ROYAL ORCHID HOTELS LIMITED

Annual Report 2007-08

CONTENTS

BOARD OF DIRECTORS

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

COMPANY SECRETARY
Mr. B Chandrasekaran

COMMITTEES OF THE BOARD
Audit Committee

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

REMUNERATION COMMITTEE

Mr. Jaithirth Rao	:	Chairman of the Committee
Mr. Naresh K. Malhotra	:	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

STATUTORY AUDITORS	:	M/s. Walker, Chandiok & 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 Axis Limited ICICI Bank Limited Corporation Bank HDFC Bank Limited
REGISTERED OFFICE	:	No. 1, Golf Avenue Adjoining KGA Golf Course Airport Road, Bangalore - 560 008 www.royalorchidhotels.com
REGISTRAR & SHARE TRANSFER AGENT	:	Alpha Systems Private Limited 30, Ramana Residency 4th Cross, Sampige Road Malleswaram, Bangalore – 560003. 080 - 23460815 – 818 alfint@vsnl.com

REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

We have pleasure in presenting the Twenty Second Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2008.

Financial Results :

The performance of the Company for the financial year ended 31st March 2008 is summarized below:

(Rupees in Crores)

	CONSOLIDATED		STANDALONE	
Particulars	**2007 – 08**	**2006 – 07**	**2007 – 08**	**2006 – 07**
Income from Operations	**129.35**	113.70	**86.02**	81.14
Other Income	**7.40**	10.45	**6.10**	10.05
Total Income	**136.75**	124.15	**92.12**	91.19
Gross Operating Profit	**57.36**	57.13	**45.16**	50.47
Interest	**(4.37)**	(2.53)	**(1.99)**	(2.16)
Depreciation	**(6.29)**	(4.40)	**(3.21)**	(3.33)
Profit before Tax	**46.70**	50.20	**39.96**	44.98
Provision for Taxation	**(11.99)**	(13.40)	**(9.28)**	(11.07)
Minority Interest and Share of Profit in Associate	**(2.44)**	(1.55)	**-**	-
Net profit after tax	**32.27**	35.25	**30.68**	33.91

Company's Performance

Your Company has earned total revenue of Rs.136.75 Crores as against the previous year's revenue of Rs.124.15 Crores, an increase by 10% over the last year. The Profit after Tax was lower than the previous year by Rs.2.98 Crores on account of reduction in interest income by Rs.4.02 Crores, higher depreciation and deferred taxes resulting from the acquisition of two new properties during the year. Both these properties are likely to contribute significantly to the financial results for the year 2008-09.

Dividend

The Board of Directors has recommended a dividend of Rupees Six per share (60 % on the paid-up equity share capital of the Company) for the financial year 2007-08, subject to the approval of the Shareholders. The outflow of funds on account of payment of dividend would be Rs.19.12 Crores including the Tax on dividend.

Transfer to Reserves

The Board of Directors proposes to transfer an amount of Rs. 3.07 Crores to General Reserves. An amount of Rs. 10.08 Crores is proposed to be retained in the Profit & Loss Account.

Existing Properties

During the year, Royal Orchid Hotel at Pune commenced its operations and the business is encouraging. The renovation work undertaken at Royal Orchid Harsha, Bangalore is in the final stages of completion. At Royal Orchid Resorts (Doddi's Resorts), Bangalore, the Company has drawn out a expansion plan and the same is in progress.

Acquisitions and Joint Ventures

- **Multi Hotels Limited, Tanzania**
  During the year under review, as part of its global expansion plan, your Company acquired a Tanzania based company, Multi Hotels Limited, which owns 30 acres of prime beach front property in Dar-e-salaam, the economic centre of Tanzania, for a consideration of Rs. 8 Crores. This marks your Company's entry into International foray. An investment of about Rs. 100 Crores is envisaged for establishing a beach resort, in the next two years. Multi Hotels Limited, Tanzania is now a wholly owned subsidiary of your company.

- **Royal Orchid Central, Bangalore**

  During the year under review, your Company, through its subsidiary company, Icon Hospitality Private Limited, acquired the Hotel Royal Orchid Central, for a consideration of Rs.82 Crores. The operations of this hotel were earlier managed under a lease arrangement entered with the owners. The 130-room hotel has been refurbished at a cost of about Rs.15 Crores and became fully operational, during the year under review.

Upcoming Projects

- **New Property at Jaipur**

  During the year under review, your Company, entered into Joint Venture Agreement with Ksheer Sagar Buildcon Private Limited, Ksheer Sagar Developers Private Limited, Raj Kamal Buildcon Private Limited and J H Builders Private Limited, for establishing a Five Star rated Hotel in Jaipur.

- **Parsvanath Royal Orchid Hotels**

  The Company has entered into a Joint Venture Agreement with Parsvanath Hotels Limited, a wholly owned subsidiary of Parsvanath Developers Limited and subscribed to 30% stake of the new Joint Venture Company, Parsvanath Royal Orchid Hotels Limited. The Joint Venture Company is in the process of drawing out a plan to establish 10 hotels with an investment of about Rs.500 Crores, in the next 5 years.

- **Royal Orchid Galaxy Resorts, Goa**

  The Company, acquired 50% stake in Cosmos Premises Private Limited, the owners of the 69 rooms boutique beach hotel, called Galaxy Resorts, located at Utorda beach in South Goa. The beach resort was re-launched under the name Royal Orchid Galaxy Resorts. The Company has also drawn up a plan for renovation.

- **Properties at Ahmedabad**

  The Company entered into an agreement to acquire 100% stake of Satkar Realties Private Limited, in connection with acquiring a 104 room Hotel at Ahmedabad. In terms of the agreement, the Company has already acquired 26% stake as of date.

Accounts of Subsidiary Companies

As at the year ended 31st March 2008, your Company has 8 Subsidiary Companies. As the Consolidated Financial Statements present a more comprehensive report on the performance of the Company, rather than the standalone financial statements, your Company has obtained exemption from the Ministry of Corporate Affairs, Government of India from attaching the detailed financial statements of each Subsidiary Company to this Report, pursuant to Section 212 (8) of the Companies Act, 1956. However, in compliance with the terms of the exemption, a statement showing the relevant details of the Subsidiary Companies is enclosed as a part of this Annual Report.

Directors

The Directors Mr. Naresh K Malhotra and Mr. Jaithirth Rao retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Mr. Arjun Balaji resigned as a Director of the Company effective 31st March, 2008.

Auditors

The Statutory Auditors M/s. Walker, Chandiok & Co., Chartered Accountants, New Delhi, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if re-appointed.

Public Deposits

The Company has not accepted any fixed deposits and as such, no amount of principal or interest was outstanding as of the balance sheet date.

Management Discussion and Analysis Report

The Report as required under the Listing Agreements with the Stock Exchanges is annexed and forms part of the Directors' Report.

Corporate Governance

The Report on Corporate Governance along with a Certificate from a Practicing Company Secretary confirming the Compliance is annexed and forms part of the Directors' Report.

Employees Stock Option Scheme (ESOS)

The details of the ESOS as required under the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are annexed and form part of the Directors' Report.

Personnel

The details of Employees as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed and form part of the Directors' Report.

