

Sacred Hospitality Company Limited ('Sacred Hospitality') has permitted the Company's subsidiary, Icon Hospitality Private Limited, vide a deed of license dated January 31<sup>st</sup> 2003, to use its license to sell liquor and the retail sale of bulk beer at the Royal Orchid Central for a consideration included in the lease rentals. In terms of the license issued for Indian/ foreign liquor to Sacred Hospitality, Royal Orchid Central (previously Central Park) was permitted to possess/sell Indian/ foreign liquor and for retail sale of bulk beer. In accordance with the terms of the deed of license, the revenues from such sales are recorded in these financial statements and Icon Hospitality has been paying the excise on behalf of Sacred Hospitality in respect of the sale of liquor and the retail sale of beer for the license to the appropriate authorities, which means that Sacred Hospitality has assigned the right to use the license to Icon Hospitality, which is not in terms of the license issued to Sacred Hospitality. However, based on independent legal advice received, the Company is informed that this transaction is not a violation of the Karnataka State Excise Act, 1961 and that the Company will not be subject to any penalties or levies. Accordingly, this transaction will not have an adverse impact on the Company's financial statements and accordingly no provision for any penalties or levies has been made in these financial statements.

**7. Payments to directors**

	Year ended 31 <sup>st</sup> March 2007	Year ended 31 <sup>st</sup> March 2006
	Rs.	Rs.
a) Salary and allowances	17,904,827	13,419,491
b) Commission	5,512,771	2,618,804
c) Perquisites	-	59,814
d) Gratuity	-	606,812
<b>TOTAL</b>	<b>23,417,598</b>	<b>16,704,921</b>

**Note:**

Directors' remuneration includes remuneration payable to the Directors of both the holding and subsidiary company.

As per the provisions of Section 309 of the Companies Act, 1956, remuneration payable to directors not in the whole time employment of the Company cannot exceed 3 percent of the net profits for the year, without the prior approval of the Central Government. The total remuneration paid to the directors during the year ended 31<sup>st</sup> March 2007 exceeds the limits as specified in Section 309 by Rs 7,128,080 (31<sup>st</sup> March 2006 - Rs 7,035,536 ). The Company has applied for the Central Government approval under Section 309 of the Companies Act, 1956 and the reply for the same is awaited.



**8. Related party transactions**

*i. Parties where control exists*

Parties where control exists include

Name of party	Nature of relationship
Chander K Baljee	Key management personnel
Arjun Baljee	Relative of Key management personnel
Harsha Farms Private Limited	Entity controlled by Directors
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors

*ii. Transactions with related parties during the year*

Parties with whom transactions have taken place during the year include:

Name of Party	Nature of relationship
Chander K Baljee	Key management personnel
Arjun Baljee	Relative of Key management personnel
Presidency Caterers	Entity controlled by Directors
Harsha Farms Private Limited	Entity controlled by Directors
Royal Orchid Banjara Private Limited	Entity controlled by Directors
Baljees Hotels and Real Estates Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors

The transactions with related parties during the year ended 31 March 2007 is summarised below:

Nature of transaction	Entity controlled by directors	Key Management Personnel	Relatives of key management	Total
	Rs.	Rs.	Rs.	Rs.
Lease rent paid to related parties	18,223,476	-	-	18,223,476
Dues	-	17,904,827	1,440,000	19,344,827
Remuneration	-	4,410,217	1,102,554	5,512,771
Commission	-	-	-	-



The transactions with related parties during the year ended 31 March 2006 is summarised below :

Nature of transaction	Entity controlled by directors	Key Management Personnel	Relatives of key management personnel	Total
	Rs.	Rs.	Rs.	Rs.
General and administrative expenses incurred on behalf of related parties charged to related parties	2,315,010	-	-	2,315,010
Lease rent paid to related parties	11,212,122	-	-	11,212,122
Payments received on behalf of related parties	9,906,199	-	-	9,906,199
Payments made on behalf of related parties	6,019,495	-	-	6,019,495
Purchases made on behalf of associates charged	1,942,301	-	-	1,942,301
Loans to related parties	5,344,850	-	-	5,344,850
Remuneration	-	13,674,400	411,717	14,086,117
Commission	-	2,368,197	250,607	2,618,804

*Other transactions*

- As discussed in Schedule 4, the borrowing from HUDCO has been backed by the personal guarantees of Mr. Chander K. Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljees Hotels and Real Estates Private Limited.
- The Company has also entered into an arrangement with Presidency College of Hotel Management (an associate) whereby the associate is provided the use of a part of the Royal Orchid Hotel premises rent free against a refundable security deposit of Rs. 2,980,000 (2006 – Rs. 2,500,000)

Balances receivable/ (payable) from/to related parties as at 31 March 2007 and 31 March 2006 is summarised below:

	31 <sup>st</sup> March 2007 (Rs.)	31 <sup>st</sup> March 2006 (Rs.)
Dues from subsidiaries	142,191	16,242,226
Security deposit given to entity controlled by Directors	10,000,000	10,000,000
Security deposit given to key management personnel	60,000,000	60,000,000
Security deposit received from entity controlled by Directors	(2,980,000)	(2,500,000)

**9. Segmental Information**

The Company's business comprises the operation of hotels, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the Company derives its entire revenues from services rendered in India. Consequently, the disclosure of business and geographic segment - wise information is not applicable to the Company.

**10. Prior year comparatives**

Prior year figures/balances have been reclassified wherever necessary to conform to the current year's representation.

**For and on behalf of the Board of Directors**

**Chander K. Baljee**  
Managing Director

**Naresh K. Malhotra**  
Director

**A Someswara Rao**  
Company Secretary

Bangalore  
15 June 2007

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