



ROYAL ORCHID HOTELS LTD.

NOTICE

NOTICE is hereby given that the Twentieth Annual General Meeting of the Members of the Company will be held on Wednesday the 13th September, 2006 at 11.00 A.M. at the Registered Office of the Company at No.1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore - 560 008 to transact the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit and Loss Account for the financial year ended 31st March, 2006 and the Balance Sheet as on that date and the Reports of the Directors' and Auditors' thereon.
2. To declare a dividend on equity shares of the Company.
3. To appoint a Director in place of Mr. Naresh K. Malhotra, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Jaithirth Rao, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint M/s. Walker, Chandiook & Co., Chartered Accountants, to hold office as Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to authorize the Board to fix their remuneration.

SPECIAL BUSINESS:

6. To consider and if thought fit, to pass, with or without any modification(s), the following Resolution as a **Special Resolution**

"RESOLVED THAT pursuant to and in accordance with Sections 198, 269, 309, 310, 311 & 314, read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, as amended from time to time, consent of the Company be and is hereby accorded to the revision in remuneration of Mr. C. K. Baljee, Managing Director of the Company and the revised remuneration payable w.e.f. 01.04.2006 to the remaining period of service i.e., up to 21.06.2010 on the following terms and conditions:

- I. Salary – Rs. 5,00,000/- (net of tax) per month.
- II. Commission – 1% of the net profits of the company.
- III. Perquisites and allowances:
 1. Rent free furnished residential accommodation with all facilities and amenities including such services as Gas, Electricity, Water etc., or HRA to the extent of 20% of the salary.
 2. Reimbursement of Medical Expenses incurred for self and his family subject to a ceiling of one month's salary per year or three month's salary in a period of three years.
 3. Leave Travel concession for self and family in a year incurred, subject to a ceiling of two month's salary.
 4. Club fees subject to a maximum of five clubs, admission and life membership fee not being allowed.
 5. Personal Accident Insurance of an amount the premium of which shall not exceed Rs. 10,000/- per month.
 6. Contribution by the company to Provident Fund, Superannuation Fund or Annuity Fund as per the rules of the company.
 7. Payment of Gratuity subject to an amount equal to half a month's salary for each completed year of service.
 8. The Managing Director shall be entitled to bonus/exgratia as may be declared by the Company in any financial year.
 9. Free use of Company's car with driver for Company's business.
 10. Free Telephone facility at residence and Mobile Telephone but personal long distance calls will be billed to the Managing Director.
 11. Reimbursement of entertainment expenses actually and properly incurred for the business of the Company.
 12. Reimbursement of Rs. 5,000/- per month towards expenditure on books and periodicals.

RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year during the term of Mr. C. K. Baljee, Managing Director, the above remuneration will be paid as minimum remuneration in terms of the Schedule XIII of the Companies Act, 1956."

7. To consider and if thought fit, to pass, with or without any modification(s), the following Resolution as a **Special Resolution**

"RESOLVED THAT pursuant to Section 314(1B) and other applicable provisions, if any, of the Companies Act, 1956, as amended from time to time and subject to the approval of Central Government, consent of the Company be and is hereby accorded to the appointment and remuneration of Mr. Arjun Baljee, a relative of Mr. C. K. Baljee, Managing Director of the Company, as President – Projects of the Company with effect from 01.05.2006 for a period of 3 years on the below mentioned terms and conditions, with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment in such manner as may be agreed to between the Board of Directors and Mr. Arjun Baljee, President – Projects:

- I. Salary: Rs. 2,00,000/- per month
- II. Commission – ½ % of the net profits of the company.

III. Perquisites and allowances:

- a. Rent free furnished residential accommodation with all facilities and amenities including such services as Gas, Electricity, Water etc., or HRA to the extent of 20% of the salary.
- b. Reimbursement of Medical Expenses incurred for self and his family subject to a ceiling of one month's salary per year or three month's salary in a period of three years.
- c. Leave Travel concession for self and family in a year incurred, subject to a ceiling of one month's salary.
- d. Club fees subject to a maximum of two clubs, admission and life membership fee not being allowed.
- e. Personal Accident Insurance of an amount the premium of which shall not exceed Rs. 5,000/- per month.
- f. Contribution by the company to Provident Fund, Superannuation Fund or Annuity Fund as per the rules of the company.
- g. Payment of Gratuity subject to an amount equal to half a month's salary for each completed year of service.
- h. The President - Projects shall be entitled to bonus/exgratia as may be declared by the Company in any financial year.
- i. Free use of Company's car with driver for Company's business.
- j. Free Telephone facility at residence but personal long distance calls will be billed to his account and Mobile Telephone bill upto Rs. 10,000 per month.
- k. Reimbursement of entertainment expenses to the extent of Rs. 10,000/- per month, actually and properly incurred for the business of the Company.
- l. Reimbursement of Rs. 2,000/- per month towards expenditure on books and periodicals."

8. To consider and if thought fit, to pass, with or without any modification(s), the following Resolution as a **Special Resolution**
- "RESOLVED THAT pursuant to the provisions of Section 81 and other applicable provisions, if any, of the Companies Act, 1956 and relevant provisions of the Memorandum and Articles of Association of the Company and subject to Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, for the time being in force and as may be modified from time to time, hereinafter, the consent of the Company be and is hereby accorded to the Board of Directors (hereinafter referred to as the Board, which term shall be deemed to include any Committee thereof) to offer a new Employee Stock Option Plan ("ESOP 2006") and to offer, issue and allot equity shares of Rs. 10/- each of the Company to the employees of the Company or any of its subsidiary Companies, whether now or hereafter existing, (including Directors, whether whole-time or not, but excluding promoter Directors), subject to the total number of equity shares to be offered under the stock option plan, not exceeding a total limit of 10% of the present issued equity shares of the Company i.e., 2723300 equity shares.

The vesting period shall be as follows:

- One third of the options – one year from the date of grant;
- Next one third of the options – two years from the date of grant; and
- Balance of the options – Three years from the date of grant.

RESOLVED FURTHER THAT the Board be and is hereby authorized to do all such acts, deeds, matters and things as may be required, usual, expedient and proper to give effect to this resolution."

By Order of the Board
For ROYAL ORCHID HOTELS LIMITED
G. TIRUPATHI RAO
COMPANY SECRETARY

Place: Bangalore

Date : 12.06.2006

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The Proxy form duly completed must be lodged at the Registered Office of the Company at least 48 hours before the time fixed for the meeting.
3. Explanatory Statement pursuant to the provisions of Section 173 (2) of the Companies Act, 1956 is annexed hereto and forms part of the notice.
4. Pursuant to Clause 49 of the Listing Agreement, the particulars of Directors seeking appointment / reappointment at the meeting are annexed.
5. Members are requested to notify immediately the change of address, if any, to their Depository Participants (DPs) in respect of their shareholding in Demat Accounts and to the Company's Share Transfer Registrars in respect of their shareholding in physical segment by mentioning folio nos. etc.
6. The dividend on Equity Shares, as recommended by the Directors, if declared at the Annual General Meeting, will be paid on or before 12.10.2006 to the Members whose names appear on the Company's Register of Members on 05.09.2006. As regards shares held in electronic form, the dividend will be payable to the 'beneficial owners' of shares as per details furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for the purpose.
7. Members/Proxies should bring the attendance slip sent herewith duly filled in for attending the meeting.
8. The Register of Members and Share Transfer Books of the Company will remain closed from 28.08.2006 to 05.09.2006 (both days inclusive) for the purpose of the Annual General Meeting of the Company and payment of the dividend.
9. Members desiring any information as regards the accounts are requested to write to the Company at least 10 days before the date of the Meeting, so as to enable the Management to keep the information ready.
10. Members are requested to kindly bring their copies of the Annual Report to the Meeting. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting.
11. Members are requested to send their Mandate Form for receiving dividend by Electronic Clearing Service (ECS)/ Printing of Bank details on Dividend Warrant. The Mandate Form is Annexed for the purpose.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 6

Mr. C. K. Baljee was re-appointed as Managing Director of the Company w.e.f. 22 June, 2005 for a period of 5 years by the Members of the Company at their General Meeting held on 22 August, 2005 at a salary of Rs. 3,00,000/- per month, and Commission – 1% of the net profits of the Company along with other perquisites and allowances.

The operations and turnover of the Company have increased substantially during the past few years under the able management of Mr. C. K. Baljee. In view of the remuneration levels for the managerial personnel prevailing in the industry, it is fair and appropriate to increase the remuneration of Mr. C. K. Baljee for the remaining period of his tenure from Rs. 3,00,000/- to Rs. 5,00,000/- per month along with perquisites and allowances w.e.f. 01.04.2006. The details of the proposed salary are mentioned in the resolution.

The revised remuneration referred to above may be treated as an abstract of the variation of the terms of appointment of Mr. C. K. Baljee, Managing Director in accordance with the provisions of Section 302 of the Companies Act, 1956.

Your Directors commend this resolution for your approval.

None of the Directors of the Company except Mr. C. K. Baljee by himself are concerned or interested in the resolution.

Item No. 7

Mr. Arjun Baljee is providing his valuable services in our various day-to-day business operations of the Company. He has a Bachelors Degree in Hotel Management from Cornell University and is a Management Graduate from Brisbane Graduate School of Business, Australia. He is also a Director on the Board of our subsidiary companies viz., Icon Hospitality Private Limited, Maruti Comforts & Inn Private Limited.

In view of his experience in the field of Hotel Industry it is proposed to appoint Mr. Arjun Baljee as a President – Projects to look after the various proposed Projects of our Company. The details of the proposed salary are mentioned in the resolution.

The appointment and remuneration referred to above may be treated as an abstract of the terms of appointment of Mr. Arjun Baljee, President – Projects, in accordance with the provisions of Section 302 of the Companies Act, 1956.

Your Directors commend this resolution for your approval.

None of the Directors of the Company except Mr. C. K. Baljee, Managing Director, are concerned or interested in the resolution.

Item No. 8

Your Company proposes to introduce a Employee Stock Option Plan 2006 ("ESOP 2006"), conforming to SEBI Guidelines and Central Government Guidelines under the Income-tax Act on stock option plans, which would enable the Company to offer stock options to the employees of the Company as well as its subsidiaries. The terms and conditions of this stock option plan are as follows:

1. The total number of options to be granted to eligible employees shall not exceed a total limit of 10% of the issued equity shares of the Company, i.e., 2723300 equity shares.
2. Each option to be granted shall entitle the employee to apply for and be allotted one equity share of nominal value of Rs. 10/- each at a price to be determined by the Compensation Committee appointed by the Board for the purpose. The Exercise Price shall be determined by the Compensation Committee based on the prevailing Market Price as per the applicable guidelines prescribed by the Securities and Exchange Board of India (SEBI) from time to time.
3. Each option shall be vested in the optionee as per the vesting period as specified below:
 - One third of the options – one year from the date of grant;
 - Next one third of the options – two years from the date of grant; and
 - Balance of the options – three years from the date of grant.The Compensation Committee/Board shall, however, be authorized to change, vary or accelerate the vesting schedule. However, such change is made only after completion of minimum period of 12 months from the date of Grant of the options. Options can be exercised within the exercise period of 12 months from the date of grant by paying the stipulated exercise price per share in full.
4. The options shall be deemed to be exercised when the Company receives:
 - Notice of exercise from the optionee entitled to exercise the option, in such form as may be prescribed by the Compensation Committee; and
 - Full payment for the shares with respect to which the option is exercised.
5. The options to be granted to eligible employees shall be determined by the Compensation Committee based on an appraisal process consisting inter alia, of the employee's grade, years of service, present performance, future potential contribution, conduct and such other factors as may be specified.
6. The Compensation Committee shall have the power to make a fair and reasonable adjustment to the number of options and to the exercise price in case of rights issues, bonus issues and other corporate actions.
7. The Company shall conform to the accounting policies as may be specified by SEBI from time to time.
8. The Company shall use fair value / intrinsic value to value the options. In case the Company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on EPS of the Company shall be disclosed in the Directors' Report.

Your Directors commend this resolution for your approval.

All the Directors of the Company may be considered to be interested in the proposed resolution to the extent of their shareholding.

**By Order of the Board
For ROYAL ORCHID HOTELS LIMITED**

**Place: Bangalore
Date: 12.06.2006**

**G. TIRUPATHI RAO
COMPANY SECRETARY**

ANNEXURE

Details of Directors seeking reappointment 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. Naresh K. Malhotra	Mr. Jaithirth Rao
Date of Birth	5th June 1947	12th July 1952
Date of Appointment	18th June 2005	18th July 2005
Qualifications	Chartered Accountant	MBA from IIM, Ahmedabad
Expertise in specific functional areas	Vast experience in Finance and Management	Vast experience in Banking and Management
List of Companies in which outside Directorship held as on 31.03.2006	<ol style="list-style-type: none"> 1. Gignext Solutions India Pvt. Limited 2. Amalgamated Been Coffee Trading Company Pvt. Ltd. 3. Venture Infotek Global Pvt. Limited 4. Venture Infotek Limited 5. Tarang Software Technologies Private Limited 6. Blue Star Infotech Limited 7. CCD Daily Bread Private Limited 8. N. M. Agencies Private Limited 9. Leisure & Lifestyle Information Services Private Limited 10. Balan Natural Food Pvt. Limited 	<ol style="list-style-type: none"> 1. Mphasis BFL Limited 2. Cadbury India Limited 3. Mahindra Holidays & Resorts India Limited 4. The Arvind Mills Limited 5. IDFC Asset Management Company Limited 6. Rao Properties Pvt. Limited 7. Sanvijay Tours & Travels Private Limited 8. Bangalore Review and Magazines Company Private Limited 9. Ram Tirth Book Shop Private Limited
Chairman / Member of the *Committees of other Companies on which he is a Director as on 31.03.2006	<p>Audit Committee: Chairman</p> <ol style="list-style-type: none"> 1. Amalgamated Been Coffee Trading Company Limited 2. Blue Star Infotech Limited 	<p>Audit Committee: Member</p> <ol style="list-style-type: none"> 1. The Arvind Mills Limited Remuneration Committee: Member 2. The Arvind Mills Limited Share Transfer Committee: Member 3. Mphasis BFL Limited

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

ATTENDANCE SLIP



Registered Office: No. 1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore - 560 008.

Please fill Attendance Slip and hand it over at the entrance of the Meeting Hall

DPID* :
Client ID* :

Folio No. :
No. of Shares :

Name and address of the Shareholder :

I/We hereby record my/our presence at the **20TH ANNUAL GENERAL MEETING** of the Company held on Wednesday, the 13th September 2006 at 11:00 a.m. at Registered Office: No. 1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore - 560 008.

Signature of the Shareholder or Proxy

* Applicable for investors holding shares in Electronic Form.

TEAR HERE

PROXY FORM



Registered Office: No. 1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore - 560 008.

DPID*:
Client ID*:

Folio No.:
No. of Shares:

I/We _____ of _____ being a member/members of ROYAL ORCHID HOTELS LTD., hereby appoint _____ of _____ or failing him/her _____ of _____ as my/our proxy to vote

for me/us and on my/our behalf at the 20th ANNUAL GENERAL MEETING to be held on Wednesday, the 13th September 2006 at 11:00 a.m. at Registered Office: No. 1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore - 560 008., or at any adjournment thereof.

Signed this _____ day of _____ 2006.



* Applicable for investors holding shares in Electronic Form.

- Note.i. The Proxy Form should be signed across the stamp as per specimen signature registered with the Company.
ii. The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.
iii. The Proxy need not be a member of the Company.

MANDATE FORM

(Mandate Form for receiving dividend by Electronic Clearing Service (ECS) Printing of Bank details on Dividend Warrant)

To
 Royal Orchid Hotels Ltd.
 No. 1, Golf Avenue,
 Adjoining KGA Golf Course, Airport Road,
 Bangalore - 560 008

Dear Sir,

Please fill in the information in CAPITAL LETTERS in ENGLISH ONLY.

For Shares held in physical form

Folio No.

For shares held in electronic form

D.P.ID

Client ID

	FOR OFFICE USE ONLY
ECS Ref .No.	