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

Your Company continued to pursue the energy conservation efforts by closely monitoring of power consumption and maintenance to minimize the wastage, thereby, facilitating optimum utilization of energy. Regular maintenance and repairs of all the equipments and machineries are carried out to ensure optimum efficiency.

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

During the year under review, your Company earned Foreign Exchange of Rs. 40.71 Crores as against Rs.42.42 Crores in the previous year. The outgo on account of commission and others is Rs.2.54 Crores as against Rs. 3.33 Crores the previous year.

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 2008 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.

Acknowledgments:

Your Directors acknowledge with gratitude and wish to place on record their sincere thanks and appreciation for the co-operation received by the Company from the 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 their 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,

Bangalore	**Chander K Baljee**	**Naresh K Malhotra**
4th June 2008	Managing Director	Director

ANNEXURE TO REPORT OF THE BOARD OF DIRECTORS

The Royal Orchid Hotels Limited Employees Stock Option Plan 2006 was approved by the Members of the Company at the Annual General Meeting held on 13th September 2006 and was subsequently amended to include the employees of the subsidiaries of the Company in the said ESOP scheme and also to increase the period available to exercise the options, with the approval of the Members of the Company at the Annual General Meeting held on 8th August 2007. The plan provides for the issuance of stock options to eligible employees (including Directors of the Company and employees of subsidiaries) not exceeding 2,723,300 options and includes a limit for the maximum number of options that may be granted to each employee. Under the plan, these options vest over a period of three years after the date of grant and the same can be exercised within a period of one year from the date of vesting. As per the plan, all the taxes, including FBT are to be borne by the employees and hence will not have an impact on the profit and loss account of the company.

Details of the Employees Stock Option Scheme as required under the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as at 31st March 2008.

a.		options Granted	5,12,500
b.		the pricing formula	Intrinsic value
c.		options vested	nil
d.		options exercised	nil
e.		the total number of shares arising as a result of exercise of option	Not applicable
f.		options lapsed	9,400
g.		variation of terms of options	Not applicable
h.		money realized by exercise of options	Not applicable
i.		total number of options in force	5,03,100
j.		employee wise details of options granted to :	
	(i)	senior managerial personnel	(please refer below)
	(ii)	any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during the year	Nil
	(iii)	identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	Nil
k.		diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS)20 'Earnings Per Share'.	Not applicable
l.		Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost that shall have been recognized if it had used the fair value of the options,. The impact of this difference on profits and on EPS of the company.	Net Profit:Rs.29.90 Crs EPS Rs.10.98
m.		Weighted –average exercise prices and weighted-average fair values of options separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	Rs.165
n.		A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:	
	(i)	risk free interest rate	7.34% to 7.63%
	(ii)	expected life	18 to 24 months
	(iii)	expected volatility	40.37%
	(iv)	expected dividends (yield %)	3.28%
	(v)	the price of the underlying share in market at the time of option grant	Rs.169.25

Details regarding options granted to Directors and Senior Managerial Personnel

Sl. No.	Name of Director or Senior Managerial Personnel	No. of options granted
1	Mr. Naresh K Malhotra (Director)	12500
2	Mr. Jaithirth Rao (Director)	12500
3	Mr. R V S Rao (Director)	12500
4	Mr. Anil Kaul	7500
5	Mr. K V Rao	7500
6	Mr. Narotam Ahluwalia	7500
7	Mr. Shekar Bhargava	7500

INFORMATION AS REQUIRED UNDER Section 217(2A) of the Companies (Particulars of Employees) Rules 1975 and forming part of Directors' Report for the year ended 31st March 2008.

Sl No.	Name of the Employee	Designation/ Nature of duties	Age (yrs.)	Qualification/ Experience	Remuneration (Rs. In lacs)	Commencement of Employment	Last Employment
1	Mr. Chander K Baljee	Managing Director	57	MBA (IIMA)	150.11	22.06.2000	NA
2.	Mr. Anil Kaul	Senior Vice President - Operations	59	Graduate from Oberoi School of Hotel Management.	28.75	14.08.2006	Oberoi Group

Remuneration includes all allowances, perquisites and commission.

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

Name of the Director	Mr. Naresh K Malhotra	Mr. Jaithirth Rao
Date of Birth	05.06.1947	12.07.1952
Date of Appointment	18.06.2005	18.07.2005
Qualifications	Chartered Accountant	MBA from IIM Ahmedabad
Expertise in specific functional areas	Experience in Finance and Management	Experience in Banking and Management
List of Companies in which outside Directorship held as on 31.03.2008	1. Amalgamated Bean Coffee Trading Company Limited 2. Blue Star Infotech Limited 3. Nahar Retail Limited 4. OnMobile Global Limited 5. AB Holdings Private Limited 6. Balan Natural Foods Private Limited 7. NM Properties & Consulting Private Limited 8. Printo Document Services Private Limited 9. Tarang Software Private Limited 10. Venture Infotek Global Private Limited 11. Venture Infotek Limited, Mauritius	1. Purvankara Projects Limited 2. VA Tech Wabag Limited 3. IDFC Private Equity Company Limited 4. Sanvijay Tourist Services Private Limited 5. Lotus India Asset Management Company Private Limited 6. Juris Realty Private Limited 7. Jurimax Services India Private Limited 8. Rao Properties Private Limited
Chairman / Member of the Committees of other Companies on which he is a Director as on 31.03.2008	Nil	Chairman – Audit Committee of Purvankara Projects Limited

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Environment

India's economy for the past 5 fiscal years has managed to sustain an average growth rate of 8.8%. The Industrial and service sectors have been the major contributor of this growth, signifying the structural transformation in the Indian economy from agricultural to Industrial economy.

2. Industry Structure and Developments

Tourism

2007 proved to be a phenomenal year for India, with the inbound tourism touching a record high of 5 million. The growth of tourist inflow into India was well above world average, leading to a rise of India's share in World arrivals from 0.37 per cent in 2001 to 0.53 per cent in 2006. United Nations World Tourism Organization attributed the 'emergence' of South-Asia as a key tourist destination largely to the growing Indian tourism industry.

India, with its diverse landscape, offers huge scope for various theme-based travels like Medical Tourism, Adventure tourism, Heritage tourism, Wellness tourism, Pilgrimage tourism, Eco-tourism, Wildlife tourism along with Business travels.

World Travel and Trade Council predicted that Indian tourism demand will continue to grow at a rapid pace. The growth rate on an average will be sustained at 8.8, making India the world's third fastest growing tourist market. Tourism also is an important industry in Indian economy contributing around 6.8 per cent of the GDP and providing employment to over 41 million persons. It is estimated that by year 2010, the number of tourists visiting India would go up to 10 Million.

Hospitality

Hospitality industry's growth factor in a major way depends on business and leisure travel by domestic and foreign tourists, FDI, Real Estate's investments in the sector among others. The thriving tourism industry had a positive effect on the hospitality sector with an increase in the occupancy ratios and average room rates. While occupancy ratio is around 75-80 per cent, the average increase in room rates has been balanced around 22-25 per cent.

The estimated number of required hotel rooms is around 240,000, the current availability is just 90,000 rooms, leaving a shortfall of 150,000 rooms. This manifests a huge potential of this sector. Recognizing the untapped opportunity, Government has taken various initiatives for the development of this sector. The Government declared hotel and tourism industry as a high priority sector and with a provision for 100 % FDI offer an additional impetus in attracting investments in to this industry.

It is estimated that the hospitality sector is likely to see US$ 11.41 billion in the next two years, with around 40 international hotel brands making their presence in the country by 2011. Simultaneously, international hotel asset management companies are also likely to enter India.

3. Market watch

Indian scenario

India plays a dominant role in the Top 10 most expensive destinations in the World, with Mumbai, country's banking and commercial centre holding the seventh position. This indicates the dominance of the luxury hotels and restricted availability of room options in the city. Both Mumbai and the country's political centre New Delhi suffer from acute scarcity of land for development combined with high land prices.

Other cities on a boom

With industrial and service sectors of India diversifying, boom in the IT and manufacturing sectors coupled with lower infrastructure rate, Hotel industry are now focusing up coming cities likes of Pune, Hyderabad and the country's largest IT hub Bangalore.

Room tariffs might come down

In most markets, new inventory is expected to come in place and with that the supply of hotel rooms would increase substantially and this is likely to bring down the room tariffs, to some extent.

4. Discussion on financial performance with respect to operational performance.

Royal Orchid Hotels Limited earned a Total Revenue of Rs.136.75 Crores as against the previous year's revenue of Rs.124.15 Crores, an increase by 10% over the last year. The revenues earned from hotel operations were Rs.129.35 Crores as against the previous year's revenue of Rs.113.70 Crores an increase by 14% over the previous year. The rupee appreciation against the US dollar has affected the revenue, since about 50% of the room revenue was through foreign nations. This revenue loss was approximately Rs.4.23 Crores to the top line as well as net profit. Yours company has henceforth started contracting all RFP's though INR only.

The profit after tax was marginally lower than the previous year by Rs.2.98 Crores on account of higher depreciation to the tune of Rs.1.89 Crores and increase in deferred tax by Rs.1.75 Crores resulting from acquisition of two new properties.

The interest income earned from IPO funds has been reduced by Rs.4.02 Crores as compared to the previous year due to deployment of funds in new properties for various hotel projects. The reduction in interest income has also affected the profit after taxes.

During the year, the Group has acquired Royal Orchid Central at Manipal Centre, Bangalore which was previously leased. The hotel Royal Orchid Central in Pune commenced its commercial operations during the year. It has added 115 rooms to the Group's room inventory. As on 31st March 2008 the group operates 10 hotels across the country.

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 it's 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 systems in place with the Company and its subsidiaries are well established and adequate, commensurate with the size of the operations. The company gets the internal audits conducted at regular intervals through an independent firm of Chartered Accountants, by which, adequacy and effectiveness of internal controls are monitored regularly.

The periodical internal audit reports are placed before the Audit Committee of Directors for its review and the Audit Committee advises the Management appropriately, on the remedial measures to be adopted, on the issues, if any, raised by the Internal Auditors, wherever required. The Audit Committee also reviews periodically the scope and the results of the audits, with the statutory auditors.

7. Human Resources

Royal Orchid Hotels laid its focus on Employee Relations in terms of streamlined hiring and selection processes, talented employee schemes through various incentives and ESOPs for long term retention plans. Highly structured training and development across the chain has led to the group being a continuous learning organisation. Quarterly performance management systems and career paths orientations are in place. A detailed HR Manual with policies and procedures is in place, and employee engagement surveys too have commenced.

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, actual results might differ materially from those expressed or implied. Significant factors that could make a difference to the Company's operations include domestic and international economic conditions affecting demand, supply and price conditions in the hospitality industry, changes in government regulations, tax regimes and other statutes.

CORPORATE GOVERNANCE

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

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

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

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

1. Company Philosophy on code of Governance:

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

2. Board of Directors :

The Board consists of 6 Directors (one managing director, one whole time director, three non-executive independent directors and one non-executive director). The Independent Directors take active part at the Board and Committee meetings, which adds value in the decision making process. More than two-thirds of the Board comprise of non-executive directors. As on 31st March, 2008, the composition of the Board is given herein below:

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

3. Board Meeting:

During the year 2007-08, the Board met 5 times on 29.05.2007, 15.06.2007, 30.07.2007, 30.10.2007, and 31.01.2008. The maximum time gap between any two meetings was not more than four calendar months.

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

Name	Category	Board Meeting attendance	AGM attendance	No. of other Directorship	No. of other Committee positions held	
					Member	Chairman
Mr. C.K. Baljee	Promoter– Managing Director	5	Yes	17	-	-
Mr. Sunil Sikka	Promoter– Whole Time Director	4	No	4	-	-
Mr. Arjun Baljee	Promoter– Non-Execuctive Director	2	No	9	-	-
Mr. Naresh K. Malhotra	Independent Director	5	Yes	11	-	-
Mr. Jaithirth Rao	Independent Director	4	No	8	-	1
Mr. R. V. S. Rao	Independent Director	5	Yes	5	-	-

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

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

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

5. Audit Committee

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

During the financial year 2007-08, the Audit Committee has met 5 times, i.e., on 29.05.2007, 15.06.2007, 30.07.2007, 30.10.2007, 31.01.2008, During these meetings, the Committee, inter alias, reviewed the financial statements including changes in accounting policies and practices before submission to the Board, recommended the appointment of statutory and internal auditors including fixation of audit fee, discussed the internal auditors findings and reviewed the company's financial and risk management policies.

The attendance details for the Committee meetings are as follows :

Name	Designation	Attendance
Mr. Naresh K. Malhotra	Chairman of the Committee - Independent, Non-Executive Director	5
Mr. Jaithirth Rao	Independent, Non-Executive Director	5
Mr. R. V. S. Rao	Independent, Non-Executive Director	5

6. Remuneration Committee

The Remuneration Committee comprises of Mr. Jaithirth Rao, Mr. Naresh K. Malhotra and Mr. R. V. S. Rao, all Non-executive Independent Directors and is headed by Mr. Jaithirth Rao. The Committee met once during the year 2007-08.

Details of remuneration paid to the Directors for the year 2007-08 : Rs. in Lacs

Sl. No.	Name of Director	Salary & Benefits	Commission
1.	Mr. Chander K Baljee	110.13	39.98
2.	Mr. Sunil Sikka	--	9.99
3.	Mr. Naresh K. Malhotra	--	9.99
4.	Mr. Jaithirth Rao	--	9.99
5.	Mr. R. V. S. Rao	--	9.99
6.	Mr. Arjun Baljee	--	8.37

7. 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 ensuring the complaints of the shareholders are resolved. The Company has received 3 complaints during the Quarter ended 31.03.2008, all were redressed and none were pending as at 31.03.2008.

Mr. B Chandrasekaran, Company Secretary is the Compliance Officer of the Company and is the Secretary to all the above Committees.

8. 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 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 2007-08.

Chander K Baljee
Managing Director

9. General Body Meetings

Annual General Meetings

Year	Date	Time	Venue
2004-05	28.09.2005	11.00 A.M.	Registered Office
2005-06	13.09.2006	11.00 A.M.	Registered Office
2006-07	08.08.2007	11.00 A.M.	Registered Office

During the year 2007-08 no Extraordinary General Meetings were held.