Name of Sole / First holder	
Bank Name	
Branch Name	
Branch Code	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <p style="font-size: small; margin-top: 5px;">(9 Digits Code Number appearing on the MICR Band of the cheque supplied by the Bank). Please attach a xerox copy of a cheque or a blank cheque of your bank duly cancelled for ensuring accuracy of the banks name, branch name and code number.</p>

Account type Please Tick (<input checked="" type="checkbox"/>) wherever applicable	Savings <input type="checkbox"/> Current <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	Cash Credit <input type="checkbox"/>
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A/c. No. (as appearing in the cheque book)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
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Effective date of this mandate	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
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I, hereby declare that the particulars given above are correct and complete. If any transaction is delayed or not effected at a _____ ll for reasons of incompleteness or incorrectness of information supplied as above, the Company will not be held responsible. I agree _____ to avail the ECS facility provided by RBI, as and when implemented by RBI/ROYAL ORCHID HOTELS LTD. Further in case of ECS facility is not available in my city please print Bank details furnished by me on the dividend warrant.

I, further undertake to inform the Company any change in my Bank/branch and account number.

Dated: _____

 (Signature of Sole/First Holder)

Notes:

1. Whenever the Shares in the given folio are entirely dematerialized, then the ECS mandate form will stand rescinded.
2. For Shares held in dematerialized mode nomination is required to be filled with the Depository Participant in their prescribe _____ d form.
3. In case ECS facility is not available in your city then bank details furnished by you will be printed on dividend warrants.
4. The Shareholders who hold shares in physical mode should ensure that this mandate form duly completed in all respect & signed by the sole/first named holder should reach the Company on or before 27th August 2006 after which date no request for registration of Mandate for the purpose of payment of dividend for the year 2005-06 will be entertained.
5. The shareholder of physical segment who do not wish to opt for ECS facility need not furnish 9 Digits code. Number appearing on the MICR Band of the Cheque Supplied by the Bank and the Xerox copy of the blank cheque.

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ANNUAL REPORT 2005-06

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

Statutory Auditors

:M/s. Walker, Chandiook & Co.
Chartered Accountants
L 41, Cannught Circus
New Delhi – 110 001, India

Internal Auditors

:M/s. P. Chandrasekar
Chartered Accountants
S-616, Manipal Centre
No. 47, Dickenson Road
Bangalore – 560 042

Bankers

:State Bank of Hyderabad
UTI Bank
ICICI Bank
Oriental Bank of Commerce
Corporation Bank

Registered Office

:No. 1, Golf Avenue
Adjoining KGA Golf Course
Airport Road, Bangalore - 560 008
www.royalorchidhotels.com

DIRECTOR'S REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Twentieth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2006.

Financial Results:

The performance of the Company for the financial year ended 31st March 2006 is summarized below:

Particulars	(Rupees in Crores)	
	2005-06	2004-05
Total Income	62.48	40.67
Gross Operating Profit	32.53	21.30
Less: Interest	1.57	2.44
Less: Depreciation	2.61	2.03
Add: Impact of change in accounting policy	-	2.95
Less: Prior Period Expenses	-	0.88
Profit before Tax	28.35	18.90
Less: Provision for Taxation		
- Current	6.10	3.70
- Deferred	0.93	1.94
- Excess provision written back	(0.02)	-
- Fringe benefit	0.14	-
Net Profit After Tax	21.20	13.26

Performance:

During the year 2005-06, your Company has achieved a 54% increase in turnover at Rs. 62.48 Crores compared to Rs. 40.67 Crores of previous year. The Gross Operating Profit was higher by 53% at Rs. 32.53 Crores from the previous year Rs. 21.30 Crores and the Profit before tax is higher by 50% in the current year at Rs. 28.35 Crores compared to Rs. 18.90 Crores of the previous year.

During the year 2005-06, your Company and its subsidiaries (consolidated) has achieved a 48% increase in turnover at Rs. 85.98 Crores compared to Rs. 58.18 Crores of previous year. The Gross Operating Profit was higher by 47% at Rs. 38.44 Crores from the previous year Rs. 26.14 Crores and the Profit before tax is higher by 44% in the current year at Rs. 33.81 Crores compared to Rs. 23.48 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 2005-06 at its meeting held on 12th June 2006 and recommended the same for the approval of the Board of Directors.

Dividend:

Your Directors have recommended a maiden dividend @50% on paid-up equity share capital of Rs. 27,23,39,650 for the financial year 2005-06, considering the excellent financial results of the Company. The outflow of funds on account of declaration of dividend would be Rs. 15.53 crores including tax on dividend.

Your Directors propose to transfer an amount of Rs. 2,12,04,380 to General Reserves and carry the balance of profits to next year.

Annual Report 2005-06

Future outlook:

India is not only a growing hospitality market but profitable as well. Over the last two 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 12.9% to 1.69 mn during 1st half of financial year 2005-06 compared to the same period of last year. However this increase in the number of tourist arrivals in the country has not been able to uplift the country's standing in the world of tourist destinations.

The hotel industry in the country picked up momentum in the second half of 2004 and continued its robust performance in 2005 as well. It witnessed an increase of 31.3% in its revenue per available room from 2003 to 2004 and 26.2% revenue per available room increase from January to August 2005. The Five Star Hotel Segment has grown the fastest during the last five years at 12%. Luxury and upscale hotels are operating at 90% occupancy levels versus 70% last year with room rates for many hotels in Bangalore and other cities reaching all time high during the winter season of 2005. 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 as they rely on airlines to transport 80% of international arrivals.

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 travellers.

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 increasing the room inventory of existing property, viz., Hotel Royal Orchid in Bangalore by adding more Guest Rooms, Restaurants and Banquet Halls and is in the process of renovation of another property viz., Royal Orchid Central.

New Properties: Bangalore, Mysore, Hyderabad, Jaipur, Pune & New Delhi

During the year, your Company has acquired 51% of shareholding in M/s. Maruti Comforts & Inn Private Limited, which owns luxurious resorts (Dodd's Resort) near proposed International Airport, Bangalore. As per our expansion plans this property would be further expanded by adding new rooms.

Your Company has entered into a Management agreement with Jungle Lodges & Resorts Limited, (a Government of Karnataka undertaking), for the management of 'Hotel Krishna Raja Sagar', Brindavan Gardens, Mysore for a period of 15 years and is expected to commence its operations from 3rd Quarter of 2006-07.

Your Company has acquired 51% shareholding in Royal Orchid Hyderabad Private Limited, to establish a Four Star Hotel at Banjara Hills, Hyderabad. The proposed new properties at Hyderabad and Jaipur are expected to commence operations from 4th Quarter of 2006-07. Both these properties will be Four Star Hotels and targeting corporate travellers.

Your Company has signed an MoU to operate a new Three Star Hotel coming up at Abids Road, Hyderabad and this hotel is expected to commence its operations from 4th Quarter of 2006-07. The proposed new hotel at Pune is expected to commence its operations from 4th Quarter of 2006-07. Your company has entered into an agreement to construct a deluxe business hotel at New Delhi.

Issue of Shares:

Preferential Allotment

During the year 2005-06, your Company has issued 25000 equity shares of Rs. 10/- each at a premium of Rs. 190/- per

ROYAL ORCHID HOTELS LTD.

share on preferential basis in the month of July 2005. Further your Company has also issued 974025 equity shares of Rs. 10/- each at a premium of Rs. 144/- per share on preferential basis in the month of October 2005.

Bonus Issue (1:1)

During the year 2005-06, considering the availability of sufficient Reserves & Profits, your Company issued 9719970 bonus equity shares of Rs. 10/- each fully paid-up in the ratio of 1:1 to the existing shareholders and capitalized unutilized profit to the extent of Rs. 9,71,99,700/- in the month of September 2005.

Initial Public offer (IPO)

Your Company has floated an IPO to raise Rs. 112.53 crores by issue of 68,20,000 equity shares of Rs. 10/- each at a premium of Rs. 155/- per share. The IPO opened on 12th January 2006 and closed on 17th January 2006. The IPO received very good response from investors and was oversubscribed by about 39 times. Your Company has allotted 68,20,000 equity shares on 30th January 2006. The IPO proceeds would be utilized for funding new properties in Bangalore as well as other cities and also to meet the renovation plans of existing properties of the Company.

Consequent to the above-mentioned issued shares, the paid-up share capital of the company has increased from Rs. 9,69,49,700 to Rs. 27,23,39,650 during the year.

ESOP scheme:

Your Company proposes to introduce a Employee Stock Option Plan 2006 (ESOP 2006) which would enable the Company to offer stock options to the employees of the Company as well as its subsidiaries by way of issue of 2,723,300 equity shares of Rs. 10/- each at a price to be determined by the Committee or Board.

Approval of the members for the proposal is sought at the ensuing Annual General Meeting.

Listing:

Your Company has got permission for listing of its equity shares from National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) with effect from 6th February 2006. There are no payments outstanding to the said Stock Exchanges towards listing fees etc.

Change of Registrars and Transfer Agents:

Your Directors have approved change of Registrars and Transfer Agents for both physical and demat segments from M/s. MCS Limited, Mumbai to M/s. Karvy Computershare Private Limited, Hyderabad with a view to provide better service to the shareholders. Transfer of data and records are under process.

Change of Registered Office of the Company:

Your Directors have approved change of Registered Office from Hotel Harsha, No. 11, Park Road, Shivajinagar, Bangalore – 560 051 to No. 1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore – 560 008, for administrative convenience.

Term Loans:

Your Directors are happy to report that the overall interest on the term loans has been reduced during the year due to replacement of high cost debt with low cost debt in the previous year. Your Company got the benefit of reduction of 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 31st March 2006 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 and M/s. Royal Orchid Hyderabad Private Limited (subsidiary companies) and 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. Naresh K. Malhotra

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and Mr. Jaithirth Rao, 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 interests of the Company.

Mr. R. V. S. Rao, Independent Director of your Company, has been appointed 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.

Mr. Arjun Baljee was appointed as a Director (Projects) for a period of 5 years with effect from 18th June 2005 and the Shareholders have approved the same at their Extraordinary General Meeting held on 22nd August 2005. However, due to his pre-occupation, he submitted his resignation and vacated from the office of Director – Projects, w.e.f. 01.10.2005.

Auditors and their Report:

M/s. Walker, Chandiook & 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, Chandiook & Co., Chartered Accountants, as Statutory Auditors of the Company to hold office until the conclusion of the Next Annual General Meeting of the Company.

The Comments of the Auditor's in para no. 4 of their report and para nos. (iv) and (ix) (a) of annexure to the Auditor's Report are self-explanatory and company's reply is as follows:

Reply in respect of Para no. 4 of Auditors' 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 paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956.

Approval is awaited.

(Approval received for the same from the Government of India, Ministry of Company Affairs, vide letter no. 46/242/2005-CL-III dated 20.06.2006.)

Reply in respect of Para no. (iv) of Annexure to the Auditors' 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.

Reply in respect of Para no. (ix)(a) of Annexure to the Auditors' Report

The Company has since made all pending payments in respect of entry tax. With the strengthening of the Internal Control Systems, your Board is confident that such delays will not recur.

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 2006 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 & 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:

Your Company continues to invest in the improvement of the quality of human resource, which makes the decisive difference in this service industry. Industrial Relations throughout the year continued to remain cordial.

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

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

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 2005-06, your Company earned Foreign Exchange of Rs. 3,235.28 Lakhs as against Rs. 1,806.64 Lakhs in the previous year. The outgo on account of commission and others is Rs. 2.13 Lakhs as against Rs. 5.08 Lakhs in the previous 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, 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

CHANDER K. BALJEE

Date: 12.06.2006

Managing Director

ANNEXURE TO DIRECTORS' REPORT

Information as required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 and forming part of Directors' Report for the year ended 31st March 2006.

Sl. No.	Name of the Employee	Designation/ Nature of duties	Age (yrs.)	Qualification/ Experience	Remuneration (Rs. in lacs)	Commencement of Employment	Last Employment
01	Mr. C. K. Baljee	Managing Director	54	MBA (IIMA)	63.50	22.06.2000	N.A.

Remuneration includes all allowances, perquisites and commission.

For and on behalf of the Board of Directors

Place: Bangalore

CHANDER K. BALJEE

Date: 12.06.2006

Managing Director

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MANAGEMENT DISCUSSION AND ANALYSIS

1. Indian Economy

The Indian economy today is one of the fastest growing economies of the world, it is now the 4th largest in the world in terms of purchasing power parity. Both the manufacturing and services sectors are performing well. India's total exports registered a growth of 24.7% as compared with the previous year. Imports registered an increase of 31.5% as compared with the previous year. India's Foreign Exchange Reserves increased by US \$ 10.1 billion from against US \$ 141.5 billion at the end of the Financial Year 2004-05 to US \$ 151.6 billion by the end of the Financial Year 2005-06.

India is now among the fastest growing economies in the world, exhibiting strong performance during 2005-06, led by sustained growth in the industry and the services sectors, accelerated from the previous year's 7.5% to more than 8% in 2005-06. 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 services sectors and a higher share of services sector in the GDP (from 53% last fiscal to 54% in the current year).

2. Industry Outlook

India is not only a growing hospitality market but profitable as well. Over the last two 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 12.9% to 1.69 mn during 1st half of financial year 2005-06 compared to the same period last year. However this increase in the number of tourist arrivals in the country has not been able to uplift the country's standing in the world of tourist destinations.

The hotel industry in the country picked up momentum in the second half of 2004 and continued its robust performance in 2005 as well. It witnessed an increase of 31.3% in its revenue per available room from 2003 to 2004 and 26.2% revenue per available room increase from January to August 2005. The Five Star Hotel Segment has grown the fastest during the last five years at 12%. Luxury and upscale hotels are operating at 90% occupancy levels versus 70% last year with room rates for many hotels in Bangalore and other cities reaching all time high during the winter season of 2005. Over the last few years, the country has witnessed a large influx of business travellers 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 as they rely on airlines to transport 80% of international arrivals.

In 2005-06, 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 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 services sector in cities such as Bangalore and Hyderabad growing, the demand for rooms in these cities is on a rise.

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 travellers.

3. Market Review

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 has been increased as compared to the previous year.

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 travellers were increased during the year 2005-06. The high influx of Foreign Business travellers is helping the industry and keeps the average room rates high. The occupancy levels in Bangalore's luxury hotels also remain high at nearly 80%. Business travellers have really boomed in the recent past with Bangalore continuing to attract big companies.

4. Financials

During the year your Company has achieved turnover of Rs. 59.25 crores as against Rs. 38.79 crores in the previous year and recorded Profit after Tax of Rs. 21.20 crores as against Rs. 13.26 crores in the previous year.

During the year, your Company has added 55 new rooms in Hotel Royal Orchid. The financials of the company for 2005-06 include the income and expenditure of the same. Highlights of the year are as follows :

- Increase in room revenues by 45%
- Increase in ARR (between 25% to 35%)
- 55 nos. additional rooms in Hotel Royal Orchid
- F & B revenues increased by 56%
- New restaurants viz., Paparazzi and Ginseng opened
- Operating profit ratio consistent at 41%
- Net profit ratio at 28% as against 26% in the previous year

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 of 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 expansion.

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

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,

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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 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.

8. Awards & Recognitions

Best Economy Business Hotel:

Royal Orchid Central, Bangalore won the "Star of the Industry Award" and has been recognized as the "**Best Economy Business Hotel**" of the year 2005. This award has been instituted for the first time by IHM (Institute of Hotel Management).

Best Oriental Food Restaurant of Bangalore:

Ginseng Restaurant at Hotel Royal Orchid, Bangalore has been recognized as the "**Best Oriental Food Restaurant of Bangalore**" by the Times Food Guide for the year 2005.

Elite Recognition:

Paparazzi Restaurant at Royal Orchid Central, Bangalore has been selected as one of the best among an elite group of Restaurants worldwide, for its fine wine and dine experience. The Restaurant earned this recognition from premier travel magazine "Conde Nast Traveller". The magazine brings out a "Hot Tables List" every year, which is a reliable guide to the best, new and most irresistible global entries, reaching over three million of the most affluent, well-travelled and discerning readers worldwide.

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 individuals, corporations and society at large.

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 stakeholders' interest as its foremost priority.