10. Disclosures

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

11. Means of Communication

Quarterly results	The Quarterly results of the company is published in news papers
Half yearly results	The Half yearly results of the company is published in news papers
Any website where displayed:	http://www.royalorchidhotels.com Annual financial statements, Quarterly reports and the Shareholding pattern etc., of the company are also posted on the Company Website.
Whether website also displays official news Releases and the presentations made to Institutional investors or to the analysts	The financial results and official news releases are also displayed on the website of the company
Newspapers in which results are normally Published	The Economic Times Udayavani.
Whether Management Discussion and Analysis is a part of the Annual Report	Yes

GENERAL SHAREHOLDER INFORMATION

1.	Annual General Meeting	:	
	Date and Time	:	28.07.2008 at 11:00 am
	Venue	:	Hotel Royal Orchid No. 1, Golf Avenue Adjoining KGA Golf Course Off Airport Road Bangalore - 560 008
2.	Book Closure Dates	:	Friday -25.07.2008 to Monday - 28.07.2008 - (Both days inclusive)
3.	Dividend Payment Date	:	The dividend, 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 2008-09		
	Financial Reporting		
	For the quarter ended 30.06.2008	:	July 2008
	For the quarter ending 30.09.2008	:	October 2008
	For the quarter ending 31.12.2008	:	January 2009
	For the quarter ending 31.03.2009	:	May 2009
5.	Listing of Equity Shares on	:	National Stock Exchange of India Limited Exchange Plaza, 5th Floor Plot No. C/1, 5th Block Bandra-Kurla Complex, Bandra (E) Mumbai – 400 051. Bombay Stock Exchange Limited 1st Floor, New Trading Ring Rotunga Building, P. J. Towers Dalal Street, Fort Mumbai – 400 001.
6.	Stock Code		
	National Stock Exchange of India Limited	:	ROHLTD
	Bombay Stock Exchange Limited	:	532699
	ISIN Numbers in NSDL & CDSL	:	INE283H01019

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

7. Market Price Data

The following is the data of high and low closing quotations of Equity Shares of the Company during April 2007 to March 2008. The Equity shares of the Company got listed with Stock Exchanges on 06.02.2006.

Month	National Stock Exchange (NSE)		Bombay Stock Exchange (BSE)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
Apr-07	209.80	195.25	207.75	192.80
May-07	214.50	198.50	214.85	195.00
Jun-07	224.90	197.00	225.00	198.25
Jul-07	212.00	194.00	212.00	191.00
Aug-07	194.00	150.10	193.80	148.05
Sep-07	167.00	147.00	168.50	147.00
Oct-07	158.80	119.85	155.00	110.00
Nov-07	144.00	124.00	146.80	125.00
Dec-07	163.45	127.15	167.90	126.00
Jan-08	174.75	99.30	174.60	100.00
Feb-08	125.00	95.15	124.85	110.00
Mar-08	119.00	80.20	120.00	88.00

8. Share Transfer System

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

9. Secretarial Audit

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

10. Distribution of Shareholding as on 31st March 2008

No. of shares held	No. of shares	% of share capital	No. of shareholders	% of total No. of shareholders
Up to 500	1636092	6.01	19720	94.68
501 to 1000	470370	1.73	583	2.80
1001 to 2000	391858	1.44	260	1.25
2001 to 3000	214431	0.79	85	0.41
3001 to 4000	152756	0.56	42	0.20
4001 to 5000	163018	0.60	35	0.17
5001 to 10000	334201	1.23	46	0.22
10001 and above	23871239	87.65	56	0.27
TOTAL	**27233965**	**100.00**	**20827**	**100.00**

11. Dematerialisation of Shares & Facility of simultaneous transfer

Approximately 99% of the paid-up equity share capital of the Company has been dematerialized as on 31st March 2008. Trading in equity shares of the company is permitted only in dematerialized form as per notification issued by SEBI. Shareholders interested in dematerializing their shares are requested to write to the Registrar & Transfer Agent through their Depository Participants.

12. Unit Locations :

1. HOTEL ROYAL ORCHID
   No. 1, Golf Avenue, Adjoining KGA Golf Course
   Airport Road, Bangalore – 560 008
2. ROYAL ORCHID CENTRAL
   No. 47/1, Manipal Centre, Dickenson Road,
   Bangalore – 560 042
3. RAMADA
   No. 11, Park Road, Shivajinagar
   Bangalore – 560 051.
4. ROYAL ORCHID RESORTS
   (Doddi's Resorts)
   Allasandra, Bellary Road, Yelahanka
   Near Jakkur Flying Club
   Bangalore – 560 065
5. ROYAL ORCHID SUITES, BANGALORE
   Whitefield, Bangalore
6. ROYAL ORCHID METROPOLE
   No: 5, Jhansi Lakshmibai Road
   Mysore – 570 005
7. ROYAL ORCHID BRINDAVAN GARDEN
   Brindavan Garden, Krishna Raja Sagar
   Mandya District, Mysore – 571 607
8. ROYAL ORCHID CENTRAL JAIPUR
   1-26, A/2, Jaisingh Highway, Banny Park,
   Jaipur 302 016
9. ROYAL ORCHID CENTRAL PUNE
   Mary Soft Annex,
   Software –cum-Commercial Complex
   Kalyani Nagar, Pune 411 014
10. ROYAL ORCHID GOLDEN SUITES, PUNE
    Golden Nest – B, Marigold Complex
    Kalyani Nagar, Pune 411 014
11. PEPPERMINT HYDERABAD
    Road 1, Banjara Hills
    Hyderabad – 500 034
12. ROYAL ORCHID GALAXY RESORT, GOA
    Utorda Beach, Salcette, South Goa

13. Registrar & Share Transfer Agent

Alpha Systems Private Limited,
30, Ramana Residency,
4th Cross, Sampige Road,
Malleswaram,
Bangalore – 560003.
Tel No.080 - 23460815 – 818
Fax No.080 – 23460819
Email ID: alfint@vsnl.com

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

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 ("the Company"), for the year ended on 31 March 2008, 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 implementation thereof adopted by the Company for ensuring the 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.

No investor grievance is pending for a period exceeding one month against the Company as per the records maintained by 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 Listing Agreement.

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.

Bangalore
4th June, 2008

G SHANKER PRASAD
Practicing Company Secretary
CP.No - 6450

CERTIFICATE BY 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 2008 :

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.

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 : 04.06.2008

H S Kedlaya
Chief Financial Officer

AUDITORS' REPORT

To,

The Members of Royal Orchid Hotels Limited

1. We have audited the attached Balance Sheet of Royal Orchid Hotels Limited, (the 'Company') as at 31 March 2008, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto (collectively referred as the 'financial statements'). 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 (the 'Order') (as amended), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (the 'Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

4. Further to our comments in the Annexure referred to above, we report that :

   a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
   b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   c. The financial statements dealt with by this report are in agreement with the books of account;
   d. On the basis of written representations received from the Directors, as on 31 March 2008 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
   e. In our opinion and to the best of our information and according to the explanations given to us, the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act and the Rules framed there under and 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 2008;
      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.