Your Directors are committed to high standards of corporate governance through transparency, appropriate disclosure, fairness, and a mechanism for independent supervision, which are the principle-underlying features for good corporate governance.

The mandatory requirements, as per the Listing Agreement under Corporate Governance have been complied with by the Company, as given hereunder:

1. Board of Directors

During the year 2005-06, Mr. C. Baljee, Mrs. Sunita Baljee have resigned from the Board and Mr. Arjun Baljee, Mr. Naresh K. Malhotra, Mr. Jaithirth Rao & Mr. R. V. S. Rao were co-opted as Additional Directors of whom Mr. Arjun Baljee has resigned from the Board and the appointments of Mr. Naresh K. Malhotra, Mr. Jaithirth Rao & Mr. R. V. S. Rao were confirmed at the previous Annual General Meeting. The Board consists of 5 Directors (one managing director, 3 non-executive independent directors and 1 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, 2006, 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

During the year 2005-06, the Board met 9 times on 18.06.2005, 18.07.2005, 27.08.2005, 31.08.2005, 28.09.2005, 21.10.2005, 22.12.2005 and on 20.01.2006. 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:

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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	08	Yes	09	Nil	Nil
Mr. Sunil Sikka	Promoter-Non-Executive Director	03	No	Nil	Nil	Nil
Mrs. Sunita Baljee	Promoter-Non-Executive Director	01	No	06	Nil	Nil
Mr. Chander Baljee	Promoter-Non-Executive Director	Nil	No	Nil	Nil	Nil
Mr. Arjun Baljee	Non-executive Director	05	Yes	05	Nil	Nil
Mr. Naresh K. Malhotra	Independent Director	08	Yes	10	Nil	02
Mr. Jaithirth Rao	Independent Director	04	Yes	11	03	Nil
Mr. R. V. S. Rao	Independent Director	06	Yes	08	02	01

Mrs. Sunita Baljee and Mr. C. Baljee ceased to be Directors w.e.f. from 18.07.2005. Mr. Arjun Baljee was appointed as Additional Director w.e.f. 18.06.2005 and he also ceased to be a Director w.e.f. 01.10.2005. Mr. Naresh K. Malhotra, Mr. Jaithirth Rao and Mr. R. V. S. Rao were appointed as Additional Directors w.e.f. 18.06.2005, 18.07.2005 and 27.08.2005, whose appointments were confirmed at the previous Annual General Meeting.

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.

2. 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.

3. 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.

During the financial year 2005-06, the Audit Committee has met 3 times, i.e., on 31.08.2005, 22.12.2005 and on 03.03.2006. 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:

Mr. Naresh K. Malhotra Chairman of the Committee (Independent, Non-Executive Director)	-03
Mr. Jaithirth Rao (Independent, Non-Executive Director)	-02
Mr. R. V. S. Rao (Independent, Non-Executive Director)	-03

4. Remuneration Committee

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 has not met, during the year 2005-06.

Details of remuneration/commission to the Directors for the year 2005-06:

Sl. No.	Name of Director	Salary	Benefits	Commission	Total
1.	Mr. Chander K. Baljee **	40,07,774.00	6,06,812.00	23,68,197.00	70,42,597.00
2.	Mr. Naresh K. Malhotra	—	—	7,42,119.50	7,42,119.50
3.	Mr. Jaithir th Rao	—	—	7,42,119.50	7,42,119.50
4.	Mr. R. V. S. Rao	—	—	7,42,119.50	7,42,119.50
5.	Mr. Sunil Sikka	—	—	7,42,119.50	7,42,119.50
6.	Mr. Arjun Baljee #	4,11,717.00	—	2,50,607.00	6,62,324.00

** Mr. Chander K. Baljee, Managing Director was appointed for a further period of 5 years, with a revised remuneration of Rs. 3,00,000/- per month and commission at 1% of the net profits of the Company along with other benefits at a General Meeting held on 22nd August 2005 (appointment and revision being effective from 22nd June 2005).

Mr. Arjun Baljee was appointed as Additional Director w.e.f. 18.06.2005 and he ceased to be a Director w.e.f. 01.10.2005.

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 2049 complaints during the year 2005-06, out of which 2041 were redressed and 8 were pending as at 31.03.2006. Pending complaints have been attended to after the close of the year.

Mr. G. Tirupathi 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.

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 2005-06.

Chander K. Baljee

Managing Director

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7. General Body Meetings

Annual General Meetings

Year	Date	Time	Venue
2002-03	30.09.2003	10.00 A.M.	Registered Office
2003-04	30.09.2004	11.00 A.M.	Registered Office
2004-05	28.09.2005	11.00 A.M.	Registered Office

Besides above, Extraordinary General Meetings were also held on 16.02.2004, 18.07.2005 and on 22.08.2005.

At the Extraordinary General Meeting held on 16th February 2004, a resolution was passed for the purpose of investment in Icon Hospitality Private Limited. At the Extraordinary General Meeting held on 18th July 2005, a Special Resolution was passed for the purpose of authorizing the Board to issue Equity Shares on preferential basis. At the Extraordinary General Meeting held on 22nd August 2005, Special Resolutions were passed for the purpose of Increase in Authorized Share Capital and the consequent alteration of Memorandum & Articles of Association of the Company, revision in remuneration of Mr. C. K. Baljee, Managing Director and appointment of Mr. Arjun Baljee as Director (Projects). Also, at the Annual General Meeting held on 28th September 2005, Special Resolutions were passed to increase Sitting Fee and remuneration to Non-Executive Directors, Issue of Bonus Shares, issue of shares on preferential basis and issue of shares to the Public (Initial Public Offer).

There were no issues required to be dealt/passed by the Company through postal ballot in any of the aforesaid meetings, as required under the provisions of Section 192A of the Companies Act, 1956.

8. Disclosures

The Board of Directors receive from time to time disclosures relating to financial and commercial transactions from key management personnel of the Company as and when they and / or their relatives have personal interest in any of the pecuniary transactions with the Company. There are no materially significant related party transactions, which have potential conflict with the interest of the Company at large.

There has been no instance of non-compliance by the Company on any matter related to capital markets. Hence the question of penalties or strictures being imposed by SEBI or Stock Exchange does not arise.

9. Means of Communication

The Shares of the Company are listed on stock exchanges with effect from 6th February 2006 and hence the Company has not published its Quarterly Financial results during the year 2005-06.

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.sebiedifar.nic.in/> vide the Electronic Data Information and Retrieval System (EDIFAR) which is an automated system for filing, retrieval and dissemination of time-sensitive corporate information. The Company will take necessary initiatives for filing information such as quarterly financial statements, shareholding pattern, etc., on the site.

The Company has currently not adopted the non-mandatory requirements.

GENERAL SHAREHOLDER INFORMATION

1. Annual General Meeting:

Date and Time : 13th September 2006, 11.00 a.m.
 Venue : Hotel Royal Orchid
 No. 1, Golf Avenue
 Adjoining KGA Golf Course
 Off Airport Road
 Bangalore - 560 008

2. Book Closure Dates

: 28.08.2006 to 05.09.2006 (Both days inclusive)

3. Dividend Payment Date

:
 The dividend at 50%, 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 2006-07

Financial Reporting

For the quarter ended 30.06.2006 : 28th July 2006
 For the quarter ending 30.09.2006 : October 2006
 For the quarter ending 31.12.2006 : January 2007
 For the quarter ending 31.03.2007 : April/May 2007
 Annual General Meeting for 2006-07 : August/September 2007

5. Listing of Equity Shares on Stock Exchanges at

: 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
 1st Floor, New Trading Ring
 Rotunga Building, P. J. Towers
 Dalal Street, Fort
 Mumbai – 400 013

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 2006-07 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 February and March 2006. The Equity shares of the Company got listed with Stock Exchanges on 06.02.2006.

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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
February 2006	231.40	189.90	231.20	188.55
March 2006	205.55	180.15	206.05	179.10

8. Share Transfer System

Presently, after the IPO, the pre-IPO shares are in lock-in and hence no requests for share transfers are received by the Company. Prior to IPO, share transfer requests received in physical form are processed and the share certificates returned within a period of 15 days in most cases, and in any case within 30 days, from the date of receipt, subject to the documents being in order and complete 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 31st March 2006

No. of Shares held	No. of Shares	% of share capital	No. of shareholders	% of total No. of shareholders
Up to 500	18,34,191	06.73	33,701	98.40
501 to 1000	2,18,306	00.81	270	00.79
1001 to 2000	2,24,629	00.82	144	00.42
2001 to 3000	92,444	00.34	37	00.11
3001 to 4000	61,391	00.23	17	00.05
4001 to 5000	65,742	00.24	14	00.04
5001 to 10000	1,84,699	00.68	28	00.08
10001 and above	2,45,52,563	90.15	38	00.11
TOTAL	2,72,33,965	100.00	34,249	100.00

11. Dematerialisation of Shares & Facility of simultaneous transfer

The Company had made an allotment of 68,20,000 Equity Shares of face value of Rs. 10/- each to public through 100% book building route at a premium of Rs. 155/- per share. The said 68,20,000 shares representing approximately 25.04% of the paid-up equity share capital of the Company have been dematerialized as on 31st March 2006. Consequent to the said IPO completed by the Company in January 2006, 54,46,880 Equity Shares representing 20.00% of the post-issue paid-up capital of the Company held by the promoters are locked-in for 3 years from the date of allotment i.e. 30.01.2006 to 29.01.2009 as per SEBI (DIP) Guidelines, 2000.

The Company has not issued any GDRs/ADRs/warrants or any convertible instruments. Shareholders interested in dematerializing their shares are requested to write to the Registrar & 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

13. Registrar & Share Transfer Agent

: MCS Limited
"Harmony", Plot No. 6, Sector – 1
Khanda Colony, New Panvel (West)
Mumbai - 410 206
Ph: 022-27492003-10
Fax: 022-27492005

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
Off Airport Road
Bangalore – 560 008

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CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of Royal Orchid Hotels Limited

I have reviewed the compliance of conditions of Corporate Governance by **Royal Orchid Hotels Limited**, for the year ended on March 31, 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. My examination has been limited to a review of the procedures and implementations thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said Clause. 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, and based on the representations made by the Directors and the management, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

No investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

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

G. SHANKER PRASAD

Company Secretary in Practice

C. P. No. 6450

Place: Bangalore

Date:12.06.2006

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 2006:

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:12.06.2006

Chander K. Baljee

Managing Director

ANNEXURE

**Details of Directors seeking reappointment 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. Naresh K. Malhotra	Mr. Jaithirth Rao
Date of Birth	5th June 1947	12th July 1952
Date of Appointment	18th June 2005	18th July 2005
Qualifications	Chartered Accountant	MBA from IIM, Ahmedabad
Expertise in specific functional areas	Vast experience in Finance and Management	Vast experience in Banking and Management
List of Companies in which outside Directorship held as on 31.03.2006	<ol style="list-style-type: none"> 1.Gignext Solutions India Pvt. Limited 2.Amalgamated Been Coffee Trading Company Pvt. Ltd. 3.Venture Infotek Global Pvt. Limited 4.Venture Infotek Limited 5.Tarang Software Technologies Private Limited 6.Blue Star Infotech Limited 7.CCD Daily Bread Private Limited 8.N. M. Agencies Private Limited 9.L Leisure & Lifestyle Information Services Private Limited 10.Balan Natural Food Pvt. Limited 	<ol style="list-style-type: none"> 1.Mphasis BFL Limited 2.Cadbury India Limited 3.Mahindra Holidays & Resorts India Limited 4.The Arvind Mills Limited 5.IDFC Asset Management Company Limited 6.Rao Properties Pvt. Limited 7.Sanjivay Tours & Travels Private Limited 8.Bangalore Review and Magazines Company Private Limited 9.Ram Tirth Book Shop Private Limited
Chairman / Member of the *Committees of other Companies on which he is a Director as on 31.03.2006	<p>Audit Committee:</p> <p>Chairman</p> <ol style="list-style-type: none"> 1.Amalgamated Been Coffee Trading Company Limited 2.Blue Star Infotech Limited 	<p>Audit Committee:</p> <p>Member</p> <ol style="list-style-type: none"> 1.The Arvind Mills Limited <p>Remuneration Committee:</p> <p>Member</p> <ol style="list-style-type: none"> 2.The Arvind Mills Limited <p>Share Transfer Committee:</p> <p>Member</p> <ol style="list-style-type: none"> 3.Mphasis BFL Limited

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

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AUDITOR'S 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 2006, 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 8 of Schedule 21, 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, which has not yet been received.
5. Subject to our comments in paragraph 4 above and 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 31 March 2006;
 - 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 2006 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31 March 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

**For Walker, Chandok & Co.
Chartered Accountants**

Rajesh Jain

Partner

Membership No. 81203

New Delhi

12 June 2006

ANNEXURE TO THE AUDITOR'S 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 2006

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, 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 no material discrepancies were noticed on physical verification.
- (iii) (a) There are three companies covered in the register maintained under Section 301 of the Act to which the Company has granted loans. The maximum amount involved during the year was Rs. 22,307,808 and the year-end balance of loans granted to such parties was Rs. 22,307,808.
- (b) In our opinion, as these transactions represents short-term loans, the interest free nature of these loans is not prima facie prejudicial to the interest of the Company.
- (c) In respect of loans granted, the repayment of the principal amount is as stipulated. As these loans are interest free, the repayment of interest is not applicable.
- (d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under Section 301 of the Act.
- (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 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 purchase of inventory and the sale of goods. However, the internal control procedures for the purchase of fixed assets and sale of services are inadequate as Company policies are not formally documented and therefore not verifiable. In our opinion this represents a continuing failure to correct major weaknesses in internal controls. However, we are informed that management has initiated action to rectify these weaknesses subsequent to the balance sheet date.
- (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. Further certain transactions represent payments and collections made and received on behalf of such parties which do not involve profit for which no market prices are available.
- (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.

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- (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. However, entry tax has not been regularly deposited with the authorities and there has been a serious delay in a few cases. Undisputed amounts payable in respect of the above, that were outstanding for a period of more than six months from the date they became payable are as follows:

Name of statute	Nature of the dues	Amount (Rs.)	Due date	Date of payment
Karnataka Special Tax on Entry of Goods	Entry Tax	2,653,923	Various dates pertaining to the year ended 31 March 2005	Rs. 2,497,427 paid on 10 June 2006
TOTAL		2,653,923		

- (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

Rajesh Jain
Partner
Membership No. 81203

New Delhi
12 June 2006

BALANCE SHEET

	Schedule	31 March 2006 Rs.	31 March 2005 Rs.
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Capital	1	272,339,650	96,949,700
Reserves and surplus	2	1,225,089,917	134,829,362
		1,497,429,567	231,779,062
LOAN FUNDS			
Secured loans	3	269,351,992	197,968,321
Unsecured loan	4		1,278,150
		269,351,992	199,246,471
DEFERRED TAX LIABILITY			
	5	35,200,000	25,900,000
		1,801,981,559	456,925,533
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross block	6	434,823,424	284,864,407
Less: Accumulated depreciation		76,473,941	50,423,577
Net block		358,349,483	234,440,830
Capital work-in-progress including capital advances		8,403,598	99,816,870
		366,753,081	334,257,700
INVESTMENTS			
	7	62,049,000	3,525,000
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	8	5,388,165	4,431,320
Sundry debtors	9	34,222,268	19,952,560
Unbilled revenues		6,282,627	2,138,627
Cash and bank balances	10	1,401,533,640	51,131,754
Loans and advances	11	167,124,658	105,349,263
		1,614,551,358	183,003,524
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	12	81,825,107	62,066,387
Provisions	13	159,546,773	1,794,304
		241,371,880	63,860,691
NET CURRENT ASSETS			
		1,373,179,478	119,142,833
		1,801,981,559	456,935,533
NOTES TO THE FINANCIAL STATEMENTS			
	21		

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

For and on behalf of the Board of Directors

Rajesh Jain
Partner
Membership No. 81203

Chander K. Baljee
Managing Director

Naresh K. Malhotra
Director

G. Tirupathi Rao
Company Secretary

Place: New Delhi
Dated: 12 June 2006

Place: Bangalore
Dated: 12 June 2006

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PROFIT AND LOSS ACCOUNT

	Schedule	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
INCOME			
Operating income	14	592,486,407	387,932,605
Other income	15	32,320,475	18,800,530
		624,806,882	406,733,135
EXPENDITURE			
Food and beverages consumed	16	44,236,545	27,468,913
Employee costs	17	55,270,026	34,373,038
Other operating expenses	18	102,580,284	65,757,731
Selling, general and administrative expenses	19	97,398,111	66,033,670
Interest	20	15,753,431	24,422,367
Depreciation	6	26,050,364	20,312,456
Preliminary expenses written off		-	90,564
		341,288,761	238,458,739
PROFIT BEFORE TAX, CHANGE IN ACCOUNTING POLICY AND PRIOR PERIOD ITEMS			
Impact of change in accounting policy	6	283,518,121	168,274,396
		-	29,498,787
PROFIT BEFORE TAX AND PRIOR PERIOD ITEMS			
Prior period expenses		283,518,121	197,773,183
		-	(8,782,591)
PROFIT BEFORE TAX			
Provision for income tax			
- Current		(61,000,000)	(37,000,000)
- Deferred		(9,300,000)	(19,400,000)
- Fringe Benefit Tax		(1,374,318)	-
- Provision for income tax of prior years written back		200,000	-
PROFIT AFTER TAX			
Balance brought forward from the previous year		212,043,803	132,590,592
Balance available for appropriation		133,729,362	1,138,770
		345,773,165	133,729,362
APPROPRIATIONS			
Proposed Dividend		(136,169,825)	-
Tax on distribution of dividend		(19,097,818)	-
Transfer to General Reserve		(21,204,380)	-
Bonus Shares issued		(97,199,700)	-
Surplus carried to Balance Sheet			
		72,101,442	133,729,362
EARNINGS PER SHARE (Par value - Rs 10)			
Basic and diluted earnings per share (Refer Note 3 in Schedule 21)		10.10	7.26

NOTES TO THE FINANCIAL STATEMENTS

21

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, Chandiok & Co.**
Chartered Accountants

For and on behalf of the Board of Directors

Rajesh Jain
Partner
Membership No. 81203

Chander K. Baljee
Managing Director

Naresh K. Malhotra
Director

G. Tirupathi Rao
Company Secretary

Place: New Delhi
Dated: 12 June 2006

Place: Bangalore
Dated: 12 June 2006

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

SCHEDULE 1 SHARE CAPITAL

Authorised

30,000,000 (31 March 2005: 12,000,000) Equity shares of Rs.10 each

Issued, subscribed and paid up

27,233,965 (31 March 2005: 9,694,970) Equity shares of Rs.10 each fully paid up

Notes :

- Of the above 6,000,000 (31 March 2005: 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.
- The authorised share capital was increased from 120,000,000 to 300,000,000 equity shares of Rs.10 each pursuant to a shareholders' resolution passed at the extraordinary general meeting on 22 August 2005.
- 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 2005 – Nil) 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 21 October, 2005, the Company made an allotment of 974,025 equity shares on a private placement basis.
- On 30 January, 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 March 2006 Rs.	31 March 2005 Rs.
300,000,000	120,000,000
272,339,650	96,949,700
272,339,650	96,949,700

SCHEDULE 2 RESERVES AND SURPLUS

Share Premium

Balance at the beginning of the year

Add: Premium received on equity shares issued during the year

Less: Utilisation towards IPO issue expenses

Balance at the end of the year

Foreign Exchange Earnings Reserve

General Reserve

Balance at the beginning of the year

Add: Transfer during the year

Balance at the end of the year

Profit and Loss Account

Balance at the beginning of the year

Add: net profit for the year

Less: Proposed Dividend

Less: Tax on distribution of dividend

Less: Transfer to General Reserve

Less: Issue of bonus shares

Balance at the end of the year

31 March 2006 Rs.	31 March 2005 Rs.
-	-
1,202,109,600	-
(71,425,505)	-
1,130,684,095	-
1,100,000	1,100,000
-	-
21,204,380	-
21,204,380	-
133,729,362	1,138,770
212,043,803	132,590,592
345,773,165	133,729,362
(136,169,825)	-
(19,097,818)	-
(21,204,380)	-
(97,199,700)	-
72,101,442	133,729,362
1,225,089,917	134,829,362

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Notes:

- a) Share premium includes an amount of Rs. 140,259,600 received on the issue of 974,025 equity shares on a private placement basis and 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.
- b) 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 2005 – Nil) equity shares have been allotted as fully paid up by way of bonus shares by capitalising the balance in the profit and loss account.

SCHEDULE 3 SECURED LOANS

		31 March 2006 Rs.	31 March 2005 Rs.
Term loans from banks	(a)	263,650,987	192,157,552
Other loans	(b)	4,289,459	4,463,034
Interest accrued and due on term loans		1,411,546	1,347,735
		269,351,992	197,968,321

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 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.

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 Baljee Hotels and Real Estate Private Limited. This loan is repayable in 24 quarterly instalments of Rs. 12.5 million each, commencing from 31 December 2005.

The Company also has an overdraft facility with the State Bank of Hyderabad that has a limit of Rs.10 million. This facility carries an interest rate equal to the PLR of the Bank and is secured by the hypothecation of the present and future inventory and receivables of the Company and an extension of the charge on all the fixed assets of the Company in addition to personal guarantees of the Mr. Chander K. Baljee, Mrs. Sunita Baljee, and a corporate guarantee from Baljee Hotels and Real Estate Private Limited. In addition to the above, the Company is also required to maintain its working capital requirements as per the projections furnished to the Bank. The Company has no amount outstanding against this facility as at 31 March 2006.

- 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 as at 31 March 2006 are as follows :

	31 March 2006 Rs.
Term loans	50,000,000
Other loans	1,465,612
	51,465,612

**SCHEDULE 4
UNSECURED LOAN**

Other loans

31 March 2006 Rs.	31 March 2005 Rs.
-	1,278,150
-	1,278,150

Note:

During the year, the Company has repaid the interest free loan borrowed from a Company under the same management.

**SCHEDULE 5
DEFERRED TAX LIABILITY, NET**

Deferred tax liability arising on account of :

Depreciation

Less: Deferred tax asset arising on account of:

Employee benefits

Provision for doubtful debts

Other deductions allowable on a payment basis

Lease rentals allowable on payment basis

Net Deferred tax liability

31 March 2006 Rs.	31 March 2005 Rs.
37,801,389	28,548,132
1,321,646	440,558
688,536	177,476
-	1,737,330
591,207	292,768
35,200,000	25,900,000

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 2006 have been recorded to the extent of the timing differences that reverse outside the tax holiday period.

**SCHEDULE - 6
FIXED ASSETS**

(Amount in Rs.)

Category of assets	Gross Block				Accumulated Depreciation					Net Block	
	Balance as at 1 April 2005	Additions during the year	Deletions during the year	Balance as at 31 March 2006	Balance as at 1 April 2005	Impact of change in accounting policy	Deletions during the year	Charge for the year	Balance as at 31 March 2006	As at 31 March 2006	As at 31 March 2005
Buildings	121,651,265	65,657,298	-	187,308,563	9,250,556			7,883,405	17,133,961	170,174,602	112,400,709
Plant and machinery	73,463,502	29,732,374	-	103,195,876	15,708,047			5,695,683	21,403,730	81,792,146	57,755,455
Office Equipment	3,029,163	4,331,516	-	7,360,679	470,186			1,881,852	2,352,038	5,008,641	2,558,977
Computers and related software	4,863,601	2,188,053	-	7,051,654	1,584,612			1,340,512	2,925,124	4,126,530	3,278,989
Furniture and fixtures	73,022,361	46,584,148	-	119,606,509	22,290,649			8,587,429	30,878,078	88,728,431	50,731,712
Vehicles	8,834,515	1,465,628	-	10,300,143	1,119,527			661,483	1,781,010	8,519,133	7,714,988
TOTAL	284,864,407	149,959,017	-	434,823,424	50,423,577			26,050,364	76,473,941	358,349,483	234,440,830
Prior year	210,835,877	77,718,125	3,689,595	284,864,407	60,705,790	(29,498,787)	(1,095,882)	20,312,456	50,423,577	234,440,830	150,130,087

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SCHEDULE 7 INVESTMENTS

	31 March 2006 Rs.	31 March 2005 Rs.
Investment in Government Securities	25,000	25,000
Investment in Subsidiaries (Unquoted and fully paid up)		
Icon Hospitality Private Limited (30,730 (2005 - 35,000) Equity Shares of Rs.100 each)	3,073,000	3,500,000
Maruti Comforts and Inn Private Limited (209,100 (2005 - Nil) Equity Shares of Rs.100 each)	58,849,000	-
Royal Orchid Hyderabad Private Limited (10,200 (2005 - Nil) Equity Shares of Rs.10 each)	102,000	-
	<u>62,049,000</u>	<u>3,525,000</u>

Note:

On 1 April 2005, the Company has transferred 4,270 shares held by it in Icon Hospitality Private Limited, for no consideration, to other existing shareholders of the subsidiary.

SCHEDULE 8 INVENTORIES

	31 March 2006 Rs.	31 March 2005 Rs.
Food and beverages	3,191,339	2,444,224
Stores and spare parts	2,196,826	1,987,096
	<u>5,388,165</u>	<u>4,431,320</u>

SCHEDULE 9 SUNDRY DEBTORS

(Unsecured)

	31 March 2006 Rs.	31 March 2005 Rs.
Debts outstanding for a period exceeding six months:		
- Considered good	50,072	950,560
- Considered doubtful	2,518,504	692,912
	<u>2,568,576</u>	<u>1,643,472</u>
Other debts		
- Considered good	34,172,196	19,002,000
- Considered doubtful	403,727	-
	<u>34,575,923</u>	<u>20,645,472</u>
Less: Provision for doubtful debts	<u>(2,922,231)</u>	<u>(692,912)</u>
	<u>34,222,268</u>	<u>19,952,560</u>

A reconciliation of the provision for doubtful debts is provided below:

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
Balance at the beginning of the year	692,912	1,822,362
Add: Additional provisions created during the year	2,229,319	692,912
Less: Debts written off	-	(1,822,362)
Balance at the end of the year	<u>2,922,231</u>	<u>692,912</u>

**SCHEDULE 10
CASH AND BANK BALANCES**

		31 March 2006 Rs.	31 March 2005 Rs.
Cash balances on hand		424,085	427,799
Demand drafts on hand		5,100,000	-
Banks balances with Scheduled banks:			
In current accounts	(a)	203,385,491	23,030,542
In exchange earners foreign currency account		5,607,094	6,401,014
In deposit account	(b)	1,171,611,719	11,127,350
In margin money	(c)	15,405,251	10,145,049
		1,401,533,640	51,131,754

Notes:

- As at 31 March 2006, current accounts include Rs. 73,000,117 representing unutilised proceeds from the Company's IPO. These funds are restricted of use for the specific objects of the IPO.
- As at 31 March 2006, deposit accounts include unutilised public issue proceeds amounting to Rs. 100,000,000 which has been temporarily invested with banks and is restricted of use 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.

**SCHEDULE 11
LOANS AND ADVANCES**

(Unsecured, considered good)

		31 March 2006 Rs.	31 March 2005 Rs.
Advances recoverable in cash or in kind or for value to be received			
Security deposits	(a)	94,378,527	78,255,397
Prepaid Expenses		11,536,321	5,853,221
Advances to suppliers		2,047,442	3,121,910
Dues from related parties	(b)	16,242,226	8,696,803
Dues from subsidiaries	(c)	19,269,735	3,652,661
Advance tax (net of provision)		4,572,871	5,102,488
Interest Accrued and not due	(d)	14,522,839	81,953
Others		4,554,697	584,830
		167,124,658	105,349,263

Notes:

- Security deposits includes Rs. 60,000,000 (31 March 2005 – 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 21).
Security deposits also include Rs. 10,000,000 (31 March 2005 – 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 4 and 9 in Schedule 21).
Security deposits also include Rs. 11,253,000 (31 March 2005 – Nil) 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.
- Dues from related parties represent amounts due from companies under the same management. The maximum amount outstanding during the year ended 31 March 2006 was Rs. 16,242,226 (31 March 2005 - Rs. 8,696,803).
- Dues from subsidiaries represent amounts due from companies under the same management. The maximum amount outstanding during the year ended 31 March 2006 was Rs. 19,269,735 (31 March 2005 - Rs. 26,850,873).
- Interest accrued and due represents interest on term deposits placed with banks.

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SCHEDULE 12 CURRENT LIABILITIES

		31 March 2006 Rs.	31 March 2005 Rs.
Sundry creditors		27,149,330	24,794,995
Accrued expenses		18,457,218	6,374,722
Dues to employees		5,561,768	4,177,128
Duties and taxes payable		15,735,787	15,960,762
Dues to directors		5,725,979	-
Dues to related parties	(a)	441,793	-
Security deposits	(b)	2,894,710	3,000,000
Other liabilities		5,858,522	7,758,780
		81,825,107	62,066,387

Notes:

- a) Dues to related parties represent amounts dues to companies under the same management. The maximum amount outstanding during the year ended 31 March 2006 was Rs. 441,793 (31 March 2005 – Nil).
- b) Security deposit includes Rs. 2,500,000 (31 March 2005 – 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 10 in Schedule 21).
- c) There are no amounts due to small scale industrial undertakings.

SCHEDULE 13 PROVISIONS

		31 March 2006 Rs.	31 March 2005 Rs.
Provision for leave encashment		1,756,349	450,435
Provision for gratuity		2,522,781	1,343,869
Proposed dividend		136,169,825	
Tax on proposed dividend		19,097,818	
		159,546,773	1,794,304
A reconciliation of the provision for leave encashment is provided below:			
Balance at the beginning of the year		450,435	228,025
Add: Additional provisions created during the year		1,315,108	222,410
Less: Paid during the year		(9,194)	-
Balance at the end of the year		1,756,349	450,435
A reconciliation of the provision for gratuity is provided below:			
Balance at the beginning of the year		1,343,869	294,584
Add: Additional provisions created during the year		1,233,596	1,049,285
Less: Paid during the year		(54,684)	-
Balance at the end of the year		2,522,781	1,343,869

**SCHEDULE 14
OPERATING INCOME**

Room revenues
Food and beverages
Other service charges

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
439,279,509	288,453,579
136,163,606	88,237,741
17,043,292	11,241,285
592,486,407	387,932,605

**SCHEDULE 15
OTHER INCOME**

Management fees
Interest income [TDS - Rs. 3,904,609 (31 March 2005 - Rs. 377,940)]
Excess provision written back
Sundry Creditors written back
Miscellaneous income

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
11,684,455	9,449,323
17,076,809	2,030,838
2,575,442	1,161,200
398,523	4,597,131
585,246	1,562,038
32,320,475	18,800,530

**SCHEDULE 16
FOOD AND BEVERAGES CONSUMED**

Opening Stock
Add: Purchases during the year

Less: Closing Stock
Consumption for the year

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
2,444,224	899,240
44,983,660	29,013,897
47,427,884	29,913,137
(3,191,339)	(2,444,224)
44,236,545	27,468,913

Note:

Consumption above is net of Rs. 2,638,764 for the year ended 31 March 2006 (31 March 2005 - Rs. 2,752,580), representing amounts utilised for internal consumption which has been classified under staff welfare.

**SCHEDULE 17
EMPLOYEE COSTS**

Salaries, wages and bonus
Contribution to Provident Fund
Staff welfare

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
45,604,256	27,210,113
2,865,170	2,035,866
6,800,600	5,127,059
55,270,026	34,373,038

Note:

Staff welfare above includes Rs. 2,638,764 for the year ended 31 March 2006 (31 March 2005 - Rs. 2,752,580), representing amounts utilised for internal consumption.

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SCHEDULE 18 OTHER OPERATING EXPENSES

Linen and room supplies
Catering supplies
Other kitchen supplies
Linen, uniform washing and laundry expenses
Power and fuel
Water
Lease rent for hotel properties
Hire Charges
Management fees
Repairs and Maintenance
- Building
- Machinery
- Furniture and Fixtures
- Others

**Year ended
31 March 2006
Rs.**

9,538,344
2,647,448
6,025,696
5,438,316
27,932,887
3,438,285
22,443,580
3,285,000
307,042

4,305,231
1,899,236
6,847,187
8,472,032

102,580,284

Year ended
31 March 2005
Rs.