For Walker, Chandiok & Co
Chartered Accountants

Per Aashish Arjun Singh
Partner
Membership No. 210122

Bangalore
4 June 2008

Annexure to the Auditors' Report of even date to the members of Royal Orchid Hotels Limited, on the financial statements for the year ended 31 March 2008

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other 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) The Company has a regular programme of physical verification of its fixed assets by which fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) In our opinion, a substantial part of fixed assets has not been disposed off during the year.

(ii) (a) The inventory has been physically verified during the year by the management. 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 five companies covered in the register maintained under Section 301 of the Act to which the Company has granted unsecured loans. The maximum amount outstanding during the year was Rs. 33,192,324 and the year-end balance was Rs 33,192,324.

(b) In our opinion, the rate of interest and other terms and conditions of such loans are not, *prima facie,* prejudicial to the interest of the Company for the current year.

(c) The Company has granted interest free loans to the above parties. The principal amounts, are repayable on demand and there is no repayment schedule.

(d) In respect of the said loans the same are repayable on demand and there are no overdue amounts.

(e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Order are not applicable.

(iv) Due to the nature of its business, the company does not sell any goods. In our opinion, there is an adequate internal control system 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 services. Though deficiencies were noticed in the internal control system in the previous year, during the year under audit no major weakness has been noticed.

(v) (a) In our opinion, the particulars of all contracts or arrangements that need to be entered into the register maintained under Section 301 of the Act have been so entered.

(vi) (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 as to whether the transactions made in pursuance of such contracts or arrangements have been made at prevailing market prices at the relevant time.

(vii) The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975. Accordingly, the provisions of clause 4(vi) of the Order are not applicable.

(viii) In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.

(ix) To the best of our knowledge and belief, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act, in respect of the services rendered by the company. Accordingly, the provisions of clause 4(viii) of the Order are not applicable.

(x) (a) The Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues, as applicable, with the appropriate authorities. Further, no undisputed amounts payable in respect thereof of were outstanding at the year end for a period of more than six months from the date they become payable.

(b) There are no dues in respect of income tax, sales tax, wealth tax, service tax, customs duty, excise duty and cess that have not been deposited with the appropriate authorities on account of any dispute.

(xii) In our opinion, the Company does not have accumulated losses at the end of the financial year and it has not incurred cash losses in the current and the immediately preceding financial year.

(xiii) In our opinion, the Company has not defaulted in repayment of dues to any bank during the year. The Company has no dues payable to a financial institution or debenture holders during the year.

(xiv) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of clause 4(xii) of the Order are not applicable.

(xv) 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.

(xvi) 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.

(xvii) The Company has not given any guarantees for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable.

(xviii) In our opinion, the Company has applied the term loans for the purpose for which the loans were obtained.

(xix) In our opinion, no funds raised on short-term basis have been used for long-term investment.

(xx) 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.

(xxi) The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.

(xxii) The Company has not raised any money by public issues during the year. The management of the Company has disclosed the end use of the monies out of public issue raised in the prior years, and the same has been verified by us.

(xxiii) 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

Per Aashish Arjun Singh
Partner
Membership No. 210122

Bangalore
4 June 2008

BALANCE SHEET

	Schedule	31 March 2008	31 March 2007
		Rs.	Rs.
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Capital	1	**272,339,650**	272,339,650
Employee stock options outstanding account		**598,896**	-
Reserves and surplus	2	**1,488,606,379**	1,372,980,838
		1,761,544,925	1,645,320,488
LOAN FUNDS			
Secured loans	3	**169,583,730**	220,768,018
		169,583,730	220,768,018
DEFERRED TAX LIABILITY, NET	4	**40,000,000**	33,000,000
TOTAL		**1,971,128,655**	1,899,088,506
APPLICATION OF FUNDS			
FIXED ASSETS	5		
Gross block		**681,598,763**	530,648,269
Less: Accumulated depreciation / amortisation		**141,955,149**	109,807,488
Net block		**539,643,614**	420,840,781
Capital work-in-progress (including capital advances)		**39,120,988**	3,370,096
		578,764,602	424,210,877
INVESTMENTS	6	**618,448,512**	107,749,000
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	7	**11,654,212**	5,039,481
Sundry debtors	8	**29,874,463**	44,259,490
Unbilled revenues		**6,661,366**	2,496,437
Cash and bank balances	9	**467,930,601**	1,210,272,005
Loans and advances	10	**560,516,433**	385,250,333
		1,076,637,075	1,647,317,746
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	11	**104,660,074**	83,897,767
Provisions	12	**198,061,460**	196,291,350
		302,721,534	280,189,117
NET CURRENT ASSETS		**773,915,541**	1,367,128,629
TOTAL		**1,971,128,655**	1,899,088,506
NOTES TO THE FINANCIAL STATEMENTS	20		

The schedules referred to above form an integral part of the Financial Statements.

This is the Balance Sheet referred to in our report of even date.

For Walker, Chandiok & Co
Chartered Accountants

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

Bangalore
4th June 2008

For and on behalf of the Board of Directors

Chander K Baljee
Managing Director

Naresh K. Malhotra
Director

B Chandrasekaran
Company Secretary

Bangalore
4th June 2008

PROFIT AND LOSS ACCOUNT

	Schedule	**Year ended 31 March 2008**	Year ended 31 March 2007
		Rs.	Rs.
INCOME			
Operating income	13	**860,233,765**	811,399,400
Other income	14	**61,031,746**	100,451,904
		921,265,511	911,851,304
EXPENDITURE			
Food and beverages consumed	15	**76,164,751**	64,083,974
Employee costs	16	**97,366,817**	73,292,481
Other operating expenses	17	**151,532,420**	131,720,788
Selling, general and administrative expenses	18	**144,553,349**	138,100,437
Interest	19	**19,952,205**	21,557,837
Depreciation/amortisation	5	**32,147,661**	33,333,547
		521,717,203	462,089,064
PROFIT BEFORE TAX		**399,548,308**	449,762,240
Provision for tax			
- Current tax		**(83,000,000)**	(111,500,000)
- Fringe Benefit tax		**(1,797,199)**	(1,397,055)
- Prior years taxes		**(951,304)**	-
- Deferred tax (charge) / credit		**(7,000,000)**	2,200,000
PROFIT AFTER TAX		**306,799,805**	339,065,185
Balance brought forward from the previous year		**186,048,161**	72,101,442
Balance available for appropriation		**492,847,966**	411,166,627
APPROPRIATIONS			
Proposed dividend		**(163,403,790)**	(163,403,790)
Tax on distribution of dividend		**(27,770,474)**	(27,770,474)
Transfer to general reserve		**(30,700,000)**	(33,944,202)
SURPLUS CARRIED TO BALANCE SHEET		**270,973,702**	186,048,161
Basic and diluted Earnings per share (Par value – Rs.10) (Refer note 3 in Schedule 20)		**11.27**	12.45
NOTES TO THE FINANCIAL STATEMENTS	20		

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

This is the Profit & Loss account referred to in our report of even date.