6,991,737
2,535,887
4,012,201
3,606,880
20,978,851
2,686,050
9,577,697
1,439,236
118,337

4,108,976
2,272,958
342,888
7,086,033

65,757,731

SCHEDULE 19 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Commission, brokerage and discount
Rates and taxes
Advertising and business promotion
Legal and professional charges
Communication costs
Printing and stationary
Travelling and conveyance
Directors' remuneration
Directors' commission
Security charges
Audit fees
Provision for doubtful debts
Bad Debts written off
Insurance
Advances written off
Music and entertainment
Carriage inwards
Loss on sale of fixed assets
Bank charges
Loss on disposal of Investments
Miscellaneous expenses

**Year ended
31 March 2006
Rs.**

20,139,057
8,996,596
11,167,483
6,047,202
6,998,294
4,560,521
5,058,127
4,419,491
5,587,282
2,990,894
913,009
2,229,319
891,980
1,796,659
2,274,834
2,600,237
1,534,187
-
495,767
427,000
8,270,172

97,398,111

Year ended
31 March 2005
Rs.

11,422,454
10,811,208
6,874,228
4,370,616
4,584,127
3,127,225
3,902,085
3,300,000
-
2,052,186
495,900
692,912
1,491,059
1,888,516
-
1,715,444
1,291,902
71,904
2,079,074
-
5,862,830

66,033,670

SCHEDULE 20 INTEREST

Interest on term loan
Other finance charges
Interest on vehicle loan
Interest on overdraft

**Year ended
31 March 2006
Rs.**

15,376,072
-
322,137
55,222

15,753,431

Year ended
31 March 2005
Rs.

19,406,593
4,455,537
161,044
399,193

24,422,367

NOTES TO THE FINANCIAL STATEMENTS

SCHEDULE - 21

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 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.

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 the 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, provisions for bad and doubtful debts and accruals for leave encashment 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.

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.

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.

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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% - 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. 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.

vii. 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.

viii. 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.

ix. 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.

x. 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.

xi. 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.

xii. 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.

xiii. 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.

xiv. 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.

xv. 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.

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3. Earnings Per Share ('EPS')

	Year ended 31 March 2006	Year ended 31 March 2005
Weighted average number of shares outstanding during the year	20,994,370	18,274,343
	(Rs.)	(Rs.)
Net profit after tax attributable to equity shareholders	212,043,803	132,590,593
Basic and diluted earnings per share	10.10	7.26
Nominal value per equity share	10	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 Baljee 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 Baljee Hotels and Real Estate 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.

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 may be 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.

Property at Mysore

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.

The lease expense for cancellable and non-cancellable operating leases during the year ended 31 March 2006 was Rs. 22,443,580 (31 March 2005 – Rs. 9,577,697).

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	11,303,611
Later than one year but not later than five years	35,066,157
Later than 5 years	130,941,500
TOTAL	177,311,268

The above commitment does not include the lease payments amounting to Rs.137 million in respect of Hotel Krishna Raja Sagar, 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 March 2006, the proceeds of the issue have been utilized as under:

	Amount (Rs.)
Net Public Issue Proceeds	1,125,300,000
Less: Funds withdrawn towards IPO Expenses [refer Note (a)below]	52,299,883
Unutilized public issue proceeds as at 31 March 2006 [refer Note (b) below]	1,073,000,117

Note:

The expenses incurred for the IPO amounted to Rs. 71.42 million (including an accrual of Rs. 9.5 million). The above withdrawals do not include Rs. 8.20 million have been met out of internal accruals as at 31 March 2006.

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. 23,527,059 (31 March 2005 – Rs. 6,435,401).

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.

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7. Supplementary statutory information

a) Payments to Directors

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
a) Salary and allowances	4,419,491	3,300,000
b) Contribution to provident and other funds	-	-
c) Commission	5,587,282	-
d) Perquisites	59,814	-
e) Gratuity	606,812	-
Total	10,673,399	3,300,000

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 March 2006 Rs.	Year ended 31 March 2005 Rs.
Profit before income-tax	283,518,121	188,990,592
Add:		
Remuneration to directors	5,086,117	3,300,000
Commission to directors	5,587,282	-
Provision for doubtful debts	2,229,319	692,912
Loss on disposal of Investment	427,000	-
Loss on sale of assets	-	71,904
Net profit for computation of managerial remuneration	296,847,839	193,055,408
Commission to directors include:-		
Managing Director	2,368,197	-
Non-Executive Directors	2,968,478	-
Executive Director	250,607	-
b) Payment to Auditors		
a) Audit fee	649,000	450,000
b) Other services	75,000	-
c) Service tax	73,848	45,900
d) Out of pocket expenses	115,161	-
	913,009	495,900

Note:

The above does not include Rs. 1,613,502 (31 March 2005 – Rs. Nil) representing payments made to auditors for IPO related services which has been adjusted against the securities premium account, being utilisation towards IPO issue expenses. (Refer Schedule 2).

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
c) Particulars relating to foreign exchange		
Earnings in foreign exchange (on accrual basis)		
Income from operations	323,527,982	180,664,043
Expenditure in foreign currency		
Commission	213,055	304,779
Professional and consultation fees	-	-
Others - Membership fees	-	202,962
	213,055	507,741
Value of imports on a CIF basis		
Raw materials	-	-
Components and spare parts	-	-
Capital goods	7,449,493	23,888,953
	7,449,493	23,888,953

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

	Year ended 31 March 2006		Year ended 31 March 2005	
	Amount (Rs.)	%	Amount (Rs.)	%
Imported	-	-	-	-
Indigenous	46,875,309	100	30,221,493	100
	46,875,309	100	30,221,493	100

Consumption above includes Rs. 2,638,764 (2004 – Rs. 2,752,580) representing amounts utilised for internal consumption which has been classified under staff welfare expenses.

8. 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 foods and beverages. On 29 August 2005, the Company has applied for an approval from the Central Government for an exemption from the presentation of this information, which has not been received till date.

9. Related party transactions

i. Parties where control exists

Parties where control exists include

Name of party	Nature of relationship
Icon Hospitality Private Limited	Subsidiary
Royal Orchid Hyderabad Private Limited.	Subsidiary
Maruti Comforts and Inn Private Limited	Subsidiary
Chander K. Baljee	Key management personnel
Arjun Baljee	Relative of key management personnel
Royal Orchid Banjara Private Limited	Entity controlled by Directors
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
Royal Orchid South Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors

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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
Icon Hospitality Private Limited	Subsidiary
Royal Orchid Hyderabad Private Limited	Subsidiary
Maruti Comforts and Inn Private Limited	Subsidiary
Chander K. Baljee	Key management personnel
Arjun Baljee	Relative of key management personnel
Royal Orchid Banjara Private Limited	Entity controlled by Directors
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
Royal Orchid South Private Limited	Entity controlled by Directors

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

Nature of transaction	Subsidiaries Rs.	Associates Rs.	Key Management Personnel Rs.	Relatives of key management personnel Rs.	Total 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 recharged	-	1,942,301	-	-	1,942,301
Loans to related parties	17,962,958	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

The transactions with related parties during the year ended 31 March 2005 is summarised below:

Nature of transaction	Subsidiaries	Associates	Key Management Personnel	Relatives of key management Tpersonnel	Total
Management Service fee received	9,449,323	-	-	-	9,449,323
Purchase of raw materials	63,830	-	-	-	63,830
Sale of raw materials	3,826	-	-	-	3,826
General and administrative expenses incurred on behalf of related parties charged to related parties	2,011,989	3,302,582	-	-	5,314,571
General and administrative expenses incurred by related parties on behalf of the Company charged by related parties	1,217,919	118,736	-	-	1,336,655
Short-term loan from subsidiary company	30,000,000	-	-	-	30,000,000
Repayment of short-term loan from subsidiary	30,000,000	-	-	-	30,000,000
Lease rent charges paid	-	1,050,000	-	-	1,050,000
Payments received on behalf of related parties	-	8,039,844	-	-	8,039,844
Payments made on behalf of related parties	-	3,621,202	-	-	3,621,202
Purchases made on behalf of associates recharged	-	2,894,903	-	-	2,894,903
Remuneration	-	-	3,300,000	240,000	3,540,000

Other transactions

- 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 Baljee Hotels and Real Estate 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. 2.5 million.
- During the year ended 31 March 2006, the Company has assigned the lease agreement for the use of land and building at Hyderabad to its subsidiary, Royal Orchid Hyderabad Private Limited.
- During the year ended 31 March 2006, the Company has granted the following credit limits to its subsidiaries and associates.

Company	Nature of Relationship	Credit Limit	Terms
Maruti Comforts and Inn Private Limited	Subsidiary	Rs. 20 million	Interest free and repayable on demand.
Royal Orchid Hyderabad Private Limited	Subsidiary	Rs. 10 million	Interest free and repayable on demand.
Royal Orchid Banjara Private Limited	Associate	Rs. 10 million	Interest free and repayable on demand.

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Balances receivable/ (payable) from/to related parties as at 31 March 2006 and 31 March 2005 is summarised below:

	31 March 2006 (Rs.)	31 March 2005 (Rs.)
Dues from subsidiaries	2,306,777	3,652,661
Loan to subsidiaries	16,962,958	-
Dues from associates	10,897,376	8,696,803
Loan to associates	5,344,850	-
Security deposit given to associate	10,000,000	10,000,000
Unsecured loan from associate	-	(1,278,150)
Investment in subsidiaries	62,024,000	3,500,000
Security deposit to key management personnel	60,000,000	60,000,000
Security deposit from associate	(2,500,000)	(2,500,000)
Dues to Directors	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

G. Tirupathi Rao
Company Secretary

Place: Bangalore

Dated: 12 June 2006

CASH FLOW STATEMENT

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
A. Cash flow from operating activities		
Net profit before taxation	283,518,121	188,990,592
Adjustments for:		
Depreciation	26,050,364	20,312,456
Loss on sale of fixed assets	-	71,904
Loss on disposal of Investments	427,000	-
Advances written off	2,274,834	-
Impact of change in accounting policy – depreciation	-	(29,498,787)
Prior period expenses – assets written off	-	2,421,810
Investments written off	-	92,400
Preliminary expenses written off	-	90,564
Interest income	(17,076,809)	(2,030,838)
Interest expense	15,753,431	24,422,367
Provision for doubtful debts	2,229,319	692,912
Bad debts written off	891,980	1,491,059
Operating profit before working capital changes	314,068,240	207,056,438
Movements in working capital :		
(Increase) in sundry debtors	(17,391,004)	(6,638,894)
(Increase)/Decrease in unbilled revenue	(4,144,000)	705,401
(Increase) in inventories	(956,845)	(1,127,486)
(Increase) in loans and advances	(63,227,392)	(19,028,370)
(Increase) in margin monies	(5,260,202)	(8,546,250)
(Increase)/Decrease in current liabilities	13,589,745	(3,134,685)
Cash generated from operations	236,678,542	169,286,154
Direct taxes paid	(47,300,000)	(31,500,000)
Net cash from operating activities	189,378,542	137,786,154
B. Cash flows from investing activities		
Purchase of fixed assets and increase in Capital Work-in-Progress	(60,516,084)	(114,903,491)
Net investment in term deposits	(1,160,484,368)	24,783,855
Proceeds from sale of fixed assets	-	100,000
Investments made in subsidiaries	(58,951,000)	-
Interest received	2,553,971	1,948,885
Net cash from/(used in) investing activities	(1,277,397,481)	(88,070,751)
C. Cash flows from financing activities		
Proceeds from issuance of share capital (including premium)	1,280,299,850	-
Share issue expenses paid	(61,975,684)	-
Proceeds from long-term borrowings	92,857,345	196,584,100
Repayment of long-term borrowings	(22,815,636)	(208,049,427)
Proceeds from short-term borrowings	-	30,000,000
Repayment of short-term borrowings	-	(30,000,000)
Interest paid	(15,689,620)	(23,457,683)
Net cash from/(used in) financing activities	1,272,676,255	(34,923,010)
Net increase in cash and cash equivalents (A + B + C)	184,657,316	14,792,393
Cash and cash equivalents at the beginning of the year	29,859,354	15,066,961
Cash and cash equivalents at the end of the year (a)	214,516,670	29,859,354

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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

Cash and bank balances at 31 March
 Less : Bank deposits and margin monies considered separately
 (Refer Note above)

	2006	2005
	Rs.	Rs.
	1,406,533,640	51,131,754
	1,187,016,970	21,272,399
	219,516,670	29,859,355

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

For Walker, Chandiok & Co.
Chartered Accountants

Rajesh Jain
 Partner
 Membership No. 81203

Place : New Delhi
 Dated : 12 June 2006

For and on behalf of the Board of Directors.

Chander K. Baljee
 Managing Director

Place : Bangalore
 Dated : 12 June 2006

Naresh K. Malhotra
 Director

G. Tirupathi Rao
 Company Secretary

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.

State Code

Balance Sheet Date :
Date Month Year

II. Capital raised during the year (Amounts in Rs. Thousands):

Public Issue

Rights Issue

Bonus Issue

Private Placement

III. Position of Mobilisation and Deployment of Funds (Amounts in Rs. Thousands):

Total Liabilities

Total Assets

Sources of Funds

Paid-up Capital

Reserves & Surplus (P & L A/c)

Secured Loans

Unsecured Loans

Application of Funds

Net Fixed Assets

Investments

Net Current Assets

Preliminary Expenses

Accumulated Losses

IV. Performance of the Company (Amount in Rs. Thousands):

Turnover

Total Expenditure

Profit/(Loss) after Tax

Earnings Per Share in Rs.

Dividend Rate %

V. Generic names of Three Principal Products/Services of the Company (as per Monetary Terms):

Item Code No. (ITC Code)

Product Description

Item Code No. (ITC Code)

Product Description

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Statement attached to the Balance Sheet as at 31st 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 Hyderabad Private Limited
1. Financial Year of the Company ended:	31st March 2006	31st March 2006	31st March 2006
2. Fully paid-up shares held by holding Company in the subsidiary company at the end of the Financial Year (a) Number (b) Extent of holding	30,730 Equity Shares of Rs. 100/- each fully paid-up 51.22%	2,09,100 Equity Shares of Rs. 100/- each fully paid-up 51%	10,200 Equity Shares of Rs. 10/- each fully paid-up 51%
3. Changes in the interest of the Company between the end of the Financial Year of the Subsidiary Company and 31st March 2006	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 31st March 2006 b) Not dealt with in the accounts of the Company for the year ended 31st March 2006	Rs. 3,66,27,101 Nil	Rs. (51,57,463.08) Nil	Rs. (14,00,383) Nil
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 31st March 2006 b) Not dealt with in the accounts of the Company for the year ended 31st March 2006	Rs. 2,95,75,534 Nil	Nil Rs. 1,43,00,059	N.A. N.A.
6. Material changes between the end of the Financial Year of the Subsidiary Company and 31st March 2006 a) Fixed Assets b) Investments c) Moneys lent by the Subsidiary Company d) Moneys borrowed by the Subsidiary Company other than for meeting Current Liabilities	Nil Nil Nil Nil	Nil Nil Nil Nil	Nil Nil Nil Nil

DIRECTOR'S REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Fourth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2006.

Financial Results

The performance of the Company for the financial year ended 31st March 2006 is summarized below:

	(Rs. in Lakhs)	
Particulars	2005- 06	2004-05
Operating income	2359.38	1 819.91
Non-operating income	16.43	25.41
Total revenue	2375.81	1845.32
Expenditure	1787.69	1365.10
Net profit before Depreciation and Tax	588.12	480.21
Depreciation	32.72	20.08
Profit after Depreciation but before Taxation and Prior period expenses	555.40	460.13
Prior period expenses	—	1.73
Profit after Depreciation and Prior period expenses but before Taxation	555.40	458.40
Provision for Taxation	189.13	162.66
Profit after Depreciation and Taxation	366.27	295.74

Performance Analysis

During the year 2005-06, your Company has achieved a 29.64% increase in turnover at Rs. 2359.38 lakhs compared to Rs.1819.90 lakhs of previous year. The Gross Operating Profit (PBDIT) was higher by 22.47% at Rs. 588.12 lakhs compared to Rs. 480.21 lakhs of previous year and the profit after tax is higher by 23.85% in the current year at Rs. 366.27 lakhs compared to Rs. 295.73 lakhs 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.

Business Strategies and Future Outlook

The year under review was good for the hospitality industry. Though growth in the first half was slower, the second half witnessed the sharp upturn in occupancies and the average room rates. Operating margins of the Industry also saw a significant improvement.

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

In accordance with the Companies Act, 1956 read with the Articles of Association of the Company Mr. P. Satish Pai retires by rotation and being eligible offers himself for re-appointment. Also, during the year Mr. R. V. S. Rao was co-opted as an

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Additional Director of the Company upon the nomination received from the holding company of your Company, Royal Orchid Hotels Limited, in terms of Clause 49 of Listing Agreement entered into by it with the Stock Exchanges at which the shares of the Company are listed. Being an independent Director appointed on the Board of material subsidiary Company, his continuing to hold the office of Director is mandatory. Accordingly, suitable agenda has been inserted in the Notice convening the Annual General Meeting proposing confirmation of appointment of Mr. R. V. S. Rao. The Shareholders are requested to consent to the same for the benefit of the Company.

Auditors' and their Report:

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

The comments of the Auditors in Para No. 4,5 of their report and Para No. (iv) of annexure to the Auditors' Report are self explanatory and company's reply is as follows:

Reply in respect of Para No. 4 of Auditors' 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 Auditors' 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 Part II of Schedule VI of the Companies Act, 1956.

Approval is awaited.

Reply in respect of Para No. (iv) of Annexure to the Auditors' 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 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 judgements 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 2006 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.

Compliance Certificate

The paid-up share capital of the Company being more than Rs. 10 lakhs, the provisions of Section 383A of the Companies Act, 1956 are applicable. Accordingly, the Company has obtained Secretarial Compliance Certificate from a Practising Company Secretary and has been attached hereto which forms an integral 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.

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 effort 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 and Innovation

Your Company is engaged in Hotel and Hospitality Industry. Hence, your Company does not require Research and 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

During the year 2005-06 your company's Foreign Exchange Earnings are Rs. 1137.79 lakhs as against Rs. 768.37 lakhs in the previous year. The outgo on account of imports and others is Rs.17.43 lakhs as against Rs. 3.37 lakhs in the previous year, resulting a Net Foreign Exchange Earnings of Rs.1120.36 lakhs.

Acknowledgements

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, 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 thank you for the unstinted support and confidence reposed in the Management and look forward to your continued support.

On behalf of the Directors
For ICON HOSPITALITY PRIVATE LIMITED

Place : Bangalore
Date : 12.06.2006

CHANDER K. BALJEE
DIRECTOR

ANNEXURE TO DIRECTOR'S REPORT

Information as required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 and forms part of Directors' Report for the year ended 31st March 2006.

Sl. No.	Name of the Employee	Designation/ Nature of duties	Age (yrs)	Qualification/ Experience	Remuneration (Rs. P.M.)	Commencement of Employment	Last Employment
1.	Mr. C. K. Baljee	Director	54	MBA (IIMA)	2.50 lakhs	28.01.2003	Baljees Hotels & Real Estates Private Limited
2.	Mrs. Sunita Baljee	Director	50	MBA	2.00 lakhs	28.01.2003	Baljees Hotels & Real Estates Private Limited
3.	Mr. P. Dayananda Pai	Director	61	BE, BL	3.00 lakhs	18.10.2003	Manipal Group

Notes:

1. Remuneration received includes all allowances / perquisites, but does not include Provident Fund and other funds.
2. The Directors have adequate experience to discharge the responsibilities assigned to them.
3. Mr. C. K. Baljee and Mrs. Sunita Baljee are related to each other and also to Mr. Arjun Baljee, Director.
Mr. P. Dayananda Pai is related to Mr. P. Satish Pai, Director.

For and on behalf of the Board of Directors

Place : Bangalore

Date : 12.06.2006

CHANDER K. BALJEE
DIRECTOR

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 - 560 042.

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 2006. 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 being a Private Limited Company, 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 8 times on 01.04.2005, 15.04.2005, 28.04.2005, 18.07.2005, 31.08.2005, 22.12.2005, 20.01.2006 and 22.03.2006 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 31.3.2005 was held on 28th September 2005 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. Two Extra-ordinary General Meetings were held during the financial year on 15.04.2005 and 20.01.2006.
8. The Company has not made loans to any Directors so as to attract the provisions of Section 295 of the Act.
9. The Company has not entered into 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 were transfers of equity shares during the financial year in respect of which necessary entries have been made in the Register of Members and share transfer register.
 - 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. During the financial year, an Additional Director was appointed but the appointment of Alternate Directors or Directors to fill Casual vacancy have not been made.
- 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(i)(a) and 3(ii)(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 non-whole time Directors.
- 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 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 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 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 employer's contribution with the prescribed authorities during the financial year.

Place : Bangalore
Date : 12.06.2006

Sd/- :
Name : Ramachandra Bhat S.
Company Secretary in Practice
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 Meetings Attendance Register.
6. General Meetings Attendance Register.
7. Register of share transfers.
8. Register of Contract u/s 301.
9. Register of Directors share holdings u/s 307.

Forms and Returns as filed by the Company with the Registrar of Companies, during the financial year ending on 31st March 2006.

1. Annual Report containing Notice, Directors Report, Auditors Report, Balance Sheet and Profit and Loss Account for the financial year ended 31.03.2005 filed on 27.10.2005.
2. Annual Return u/s 159 made as on the date of Annual General Meeting held on 28.09.2005 filed on 30.11.2005.
3. Compliance Certificate u/s 383A of the Companies Act, 1956 obtained from the Practicing Company Secretary filed on 27.10.2005.
4. Form No. 32 in respect of appointment of Director was filed with the ROC office on 04.04.2006.

Place : Bangalore
Date : 12.06.2006

Sd/- :
Name : Ramachandra Bhat S.
Company Secretary in Practice
C.P. No : 5421

AUDITOR'S 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 March 2006 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 18, without the prior approval of the Central Government the Company has provided for directors' remuneration in excess of the limits specified by Section 309 of the Companies Act, 1956, by Rs 7,035,536. Subsequent to 31 March 2006, 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 18, 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 paragraphs 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

The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account. 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 March 2006;
 - 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.
- c. On the basis of written representations received from the directors, as on 31 March 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2006 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

Rajesh Jain

Partner

Membership No. 81203

New Delhi

12th June 2006

ANNEXURE TO THE AUDITOR'S 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 2006

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 4(iii) (f) and 4(iii) (g) 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 clauses 4(iii) (e), (f) and (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 purchase of inventory and the sale of goods. However, the internal control procedures for the purchase of fixed assets and sale of services are inadequate as Company policies are not formally documented and therefore not verifiable. In our opinion this represents a continuing failure to correct major weaknesses in internal control. However, we are informed that management has initiated action to rectify these weaknesses subsequent to the balance sheet date.
- (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 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 Companies Act, 1956 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 depositing the Tax deducted at source. 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, Chandiok & Co.**
Chartered Accountants

Rajesh Jain

Partner

Membership No. 81203

New Delhi

12 June 2006

BALANCE SHEET

	Schedule	31 March 2006 Rs.	31 March 2005 Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	6,000,000	6,000,000
Reserves and surplus	2	82,621,194	45,994,093
		88,621,194	51,994,093
Loan Funds			
Secured loans	3	4,373,254	5,824,947
DEFERRED TAX LIABILITY			
	4	1,200,000	600,000
TOTAL		94,194,448	58,419,040
APPLICATION OF FUNDS			
Fixed Assets			
Gross block	5	61,705,965	35,611,898
Less: Accumulated Depreciation		5,704,610	2,432,598
Net block		56,001,355	33,179,300
Capital work-in-progress (including capital advances)		1,060,303	1,934,663
		57,061,658	35,113,963
Current Assets, Loans and Advances			
Inventories	6	1,372,263	985,123
Sundry debtors	7	9,009,733	8,173,650
Unbilled revenues		1,440,054	1,411,407
Cash and bank balances	8	35,552,653	17,675,240
Loans and advances	9	19,752,148	19,621,600
		67,126,851	47,867,020
Less: Current Liabilities and Provisions			
Current liabilities	10	24,858,360	23,489,780
Provisions	11	5,135,701	1,072,163
		29,994,061	24,561,943
Net Current Assets		37,132,790	23,305,077
TOTAL		94,194,448	58,419,040
Notes to The Financial Statements	18		

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

Rajesh Jain
Partner
Membership No. 81203
Place: New Delhi
Dated: 12 June 2006

For and on behalf of the Board of Directors

Chander K. Baljee
Director
Place: Bangalore
Dated: 12 June 2006

Satish Pai
Director

PROFIT AND LOSS ACCOUNT

	Schedule	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
INCOME			
Operating income	12	235,938,089	181,990,893
Other income	13	1,642,739	2,540,801
		237,580,828	184,531,694
EXPENDITURE			
Food and beverages consumed	14	15,989,172	9,751,646
Employee costs	15	22,209,471	14,924,142
Operating expenses	16	98,407,272	82,540,573
Selling, general and administrative expenses	17	41,839,422	28,896,475
Depreciation	5	3,272,012	2,008,073
Interest		323,426	397,434
		182,040,775	138,518,343
Profit before prior period items and income tax		55,540,053	46,013,351
Prior period expenses		-	173,472
Profit before income tax		55,540,053	45,839,879
Provision for income tax			
- Current		(18,100,000)	(16,500,000)
- Fringe benefit tax		(212,952)	-
- Deferred		(600,000)	(600,000)
- Provision for income tax of prior years written back		-	833,655
Profit after Income Tax		36,627,101	29,573,534
Balance brought forward from the previous year		45,344,093	15,770,559
Surplus carried to Balance Sheet		81,971,194	45,344,093
Basic and diluted earnings per share (Par value – Rs. 100) (Refer Note 3 in Schedule 18)		610.45	492.89

Notes to the Financial Statements

18

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

Rajesh Jain
Partner
Membership No. 81203

Place: New Delhi
Dated: 12 June 2006

For and on behalf of the Board of Directors
Chander K. Baljee
Director

Place: Bangalore
Dated: 12 June 2006

Satish Pai
Director

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

SCHEDULE 1

CAPITAL

Authorised

100,000 (31 March 2005 – 100,000) equity shares of Rs. 100 each

Issued, subscribed and paid up

60,000 (31 March 2005 – 60,000) equity shares of Rs. 100 each fully paid up

Note :

Of the above 30,730 (31 March 2005 – 35,000) equity shares of Rs. 100 each are held by Royal Orchid Hotels Limited, the Holding Company.

31 March 2006
Rs.

10,000,000

6,000,000

6,000,000

31 March 2005
Rs.

10,000,000

6,000,000

6,000,000

SCHEDULE 2

RESERVES & SURPLUS

Foreign Exchange Earnings Reserve

Balance at the beginning of the year

Additions during the year

Balance at the end of the year

Profit and Loss Account

31 March 2006
Rs.

650,000

-

650,000

81,971,194

82,621,194

31 March 2005
Rs.

650,000

-

650,000

45,344,093

45,994,093

SCHEDULE 3

SECURED LOANS

Vehicle loans

31 March 2006
Rs.

4,373,254

4,373,254

31 March 2005
Rs.

5,824,947

5,824,947

Note:

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 2006 is Rs. 1,528,456 (31 March 2005 – Rs.1, 451,696).

SCHEDULE 4

DEFERRED TAX LIABILITY (NET)

Deferred tax liability arising on account of :

Depreciation

Deferred tax asset arising on account of:

Deferred revenue expenditure

Employee benefits

Provision for doubtful debts

31 March 2006
Rs.

2,093,976

2,093,976

-

609,335

284,641

893,976

1,200,000

31 March 2005
Rs.

943,850

943,850

28,540

175,931

139,379

343,850

600,000

**SCHEDULE 5
FIXED ASSETS**

Amount in Rs.

Assets	Gross Block			Accumulated Depreciation				Net Block		
	Balance as at 1 April 2005	Additions during the year	Deletions during the year	Balance as at 31 March 2006	Balance as at 1 April 2005	Charge for the year	Deletions during the year	Balance as at 31 March 2006	As at 31 March 2006	As at 31 March 2005
Buildings	14,932,792	15,509,603	-	30,442,395	264,201	785,597	-	1,049,798	29,392,597	14,668,591
Plant and machinery	4,084,061	4,629,799	-	8,713,860	572,923	347,578	-	920,501	7,793,359	3,511,138
Furniture and fixtures	5,404,448	4,562,344	-	9,966,792	216,596	951,475	-	1,168,071	8,798,721	5,187,852
Computers and related software	1,030,797	1,018,184	-	2,048,981	110,360	229,121	-	339,481	1,709,500	920,437
Office equipments	105,676	374,137	-	479,813	54,447	13,550	-	67,997	411,816	51,229
Vehicles	10,054,124	-	-	10,054,124	1,214,07	1944,691	-	2,158,762	7,895,362	8,840,053
Total	35,611,898	26,094,067	-	61,705,965	2,432,598	3,272,012	-	5,704,610	56,001,355	33,179,300
Prior year	9,988,733	25,623,165	-	35,611,898	424,525	2,008,073	-	2,432,598	33,179,300	9,564,208

SCHEDULE 6

INVENTORIES

Food and beverages
Stores and spare parts

31 March 2006 Rs.	31 March 2005 Rs.
887,734	496,400
484,529	488,723
1,372,263	985,123

SCHEDULE 7

SUNDRY DEBTORS

(Unsecured)

Debts outstanding for a period exceeding six months:

- Considered good
- Considered doubtful

Other debts

- Considered good
- Considered doubtful

Less: Provision for doubtful debts

A reconciliation of the provision for doubtful debts is provided below:

Balance at the beginning of the year/period

Add: Additional provisions created

Less: Bad debts written off

Balance at the end of the period

31 March 2006 Rs.	31 March 2005 Rs.
-	624,109
845,635	380,945
845,635	1,005,054
9,009,733	7,549,541
-	-
9,855,368	8,554,595
845,635	380,945
9,009,733	8,173,650
380,945	-
942,080	380,945
477,400	-
845,625	380,945

SCHEDULE 8

CASH & BANK BALANCES

Cash balance on hand

Banks balances with Scheduled banks:

- In current accounts
- In exchange earners foreign currency accounts
- In deposit account
- In margin money

31 March 2006 Rs.	31 March 2005 Rs.
180,595	399,176
9,056,383	6,745,238
298,232	6,065,826
25,000,000	3,500,000
1,017,443	965,000
35,552,653	17,675,240

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 and proposed projects and letters of credit for imported purchases.

SCHEDULE 9
LOANS & ADVANCES

(Unsecured, considered good)

Advances recoverable in cash or in kind or for value to be received

Security deposits

Prepaid Expenses

Advances to suppliers

Dues from associates

Others

(a)

**31 March 2006
Rs.**
6,354,000
11,446,775
1,008,060
-
943,313
19,752,148

31 March 2005
Rs.

6,233,000

11,571,920

815,759

632,118

368,803

19,621,600

Note:

- a) Prepaid expenses include Rs. 9,989,041 (31 March 2005 – Rs. 9,989,000) representing insurance premium paid towards two Keyman Insurance policies taken by the Company for two of its directors. The premiums are for the period from 31 March 2006 to 31 March 2007.

SCHEDULE 10
CURRENT LIABILITIES

Sundry creditors

Accrued expenses

Dues to employees

Duties and taxes payable

Due to Holding Company

Other liabilities

Dues to directors

Lease rent payable

**31 March 2006
Rs.**
5,237,343
2,657,210
2,590,362
6,049,002
1,734,095
2,252,859
596,281
3,741,208
24,858,360

31 March 2005
Rs.

5,345,606

3,275,169

1,703,602

3,726,916

3,652,661

1,817,479

-

3,968,347

23,489,780

Note:

There are no amounts due to small scale industrial undertakings as at 31 March 2006.