For Walker, Chandiok & Co
Chartered Accountants

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

Bangalore
4th June 2008

For and on behalf of the Board of Directors

Chander K Baljee
Managing Director

Naresh K. Malhotra
Director

B Chandrasekaran
Company Secretary

Bangalore
4th June 2008

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 1		
CAPITAL		
Authorised		
30,000,000 (31 March 2007 – 30,000,000) Equity Shares of Rs. 10 each	**300,000,000**	300,000,000
Issued, subscribed and paid up		
27,233,965 (31 March 2007 – 27,233,965) equity shares of Rs. 10 each fully paid up	**272,339,650**	272,339,650
	272,339,650	272,339,650

Note:

a) Of the above 6,000,000 (31 March 2007: 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.

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. Consequently, of the above outstanding shares, 9,719,970 (31 March 2007 – 9,719,970) equity shares have been allotted as fully paid up by way of bonus shares by capitalising the balance in the profit and loss account.

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 2		
RESERVES & SURPLUS		
Share Premium	**1,130,684,095**	1,130,684,095
Foreign Exchange Earnings Reserve	**1,100,000**	1,100,000
General Reserve		
Balance at the beginning of the year	**55,148,582**	21,204,380
Add : Transfer during the year	**30,700,000**	33,944,202
Balance at the end of the year	**85,848,582**	55,148,582
Profit and Loss Account		
Balance at the beginning of the year	**186,048,161**	72,101,442
Add : Net profit for the year	**306,799,805**	339,065,185
	492,847,966	411,166,627
Less: Proposed dividend	**163,403,790**	163,403,790
Less : Tax on distribution of dividend	**27,770,474**	27,770,474
Less: Transfer to general reserve	**30,700,000**	33,944,202
	270,973,702	186,048,161
Balance at the end of the year	**1,488,606,379**	1,372,980,838

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 3		
SECURED LOANS		
Term Loan from bank	**163,650,992**	213,650,992
Other loans from bank	**4,450,360**	5,292,328
Interest accrued and due on term loan	**1,482,378**	1,824,698
	169,583,730	220,768,018

Note:

a) On 16 December 2004, the Company was sanctioned a term loan from State Bank of Hyderabad ('the Bank') for Rs 300 million. During the financial year 2005 - 06 the Company drew down Rs.192 million of which Rs.154 million was utilised towards the repayment of the previous loan outstanding with the balance of Rs.38 million being utilised for the purposes of the expansion by the Company. 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.

Additionally, this borrowing has also been backed by the personal guarantees of Mr Chander K. Baljee, the Managing Director and Mrs Sunita Baljee and a corporate guarantee from Baljee Hotels and Real Estate Private Limited. This loan is repayable in 24 quarterly installments of Rs 12.5 million each, commencing from 31 December 2005. The key covenants include cost overruns on expansion being met directly by the Company, and new plant and machinery acquired to be insured jointly in the names of the Company and the Bank. Further, the arrangement also requires all expenditure in excess of the budgets and any other expansion activities to be pre-approved by the Bank.

b) Other loans represent loans taken to purchase vehicles that are secured by the hypothecation of the vehicles concerned.

Amounts due in one year are as follows:

	31 March 2008	31 March 2007
	Rs.	Rs.
Term Loan from bank	**50,000,000**	50,000,000
Other loans from bank	**1,500,423**	1,536,821
	51,500,423	51,536,821
SCHEDULE 4		
DEFERRED TAX LIABILITY, NET		
Deferred tax liability arising on account of :		
Depreciation	**41,959,562**	35,898,815
Less: deferred tax asset arising on account of		
Employee benefits	**1,249,546**	713,349
Provision for doubtful debts	**234,156**	1,508,845
Lease rentals allowable on payment basis	**475,860**	676,621
	40,000,000	33,000,000

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 2008 have been recorded to the extent of the timing differences that reverse outside the tax holiday period.

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

SCHEDULE 5

FIXED ASSETS

Amount in Rs.

Category of assets	Gross block				Accumulated Depreciation/Amortisation				Net block	
	As at 1 April 2007	Additions during the year	Deletions during the year	As at 31 March 2008	As at 1 April 2007	Charge for the year	Deletions during the year	As at 31 March 2008	As at 31 March 2008	As at 31 March 2007
Tangible assets										
Freehold land	-	2,000,000	-	2,000,000	-	-	-	-	2,000,000	-
Leasehold buildings (including improvements)	197,898,831	71,432,523	-	269,331,354	22,425,838	7,448,438	-	29,874,276	239,457,078	175,472,993
Plant and machinery	138,752,158	34,765,027	-	173,517,185	28,882,347	5,662,350	-	34,544,697	138,972,488	109,869,811
Furniture and fixtures	136,289,037	31,336,880	-	167,625,917	46,714,550	12,910,080	-	59,624,630	108,001,287	89,574,487
Computers and related equipment	10,218,601	4,538,069	-	14,756,670	4,312,522	1,069,676	-	5,382,198	9,374,472	5,906,079
Office equipments	8,575,836	3,627,387	-	12,203,223	2,910,209	558,568	-	3,468,777	8,734,446	5,665,627
Vehicles	34,359,354	3,250,608	-	37,609,962	4,006,232	3,284,029	-	7,290,261	30,319,701	30,353,122
Intangible assets										
Goodwill	4,554,452	-	-	4,554,452	555,790	1,214,520	-	1,770,310	2,784,142	3,998,662
Total	**530,648,269**	**150,950,494**	**-**	**681,598,763**	**109,807,488**	**32,147,661**	**-**	**141,955,149**	**539,643,614**	**420,840,781**
Prior year	434,823,424	95,824,845	-	530,648,269	76,473,941	33,333,547	-	109,807,488	420,840,781	

Note: Freehold land represents the Company's share of land jointly owned with its subsidiary, Royal Orchid Jaipur Private Limited.

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 6		
INVESTMENTS (LONG TERM, UNQUOTED, AT COST)		
Investment in Government Securities	**225,000**	225,000
Investment in Subsidiaries (trade, unquoted and fully paid up)		
Icon Hospitality Private Limited	**192,032,412**	3,073,000
(95,889 (2007 – 30,730) Equity Shares of Rs.100 each)		
Maruti Comforts and Inn Private Limited	**58,849,000**	58,849,000
(209,100 (2007 - 209,100) Equity Shares of Rs.100 each)		
Royal Orchid Hyderabad Private Limited	**17,602,000**	17,602,000
(1,760,200 (2007 - 1,760,200) Equity Shares of Rs.10 each)		
Royal Orchid Jaipur Private Limited	**16,500,000**	16,500,000
(1,650,000 (2007 – 1,650,000) Equity Shares of Rs 10 each)		
AB Holdings Private Limited	**2,500,000**	2,500,000
(250,000 (2007 – 250,000) Equity Shares of Rs 10 each)		
Royal Orchid South Private Limited	**9,000,000**	9,000,000
(900,000 (2007 – 900,000) Equity Shares of Rs 10 each)		
Multi Hotels Limited	**74,060,100**	-
(30 (2007 – Nil) Equity Shares of TSH 1000 each)		
Investment in Joint ventures (trade, unquoted and fully paid up)		