SCHEDULE 11
PROVISIONS

Provisions for taxation (net of advance tax)

Provision for leave encashment

Provision for gratuity

**31 March 2006
Rs.**
3,745,280
659,984
730,437
5,135,701

31 March 2005
Rs.

486,279

309,313

276,571

1,072,163

Reconciliation of the provision for leave encashment is provided below:

Balance at the beginning of the year

Add: Additional provisions created during the year

Less: Payments made during the year

Provisions reversed during the year

Balance at the end of the year

Reconciliation of the provision for gratuity is provided below:

Balance at the beginning of the year/period

Add: Additional provisions created during the period

Balance at the end of the period/year

309,313
428,515
77,844
-
659,984
276,571
453,866
730,437

225,306

309,313

109,541

115,765

309,313

-

276,571

276,571

SCHEDULE 12

OPERATING INCOME

Room revenues
Food and Beverages
Other Service Charges

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
187,518,712	147,393,246
43,389,256	29,277,520
5,030,121	5,320,127
<u>235,938,089</u>	<u>181,990,893</u>

SCHEDULE 13

OTHER INCOME

Gain on sale of investments
Interest income
(Tax Deducted at Source - 122,027) (2005 - Rs. 41,475)
Rent
Excess provisions written back
Discount Received
Foreign exchange gain/loss
Others

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
-	1,374,361
516,467	316,758
240,000	236,000
94,925	160,714
205,554	-
-	-
585,793	452,968
<u>1,642,739</u>	<u>2,540,801</u>

SCHEDULE 14

FOOD AND BEVERAGES CONSUMED

Opening Stock
Add: Purchases during the period

Less: Closing Stock

Consumption

Note:

Consumption above is net of Rs. 1,347,520 (31 March 2005 – Rs. 1,500,000) representing amounts utilised for internal consumption which has been classified under staff welfare.

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
496,400	310,790
<u>16,380,506</u>	<u>9,937,256</u>
16,876,906	10,248,046
887,734	496,400
<u>15,989,172</u>	<u>9,751,646</u>

SCHEDULE 15

EMPLOYEE COSTS

Salaries, wages and bonus
Contribution to provident fund
Staff welfare (Net of recoveries of Rs. 241,635) (2005 - Rs. 357,662)
Gratuity

Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
16,895,269	12,075,342
1,297,888	1,033,322
3,562,448	1,712,379
453,866	103,099
<u>22,209,471</u>	<u>14,924,142</u>

SCHEDULE 16
OTHER OPERATING EXPENSES

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
Lease rent for hotel property	56,970,285	44,589,989
Power and fuel	14,998,227	12,196,323
Water	1,504,706	1,340,434
Management fees	10,608,822	9,789,930
Linen and room supplies	2,552,309	1,963,242
Laundry expenses	1,730,666	1,711,930
Kitchen and other supplies	3,936,810	2,640,474
Repairs and maintenance		
– Building	3,271,938	1,077,001
– Machinery	1,032,110	4,678,541
– Others	278,712	1,119,470
Contractor charges	1,522,687	1,433,239
	98,407,272	82,540,573

SCHEDULE 17
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
Director's remuneration (Refer Note 6(a) in Schedule 18)	9,000,000	9,000,000
Commission, brokerage and discount	7,283,596	5,430,783
Rates and taxes	1,104,973	3,114,974
Advertisement and business promotion	1,952,370	2,080,361
Communication expenses	1,901,772	1,377,155
Legal and professional charges	1,375,951	1,312,260
Insurance	10,639,250	622,007
Provision for doubtful debts	942,080	380,945
Bad debts written off	-	8,910
Printing and stationery	279,827	146,899
Audit fees	504,060	275,500
Travelling and conveyance	1,273,001	1,106,403
Bank charges	103,663	47,844
Music and entertainment charges	2,038,520	1,292,756
Miscellaneous expenses	3,440,359	2,699,678
	41,839,422	28,896,475

NOTES TO THE FINANCIAL STATEMENTS

SCHEDULE - 18

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

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. 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 and accruals for leave encashment 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 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.

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.

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.

v. 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.

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 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.

vii. 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.

viii. 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.

ix. 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.

x. 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.

xi. 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.

xii. 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.

xiii. 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.

xiv. 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 March 2006	Year ended 31 March 2005
Weighted average number of shares outstanding	60,000	60,000
	(Rs.)	(Rs.)
Net profit after tax attributable to equity shareholders	36,627,101	29,573,534
Basic and diluted earnings per share	610.45	492.89
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 or within six months from obtaining a favourable order from the Supreme Court of India (refer Section 5 (a)) on the matter currently pending before it.

The lease expense for cancellable and non-cancellable operating leases during the year ended 31 March 2006 was Rs. 56,970,285 (31 March 2005 – Rs. 44,589,989)

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	35,375,000
Later than one year but not later than five years	144,000,000
Later than 5 years	1,023,011,928
Total	1,202,386,928

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 March 2006 - Rs. 1,498,165 (31 March 2005 - Rs. 6,435,301). Additionally, as discussed in Note 5 of this schedule, the Company is required to invest Rs. 50 million in the renovation and improvement of the hotel. As at 31 March 2006, the Company has invested approximately Rs. 36.5 million.

(b) Other matters

Sacred Hospitality Company Limited ('Sacred Hospitality') has permitted the Company vide a deed of license dated 31 January, 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

a) Salary and allowances

b) Contribution to provident and other funds

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
a) Salary and allowances	9,000,000	9,000,000
b) Contribution to provident and other funds	-	-
	9,000,000	9,000,000

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.

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
Profit before income tax	55,540,053	45,839,879
Add:		
Directors' remuneration	9,000,000	9,000,000
Provision for doubtful debts	942,080	380,945
Less: Prior period expenses	-	173,472
Net profit for the purpose of computation of managerial remuneration	65,482,133	55,047,352

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 2006 exceeds the limits as specified in Section 309 by Rs. 7,035,536 (31 March 2005 – Rs. 7,347,377). Subsequent to 31 March 2006, 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

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
a) Audit fee	400,000	250,000
b) Service tax	48,960	25,500
c) Out of pocket expenses	55,100	-
	504,060	275,500

c) Particulars relating to foreign exchange

Earnings in foreign exchange (on accrual basis)

Income from operations	113,779,358	76,836,595
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Expenditure in foreign currency

Commission	310,056	188,287
Professional and consultation fees	-	43,840
Others - Membership fees	-	105,312

Total

	310,056	337,439
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Value of imports on a CIF basis

Raw materials	Nil	Nil
Components and spare parts	Nil	Nil
Capital goods	1,433,661	Nil
	1,433,661	Nil

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

	Year ended 31 March 2006		Year ended 31 March 2005	
	Amount (Rs.)	%	Amount (Rs.)	%
Imported	-	-	--	
Indigenous	17,336,692	100	11,251,646	100
Total	17,336,692	100	11,251,646	100

The above figure includes Rs. 1,347,520 (2005 - Rs. 1,500,000) 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 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
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 period 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 2006 are summarised below:

Nature of transaction	Holding company	Associates	Key Management Personnel	Total
	Rs.	Rs.	Rs.	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

The transactions with related parties during the year ended 31 March 2005 is summarised below:

Nature of transaction	Holding company	Associates	Key Management Personnel	Total
	Rs.	Rs.	Rs.	Rs.
Management service fees expense	9,789,930	-	-	9,789,930
General and administrative expenses incurred on behalf of related parties charged to related parties	2,011,989	-	-	2,011,989
General and administrative expenses incurred by related parties on behalf of the Company charged by related parties	2,011,989	-	-	2,011,989
Remuneration to directors	-	-	9,000,000	9,000,000

Balances receivable/(payable) from/to related parties as at 31 March 2006 and 31 March 2005 is summarised below:

	31 March 2006 (Rs.)	31 March 2005 (Rs.)
Holding Company	(1,879,758)	(3,652,661)
Due from Associate	145,663	632,118

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

Dated : 12 June 2006

CASH FLOW STATEMENT

	Year ended 31 March 2006 Rs.	Year ended 31 March 2005 Rs.
A. Cash flow from operating activities		
Net profit before taxation	55,540,053	45,839,879
Adjustments for:		
Depreciation	3,272,012	2,008,073
Foreign exchange loss	-	-
Interest income	(516,467)	(316,758)
Profit on sale of investment	-	(1,374,361)
Interest expense	323,427	397,434
Provision for doubtful debts	942,080	380,945
Bad debts written off		
Operating profit before working capital changes	59,561,105	46,935,212
Movements in working capital:		
(Increase) in sundry debtors	(1,778,163)	(1,925,643)
(Increase) in inventories	(387,140)	(373,062)
(Increase)/Decrease in unbilled revenue	(28,647)	154,728
(Increase) loans and advances	(130,547)	(11,575,015)
(Increase) in margin money	(52,443)	(965,000)
Increase in current liabilities and provisions	191,479	372,779
Cash generated from operations	57,375,644	32,623,999
Direct taxes paid	(12,663,644)	(14,000,000)
Fringe benefit tax paid	(212,952)	-
Income tax refund received	-	833,655
Net cash from operating activities	44,499,048	19,457,654
B. Cash flows from investing activities		
Purchase of fixed assets	(25,431,561)	(25,204,325)
Net investment in term deposit	(21,500,000)	(3,500,000)
Purchase of investments	-	(18,500,000)
Term loan to Holding Company	-	(30,000,000)
Term loan repayment by Holding Company	-	30,000,000
Sale/maturity of investments	-	19,874,361
Interest received	516,467	316,758
Net cash (used in) investing activities	(46,415,094)	(27,013,206)
C. Cash flows from financing activities		
Proceeds from long-term borrowings	-	400,000
Repayment of long-term borrowings	(1,451,693)	(1,314,717)
Interest paid	(307,291)	(397,434)
Net cash (used in) financing activities	(1,758,984)	(1,312,151)
Net increase/(decrease) in cash and cash equivalents (A + B + C)	(3,675,030)	(8,867,703)
Cash and cash equivalents at the beginning of the year	13,210,240	22,077,943
Cash and cash equivalents at the end of the year (a)	9,535,210	13,210,240

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

Cash and bank balances at 31 March
 Less: Bank deposits and margin monies considered separately
 (Refer Note above)

31 March 2006	31 March 2005
Rs.	Rs.
35,552,653	17,675,240
26,017,443	4,465,000
9,535,210	13,210,240

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

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

Rajesh Jain
 Partner
 Membership No. 81203

Place : New Delhi
 Dated : 12 June 2006

For and on behalf of the Board of Directors.

Chander K. Baljee
 Director

Place : Bangalore
 Dated : 12 June 2006

Satish Pai
 Director

DIRECTOR'S REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Twelfth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2006.

Financial Results

The performance of the Company for the financial year ended 31st March 2006 is summarized below:

	(Rs. in Lakhs)	
Particulars	2005- 06	2004-05
Operating income	277.36	194.69
Non-operating income	57.17	171.49
Total revenue	334.52	366.18
Expenditure	281.99	174.59
Net profit before Depreciation & Tax	52.53	191.59
Depreciation	34.69	48.59
Profit after Depreciation but before Taxation	17.84	143.00

Performance Analysis

During the year 2005-06, your Company has witnessed a period of revival with an increase by 42.46% in turnover at Rs. 277.36 lakhs compared to Rs.194.69 lakhs of previous year. However, due to decline in the operating income, the Profit before Tax stood at Rs. 17.84 lakhs as compared to Rs. 143.00 lakhs of previous year.

During the year M/s. Royal Orchid Hotels Ltd., Bangalore has invested in our Company and purchased 51% shareholding. Due to this our Company became a subsidiary of M/s. Royal Orchid Hotels Ltd. Pursuant to the Hotel Management Agreement dated 23rd July 2005, Royal Orchid Hotels Ltd. became the exclusive operator of our resort.

Future Outlook

The year under review was good for the hospitality industry. Though growth in the first half was slower, the second half witnessed the sharp upturn in occupancies and the average room rates. Operating margins of the Industry also saw a significant improvement.

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

In accordance with the Companies Act, 1956 read with the Articles of Association of the Company Mr. Ravi S. Doddi retires by rotation and being eligible offers himself for re-appointment. Also, during the year Mr. C. K. Baljee, Mrs. Sunita Baljee and Mr. Arjun Baljee were co-opted as Additional Directors of the Company after the Company became a subsidiary of Royal Orchid Hotels Limited. As per the provisions of Section 260 of the Companies Act, 1956, the appointments of Mr. C. K. Baljee, Mrs. Sunita Baljee and Mr. Arjun Baljee are 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 appointments of Mr. C. K. Baljee, Mrs. Sunita Baljee and Mr. Arjun Baljee. The Shareholders are requested to consent to the same for the benefit of the Company.

Auditors' and their Report:

During the year under review the Auditors of the Company Mr. Rumi Jal Master, Chartered Accountant, has resigned and M/s. P. Chandrasekar, Chartered Accountants, has appointed as Auditors of the Company by the shareholders by filling the casual vacancies in place of earlier Auditors. The shareholders of the Company approved the same at Extra Ordinary Meeting held on 29.04.2006.

M/s. P. Chandrasekar, Chartered Accountants, will retire at the ensuing Annual General Meeting and are eligible for re-appointment. Your Director's proposed this appointment of Statutory Auditors to hold office until the conclusion of the next Annual General Meeting of the Company.

The Comments of the Auditor's in Para F of their report and Para nos. (iv) & (vii) of annexure to the Auditor's Report are self-explanatory and company's reply is as follows:

Reply in respect of Para F of Auditors' Report:

The Company has changed the method of depreciation from written down value to straight-line method. Due to this there is consequential deduction in the carry forward position of Profit and Loss Account in the Balance Sheet of the Company. In view of the growth in the scale of operations, new measures have been initiated and implemented to strengthen the financial position of the Company in future.

Reply in respect of Para No. (iv) & (vii) of Auditors' Report:

The Internal Control Procedures were put in place keeping in mind the size and scale of operations. However, in view of the growth in the scale of operations, new measures have been initiated and implemented to strengthen the Internal Control Procedures and Internal Audit System.

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 judgements 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 2006 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 information as required under Section 217 (2A) read with the Companies (Particulars of Employees) Rules, 1975 as amended up-to-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 effort 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 and Innovation

Your Company is engaged in Hotel and Hospitality Industry. Hence, your Company does not require Research and 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.

Acknowledgements

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

Place: Bangalore
Date: 12th June 2006

CHANDER K. BALJEE
DIRECTOR

AUDITOR'S REPORT

To
The Members

Maruti Comforts & Inn Private Limited

We have audited the attached Balance Sheet of MARUTI COMFORTS & INN PRIVATE LIMITED as at 31st March 2006 and 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 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.

As required by the Companies (Auditors Report) Order, 2003 issued by the Company Law Board 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 referred 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 purpose 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 and Loss Account dealt with by this report are in agreement with the books of account;
- D. In our opinion, the Balance Sheet and Profit and Loss Account comply with the accounting standards referred to in subsection 3(c) of Section 211 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, subject to notes with regard to change in method of depreciation from written down value to Straight Line method followed by the Company. In view of the above, the Loss for the company has been overstated by Rs.11,43,469 and the consequential deduction in the carry forward position of profit and Loss account in the balance sheet of the Company. Further due to non availability of records and documents the change in the method on the fixed assets from the beginning could not be calculated and hence not ascertainable at this stage. Give the information required by the Companies Act, 1956 in the manner so required and give the true and fair view in conformity with accounting principles generally accepted in India.
 - a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2006
 - b) In the case of Profit and Loss Account, of the Loss of the Company for the period ended on the date.

For **P. Chandrasekar**
Chartered Accountants

P. Chandrasekar
Partner

Place: Bangalore
Date: 12th June 2006

ANNEXURE TO THE AUDITOR'S REPORT

- (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 2006.
- (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 301 of the Act.
- (b) The Company has not taken unsecured loans from any parties or firms or companies in which directors are interested during the year under review.
- (iv) In our opinion and according to the 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, Customs 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.
- (b) 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 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 taken 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 the 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 account 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 **P. Chandrasekar**
Chartered Accountants

P. Chandrasekar
Partner

Place: Bangalore
Date: 12th June 2006

BALANCE SHEET

	Schedule	31 March 2006 Rs.	31 March 2005 Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	41,000,000.00	59,785,125.36
Reserves and surplus	2	<u>(45,190,267.95)</u>	<u>(40,032,804.87)</u>
		<u>(4,190,267.95)</u>	<u>19,752,320.49</u>
Loan funds			
Secured loans	3	435,815.31	19,697,000.00
Unsecured loans	4	20,103,246.00	-
		<u>20,539,061.31</u>	<u>19,697,000.00</u>
		<u>16,348,793.36</u>	<u>39,449,320.49</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	108,218,292.17	108,378,716.71
Less: Accumulated depreciation		48,206,071.20	44,736,893.92
Net block		<u>60,012,220.97</u>	<u>63,641,822.25</u>
Capital work-in-progress and advances		-	-
		<u>60,012,220.97</u>	<u>63,641,822.25</u>
Investments			
	6	-	1,700.00
Current Assets, Loans and Advances			
Inventories	7	200,425.00	84,789.00
Sundry debtors	8	3,259,738.00	1,830,131.90
Cash and bank balances	9	2,929,343.51	501,065.85
Loans and advances	1	<u>04,378,154.38</u>	<u>7,964,312.00</u>
		<u>10,767,660.89</u>	<u>10,380,298.75</u>
Less: Current Liabilities and Provisions			
Current Liabilities	1	<u>154,431,088.50</u>	<u>34,574,500.51</u>
		<u>54,431,088.50</u>	<u>34,574,500.51</u>
Net Current Assets		<u>(43,663,427.61)</u>	<u>(24,194,201.76)</u>
		<u>16,348,793.36</u>	<u>39,449,320.49</u>
Notes to the Financial Statements	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

P. Chandrasekar
Chartered Accountants

Chander K. Baljee
Director

Sunita Baljee
Director

P. Chandrasekar
Partner

Place : Bangalore
Dated : 12th June 2006

Place: Bangalore
Dated: 12th June 2006

PROFIT AND LOSS ACCOUNT

	Schedule	31 March 2006 Rs.	31 March 2005 Rs.
INCOME			
Operating Income	12	27,735,606.66	19,468,645.84
Other Income	13	5,716,607.64	17,149,166.84
		33,452,214.30	36,617,812.68
EXPENDITURE			
Food and beverages consumed	14	5,168,757.11	3,501,362.69
Employee costs	15	4,035,874.00	3,535,589.14
Other operating expenses	16	11,198,359.35	7,915,342.90
General and administration expenses	17	7,003,367.33	2,506,247.53
Finance charges	18	792,581.31	-
Depreciation	5	3,469,177.28	4,859,211.00
		31,668,116.38	22,317,753.26
Profit Before Tax		1,784,097.92	14,300,059.42
Less: Old Balances Written Off		6,908,743.00	-
Profit/Loss After adjustments		(5,124,645.08)	-
Provision for tax		-	-
- Fringe Benefit tax		32,818.00	-
Profit/Loss After Tax		(5,157,463.08)	14,300,059.42
Balance brought forward from the previous year/period		40,032,804.87	54,332,864.29
Surplus carried to Balance Sheet		45,190,267.95	40,032,804.87
Earning Per Share (Par value - Rs.100)		(12.58)	34.88
Notes to the Financial Statements	21		

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

P. Chandrasekar
Chartered Accountants

Chander K. Baljee
Director

Sunita Baljee
Director

P. Chandrasekar
Partner

Place: Bangalore
Dated: 12th June 2006

Place: Bangalore
Dated: 12th June 2006

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 March 2006 Rs.	31 March 2005 Rs.
SCHEDULE 1		
SHARE CAPITAL		
Authorised		
410000 Equity Shares of Rs.100 each	<u>41,000,000.00</u>	41,000,000.00
Issued, subscribed and paid up		
410000 Equity Shares of Rs.100 each fully paid up	<u>41,000,000.00</u>	41,000,000.00
Share Application money Pending	<u>-</u>	18,785,125.36
	<u>41,000,000.00</u>	<u>59,785,125.36</u>
SCHEDULE 2		
RESERVES AND SURPLUS		
Profit and Loss account		
Balance at the beginning of the period	<u>40,032,804.87</u>	54,332,864.29
Add: Loss for the year/period	<u>(5,157,463.08)</u>	14,300,059.42
	<u>45,190,267.95</u>	40,032,804.87
Balance at the end of the year/period	<u>45,190,267.95</u>	40,032,804.87
	<u>45,190,267.95</u>	40,032,804.87
SCHEDULE 3		
SECURED LOANS		
Term Loans from banks	(a) -	15,183,132.00
Vehicle Loans	(b) <u>435,815.31</u>	-
Interest accrued and due on term loans	(c) -	4,513,868.00
	<u>435,815.31</u>	<u>19,697,000.00</u>
SCHEDULE 4		
UNSECURED LOAN		
From Director- Ravi.S.Doddi	<u>9,080,376.00</u>	-
From Royal Orchid Hotels Ltd.,	<u>11,022,870.00</u>	-
	<u>20,103,246.00</u>	-

**SCHEDULE 5
FIXED ASSETS**

Amount in Rs.

Particulars	Gross Block				Depreciation rate	Depreciation			Net Block	
	As at 1 April 2005	Additions	Deletions w/off	As at 31 March 2006		As on 1 April 2005	As at 31 March 2006	Total As on 31 March 2006	As at 31 March 2006	As at 31 March 2005
Buildings	68,253,878.35	72,067.00	-	68,325,945.35	4.00%	16,278,022.67	2,731,113.00	-	51,873,766.68	49,316,809.68
Plant and Machinery	17,610,441.48	165,934.00	3,500.00	17,772,875.48	4.75%	10,828,904.41	838,265.00	2,191.45	6,883,626.07	6,107,897.52
Office Equipments	1,104,367.55	8,000.00	-	1,112,367.55	4.75%	768,989.06	52,682.00	-	335,378.49	290,696.49
Computer and related Softwares	2,719,588.00	536,850.00	1,931,228.00	1,325,210.00	16.21%	2,116,786.27	136,475.00	1,829,477.27	602,801.73	901,426.00
Furniture & Fixtures	12,835,550.53	263,537.00	-	13,099,087.53	9.50%	11,206,969.44	1,226,075.00	-	1,628,581.09	666,043.09
Vehicles	317,432.51	721,156.00	-	1,038,588.51	9.50%	281,892.11	52,992.00	-	35,540.40	703,704.40
Discotheque	3,001,200.75	-	-	3,001,200.75	4.75%	1,851,565.32	142,560.00	-	1,149,635.43	1,007,075.43
Gym Equipments	2,331,582.00	6,760.00	-	2,338,342.00	4.75%	1,270,825.17	110,964.00	-	1,060,756.83	956,552.83
Water Fountain	204,675.00	-	-	204,675.00	4.75%	132,939.47	9,720.00	-	71,735.53	62,015.53
TOTAL	108,378,716.17	1,774,304.00	1,934,728.00	108,218,292.17		44,736,893.92	5,300,846.00	1,831,668.72	63,641,822.25	60,012,220.97

Note:

During the year ended 31 March 2006, the Company has changed the method of providing depreciation on its fixed assets from the written down value method to the straight line. Method, as the change would result in a more appropriate presentation of the financial statements of the Company.

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

SCHEDULE 6 INVESTMENTS

Investment in Government Securities

31 March 2006
Rs.

-
-

31 March 2005
Rs.

1,700.00
1,700.00

SCHEDULE 7 INVENTORIES

Food and beverages

31 March 2006
Rs.

200,425.00
200,425.00

31 March 2005
Rs.

84,789.00
84,789.00

SCHEDULE 8 SUNDRY DEBTORS

(Unsecured)

Debts outstanding for period exceeding six months:

- Considered good
- Considered doubtful

Other debts

- Considered good
- Considered doubtful

Less: Provision for doubtful debts

31 March 2006
Rs.

45,920.00
36,363.00
82,283.00

31 March 2005
Rs.

579,210.00
-
579,210.00

3,259,738.00
7,166.00

3,349,187.00
89,449.00
3,259,738.00

1,250,921.90
-

1,830,131.90
-
1,830,131.90

SCHEDULE 9 CASH AND BANK BALANCES

Cash balances on hand

Banks balances with Scheduled Banks:

In Current accounts

31 March 2006
Rs.

9,925.00
2,919,418.51
2,929,343.51

31 March 2005
Rs.

6,418.00
494,647.85
501,065.85

SCHEDULE 10 LOANS AND ADVANCES

(Unsecured, considered good)

Advances recoverable in cash or in kind or for value to be received

Security deposits

Prepaid Expenses

Dues from members (old Balances)

31 March 2006
Rs.

1,289,612.38
2,837,514.00
251,028.00
-
4,378,154.38

31 March 2005
Rs.

162,262.00
2,735,514.00
94,221.00
4,972,315.00
7,964,312.00

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

SCHEDULE 11**CURRENT LIABILITIES**

		31 March 2006 Rs.	31 March 2005 Rs.
Sundry Creditors		699,587.50	2,272,483.50
Accrued expenses		4,871,998.50	1,219,521.00
Trade Advances		201,834.00	-
Other liabilities		23,374,098.00	4,157,684.00
Dues to employees		609,939.73	238,599.00
Duties and taxes payable		444,424.77	339,657.01
Other liabilities - Club Membership	24,945,206.00	24,229,206.00	26,346,556.00
Less: Membership Revenue	<u>716,000.00</u>	<u>54,431,088.50</u>	<u>34,574,500.51</u>

SCHEDULE 12**OPERATING INCOME**

		31 March 2006 Rs.	31 March 2005 Rs.
Room Revenue		13,371,045.14	9,653,771.00
Food and Beverages		13,949,991.27	8,566,832.50
Other Service Charges		414,570.25	1,248,042.34
		<u>27,735,606.66</u>	<u>19,468,645.84</u>

SCHEDULE 13**OTHER INCOME**

		31 March 2006 Rs.	31 March 2005 Rs.
Management fees		-	3,847,500.00
Interest Income		-	78.00
Excess provision written back		1,428,261.00	9,397,058.00
Membership Revenue - Deferred Revenue		716,000.00	716,000.00
Miscellaneous Income		3,572,346.64	3,188,530.84
		<u>5,716,607.64</u>	<u>17,149,166.84</u>

SCHEDULE 14**FOOD AND BEVERAGES CONSUMED**

		31 March 2006 Rs.	31 March 2005 Rs.
Opening Stock		84,789.00	-
Add: Purchases during the period		5,284,393.11	3,586,151.69
		<u>5,369,182.11</u>	<u>3,586,151.69</u>
Less: Closing Stock		200,425.00	84,789.00
		<u>5,168,757.11</u>	<u>3501362.69</u>

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

SCHEDULE 15

EMPLOYEE COSTS

	31 March 2006 Rs.	31 March 2005 Rs.
Salaries, wages and bonus	2,897,277.00	2,950,000.00
Kitchen stewarding	30,000.00	-
Contribution to Provident Fund & ESIC	305,712.00	298,054.00
Staff welfare	802,885.00	287,535.14
	4,035,874.00	3,535,589.14

SCHEDULE 16

OTHER OPERATING EXPENSES

	31 March 2006 Rs.	31 March 2005 Rs.
Linen and room supplies	597,988.50	251,388.00
Catering Supplies	-	594,000.00
Kitchen and other supplies	104,034.10	24,836.71
Linen, Uniform washing and laundry expenses	283,260.20	132,353.50
Power and fuel	3,106,651.00	2,666,692.00
Lease rent for hotel premises	1,422,424.00	1,070,000.00
Hiring Charges	1,098,894.00	676,352.00
Management fees paid to ROHL	1,185,347.00	-
Management fees paid to Concept Hospitality	1,750,000.00	1,091,326.00
Repairs and Maintenance		
Building	977,244.10	845,036.81
Machinery	228,120.00	234,439.88
Others	414,859.45	309,958.00
Vehicle	29,537.00	18,960.00
	11,198,359.35	7,915,342.90

SCHEDULE 17

GENERAL AND ADMINISTRATIVE EXPENSES

	31 March 2006 Rs.	31 March 2005 Rs.
Commission, brokerage and discount	1,322,233.13	87,560.55
Rates and taxes	1,831,068.96	260,165.75
Advertising and business promotion	190,299.00	146,897.00
Legal and professional charges	246,593.00	210,941.00
Telephone, Internet and Fax	385,774.77	339,461.50
Printing and Stationery	213,366.50	-
Travelling and conveyance	926,645.00	655,848.73
Consultancy paid	502,520.00	-
Audit fees	40,000.00	20,000.00
Security charges	378,291.00	296,350.00
Provisional for doubtful debts	89,449.00	-
Insurance	195,092.00	40,508.00
Bad debts written off	-	37,755.45
Music and entertainment	217,402.00	40,300.00
Carriage inwards	93,916.00	41,356.00
Bank Charges	50,843.70	32,764.47
Miscellaneous expenses	319,873.27	292,454.08
Loss on disposal of investments	-	3,885.00
	7,003,367.33	2,506,247.53

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

SCHEDULE 18

FINANCE CHARGES

Interest on Vehicle Loan
Interest on Loan (KSIIDC)

31 March 2006 Rs.	31 March 2005 Rs.
9,955.31	-
782,626.00	-
792,581.31	-

NOTES TO THE FINANCIAL STATEMENTS

SCHEDULE - 21

1. Background

Maruti Comforts & Inn Pvt Ltd., ('the Company') was incorporated on 16th 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 used (%)
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%

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

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 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 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 Earning per Share are Calculated by dividing Net Profit/Net 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 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 has been made in the accounts.

4. Earnings per share

Net Profit/Loss after tax attributable to equity shareholder

Basic earning per share

Nominal value per equity share

	31 March 2006 Rs.	31 March 2005 Rs
	(5,157,463.08)	14,300,059
	(12.58)	34.88
	100	100

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

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
R.D. Realtors	Entity Controlled by Directors

The transactions with related parties during the year ended 31 March 2006 is summarized below:

Nature of transaction	Holding company	Entity Controlled by Director	Key Management Personnel	Relatives of Key Management Personnel	Total
Management Service fee	7,34,274	-	-	-	7,34,274
Payments made	-	6,10,000	-	-	6,10,000
Short term Loan	-	-	1,45,80,376	-	1,45,80,376

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. Balances written off/written back during the period ended 20.11.05

During the period under Audit the management was of the opinion that amounts standing under the Head Membership fees Accrued, N.S.C Deposit, Sewing Machine, Computer & Related Software & Dues from Members amounting in Total to Rs.69,08,743/- has been written off, since this amounts pertained to period prior to 2001 and not recoverable.

Similarly Temporary membership under current liabilities amounting to Rs.14, 01,350/- has been written back since the management is of the opinion that the same liability will not accrue or arise subsequent years.

9. 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.

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

10. 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.
11. 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

P. Chandrasekar

Chartered Accountants

P. Chandrasekar

Partner

Place: Bangalore

Dated: 12th June 2006

Chander K. Baljee

Director

Place: Bangalore

Dated: 12th June 2006

Sunita Baljee

Director

CASH FLOW STATEMENT

	31 March 2006 Rs.
A Cash flow from operating activities	
Net profit before taxation	(5,157,463)
Add: Adjustments for:	
Depreciation	3,469,177
Assets written off	-
Finance Charges	-
Provisional for Doubtful Debts	(1,688,286)
Operating profit before working capital changes	
Movement in working capital:	
Increase in Sundry Debtors	(1,429,606)
Increase in Inventories	(115,636)
Decrease in loans and advances	3,586,158
Increase in current liabilities	19,856,588
Cash Generated from operation	20,209,218
Net cash from operating activities	
B. Cash flows from investing activities	1,700
Purchase of fixed assets	160,424
	(18,785,125)
	842,061
Net cash from investing activities	(17,780,940)
Net increased in cash and cash equivalents (A+B)	2,428,278
Cash and cash equivalents at the beginning of the year	501,066
Cash and cash equivalents at the end of the year	2,929,344
Diff	2,428,278
	(-)

For and on behalf of the Board of Directors

P. Chandrasekar
Chartered Accountants

P. Chandrasekar
Partner

Place: Bangalore
Dated: 12th June 2006

Chander K. Baljee
Director

Place: Bangalore
Dated: 12th June 2006

Sunita Baljee
Director