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 6 ***(Contd..)***		
Rajkamal Buildcon Private Limited	**52,820,000**	-
(5,000 (2007 – Nil) Equity Shares of Rs 10 each)		
Ksheer Sagar Buildcon Private Limited	**52,820,000**	-
(5,000 (2007 – Nil) Equity Shares of Rs 10 each)		
J H Builders Private Limited	**52,820,000**	-
(5,000 (2007 – Nil) Equity Shares of Rs 10 each)		
Ksheer Sagar Developers Private Limited	**52,820,000**	-
(5,000 (2007 – Nil) Equity Shares of Rs 10 each)		
Investment in Associates (trade, unquoted and fully paid up)		
Satkar Realties Private Limited	**36,400,000**	-
(392,599 (2007 – Nil) Equity Shares of Rs 10 each)		
	618,448,512	107,749,000
Note:		
During the year ended 31 March 2008, the Company purchased and sold 118,281,310 (31 March 07 - 1,544,183,857) units of mutual funds for a gain of Rs 20,622,580 (31 March 2007 - 7,721,320).		
SCHEDULE 7		
INVENTORIES		
Food and beverages	**7,690,734**	3,000,700
Stores and spares	**3,963,478**	2,038,781
	11,654,212	5,039,481
SCHEDULE 8		
SUNDRY DEBTORS		
(Unsecured)		
Debts outstanding for a period exceeding six months:		
-considered good	**-**	-
-considered doubtful	**984,137**	6,403,724
	984,137	6,403,724
Other debts		
-considered good	**29,874,463**	44,259,490
-considered doubtful	**-**	-
	30,858,600	50,663,214
Less: Provision for doubtful debts	**984,137**	6,403,724
	29,874,463	44,259,490

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 9		
CASH & BANK BALANCES		
Cash balances on hand	**1,225,157**	1,057,150
Bank balances with Scheduled banks:		
- In current accounts	**237,766,992**	42,220,344
- In exchange earners foreign currency accounts	**349,848**	855,557
- In deposit account	**215,484,204**	1,151,701,933
- In margin money	**13,104,400**	14,437,021
	467,930,601	1,210,272,005

Note:

a) At 31 March 2008, current accounts include Rs. 154,556 (31 March 2007 – Rs 5,511,556) representing unutilised proceeds from the Company's Initial Public Offer (IPO).

b) As at 31 March 2008, deposit accounts include unutilised public issue proceeds amounting to Rs 94,500,000 (31 March 2007 - Rs 1,031,664,797) which has been temporarily invested with banks until utilization for the specific objects of the IPO.

c) Margin money represents bank guarantee given by the Company for imports at concessional duty rates under various Export Promotion Capital Goods ('EPCG') licenses. These deposits are to be released between years 2012 and 2014.

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 10		
LOANS & ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received		
- Prepaid Expenses	**5,446,822**	13,873,189
- Advances to suppliers	**12,365,880**	5,134,173
- Project advances	**93,594,918**	11,350,704
- Other advances	**2,193,033**	4,231,368
Loans to subsidaries	**168,887,435**	197,717,970
Loans to Joint Ventures and Associate	**33,521,945**	-
Advance tax (net of provision)	**29,940,631**	15,314,645
Interest accrued but not due on fixed deposit with banks	**1,455,633**	19,170,564
Security deposits	**213,110,136**	118,457,720
	560,516,433	385,250,333

Note:

a) Security deposits includes Rs 60,000,000 (31 March 2007 – 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.

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 11		
CURRENT LIABILITIES		
Sundry creditors	**44,995,245**	20,840,646
Accrued expenses	**16,298,897**	24,745,836
Dues to employees	**9,418,181**	7,111,061
Duties and taxes payable	**16,870,406**	16,894,984
Security deposit received	**3,000,000**	2,980,000
Dues to directors	**7,109,336**	5,969,893
Other liabilities	**6,968,009**	5,355,347
	104,660,074	83,897,767

Note:

a) Security deposit includes Rs 3,000,000 (31 March 2007 – Rs 2,980,000) 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.

b) Based on information available with the Company, there are no amounts due to small, medium and micro enterprises.

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 12		
PROVISIONS		
Provision for gratuity	**3,120,220**	2,447,842
Provision for leave encashment	**3,766,976**	2,669,244
Proposed dividend	**163,403,790**	163,403,790
Tax on proposed dividend	**27,770,474**	27,770,474
	198,061,460	196,291,350
SCHEDULE 13		
OPERATING INCOME		
Room revenues	**593,000,657**	583,085,518
Food and Beverages	**225,482,481**	192,317,506
Management & Technical Fees	**24,741,010**	18,319,659
Other Service Charges	**17,009,617**	17,676,717
	860,233,765	811,399,400
SCHEDULE 14		
OTHER INCOME		
Interest income [TDS - Rs. 7,318,501 (31 March 2007 – Rs. 19,176,033)]	**-**	-
From Bank	**26,502,386**	81,192,328
From subsidiaries	**7,346,224**	5,360,343
Gain on sale of mutual funds	**20,622,580**	7,721,320
Miscellaneous income	**6,560,556**	6,177,913
	61,031,746	100,451,904
SCHEDULE 15		
FOOD AND BEVERAGES CONSUMED		
Opening Stock	**3,000,700**	3,191,339
Add: Purchases during the year	**80,854,785**	63,893,335
	83,855,485	67,084,674
Less: Closing Stock	**7,690,734**	3,000,700
Consumption for the year	**76,164,751**	64,083,974

Note:

Consumption above is net of Rs 2,955,737 for the year ended 31 March 2008 (31 March 2007 – Rs 3,636,059), representing amounts utilised for internal consumption which has been classified under staff welfare.

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 16		
EMPLOYEE COSTS		
Salaries, wages and bonus	82,788,987	63,174,958
Contribution to provident fund	3,748,654	3,453,757
Staff welfare	10,015,094	6,334,640
Employee stock based compensation expense	598,896	-
Gratuity	215,186	329,126
	97,366,817	73,292,481
Note:		
Staff welfare above includes Rs 2,955,737 (31 March 2007 – Rs 3,636,059), representing amounts utilised for internal consumption.		
SCHEDULE 17		
OTHER OPERATING EXPENSES		
Linen and room supplies	19,673,004	18,587,612
Catering and other kitchen supplies	10,400,756	11,188,969
Laundry & washing expenses	6,176,336	6,025,003
Power and fuel	40,416,425	34,414,976
Water	4,029,015	3,990,269
Lease rent for hotel properties	37,362,235	28,550,672
Hire Charges	4,746,565	4,047,496
Other rental charges	362,319	377,414
Guest transportation expenses	3,345,095	2,718,252
Management fees	345,137	89,509
Repairs and maintenance		
- Leasehold buildings	15,524,826	18,869,095
- Machinery	904,250	1,269,172
- Others	5,027,987	1,592,349
Other miscelleneous expenses	3,218,470	-
	151,532,420	131,720,788
SCHEDULE 18		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Commission, brokerage and discount	28,840,181	28,154,390
Rates and taxes	11,165,473	18,273,506
Advertisement and business promotion	24,146,702	14,009,047
Legal and professional charges	12,879,647	10,076,570
Communication expenses	8,046,892	7,430,872
Printing and stationery	5,585,106	7,204,411
Travelling and conveyance	7,112,036	4,528,329
Director’s remuneration	11,013,333	8,904,827
Director’s Commission	8,994,564	9,922,988
Security Charges	4,201,147	3,147,010
Audit fees	1,527,087	980,976
Provision for doubtful debts	824,773	4,966,642
Insurance	2,897,200	2,130,666
Music and entertainment charges	2,039,807	1,933,874
Bank charges	961,147	629,189
Recruitment Expenses	1,439,562	211,894
Miscellaneous expenses	12,878,692	15,595,246
	144,553,349	138,100,437
SCHEDULE 19		
INTEREST		
Interest on term loan	19,499,263	21,173,367
Interest on vehicle loan	452,942	384,470
	19,952,205	21,557,837

NOTES TO THE FINANCIAL STATEMENTS

SCHEDULE - 20

1. Background

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

2. Significant accounting policies

a. *Basis of preparation*

The financial statements have been prepared and presented on an accrual basis under the historical cost convention and in accordance with the applicable accounting standards prescribed by the Companies (Accounting Standards) Rules, 2006 and the relevant provisions of the Companies Act, 1956. The accounting policies have been consistently applied unless otherwise stated.

b. *Use of estimates*

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

c. *Revenue recognition*

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

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

d. *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation / amortisation 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 and the cost of the fixed assets not ready for their intended use, are disclosed as capital work-in-progress.

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

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

e. *Depreciation*

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

Asset category	**Rates of depreciation used (%)**
Plant and machinery	4.75% -20%
Furniture and fixtures	9.50%
Computers and related equipment	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. Leasehold buildings (including improvements) are amortized over the period of the lease.

f. *Goodwill*

Goodwill on acquisition of the business of entities is amortised over a period of five years.

g. *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.

h. *Investments*

Long term investments are valued at, cost less provision for diminution, other than temporary, in the value of such investments.

Current investments are carried at the lower of cost and fair value.

i. *Inventory*

Inventory comprises stock of food and beverages and stores and spare parts 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.

j. *Foreign currency transactions*

(a) Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(b) Conversion

Foreign currency monetary items are reported using the closing rate. The resultant exchange differences are recognised in the profit and loss account. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

k. *Leases*

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.

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.

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 an accrual basis.

l. *Retirement benefits*

Expenses and liabilities in respect of employee benefits are recorded in accordance with Accounting Standard 15 Employee Benefits (Revised 2005).

Provident fund

The Company contributes to the statutory provident fund of the Regional Provident Fund Commissioner, in accordance with Employees provident fund and Miscellaneous Provision Act, 1952. The plan is a defined contribution plan and contribution paid or payable is recognised as an expense in the period in which the employee renders services.

Gratuity

Gratuity is a post employment benefit and is a defined benefit plan. The liability recognised in the balance sheet represents the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets (if any), together with adjustments for unrecognised actuarial gains or losses and past service costs. Independent actuaries using the projected unit credit method calculate the defined benefit obligation annually.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the Profit and loss account in the year in which such gains or losses arises.

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.

m. 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.

n. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the year. 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 year 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.

o. 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.

p. Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as a provision. An onerous contract is considered to exist where the company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3. Earnings per share ('EPS')

	Year ended 31 March 2008	Year ended 31 March 2007
Weighted average number of shares outstanding during the year	27,233,965	27,233,965
	(Rs)	(Rs)
Net profit after tax attributable to equity shareholders	306,799,805	339,065,185
Basic and diluted earnings per share	11.27	12.45
Nominal value per equity share	10	10

4. Investment in joint ventures

Information as required by Accounting Standard – 27 – "Financial Reporting of Interest in Joint Ventures".

A. The group's share in the assets, liabilities, income and expenditure of its joint ventures in India under jointly controlled operations as at 31 March 2008 is as follows:

	Ksheer Sagar Buildcon Private Limited	**Ksheer Sagar Developers Private Limited**	**Raj Kamal Buildcon Private Limited**	**J.H. Builders Private Limited**
Equity interest	50%	50%	50%	50%
Fixed Assets	53,455,521	53,455,521	53,455,521	53,455,506
Current assets, loans and advances	2,391	9,212,952	2,309	34,686
Unsecured loans	1,119,191	10,126,143	1,120,343	1,168,829
Current liabilities and provisions	655,324	1,610,573	655,323	639,421
Income	Nil	Nil	Nil	Nil
Expense	Nil	Nil	Nil	Nil

B. The joint ventures were entered into during the year, accordingly previous year figures are not furnished.

5. Leases

Operating leases

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

Hotel Royal Orchid

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

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 2007 for a period of eleven months with an option to renew for a further 2 terms of 11 months each. 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 10).

Royal Orchid Metropole

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

Royal Orchid Brindavan

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

Royal Orchid Central, Pune

In July 2006, the Company entered into an agreement for the use of land and building representing the hotel property for a non-cancellable lease period of 5 years. The lease term for the said property is 10 years and extendable by another 10 years subject to conditions as per the agreement.

As a consideration for the property the Company is required to pay a minimum guaranteed lease rent escalated at 15% at a interval of every 3 years or 20% of Net Room Revenue (NRR) for first year and 22% of NRR for 2nd year to 4th year and 25% for the balance period of NRR which ever is higher.

Hotels yet to commence operations

Properties at Hyderabad

In December 2004, the Company has entered into a lease arrangement for leasing a hotel property in Hyderabad. This arrangement has an initial period of 25 years which commence on the handover of the constructed property to the Company by the lessor. The lease rent comprises a fixed rate per square foot constructed which maybe enhanced by 12% every three years from the commencement of the lease period.

In the event that the Company withdraws from the arrangement during the construction period, the Company is liable to pay the lessor, a sum of Rs 5 million if the withdrawal is within 12 months of the date of construction and Rs 10 million, if the withdrawal is after that period. During the previous year 2006-07 this lease has been assigned to the company's subsidiary, Royal Orchid Hotels Hyderabad Private Limited.

In July 2007 the Company has entered into another agreement to construct a hotel building.

Property at Mumbai

In March 2007, the Company has entered into a lease agreement for the use of land and building representing the hotel property for a total period of 29 years, including the first 5 years being a non-cancellable period.

The lease rent for the said property will be 25% of the net room revenue (variable lease rent) subject or a fixed minimum lease rent per annum which ever is higher. The variable lease rent is enhanced by ½% per year for 5 years up to a maximum ceiling limit of 27.5%.The fixed minimum lease rent Is enhanced by 5% annually.

The payment of lease rent on the aforesaid properties will commence on commencement of commercial operations of the respective hotels.

Lease expenses

The lease expense for cancellable and non-cancellable operating leases during the year ended 31 March 2008 was Rs. 37,362,235 (31 March 2007 – Rs. 28,550,672).

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

	31 March 2008	31 March 2007
	Rs.	Rs.
Payments falling due:		
Within 1 year	44,181,644	11,828,611
Later than one year but not later than five years	176,683,129	37,196,073
Later than 5 years	336,557,684	120,982,973
TOTAL	**557,422,457**	**170,007,657**

The above commitments does not include the lease payments amounting to Rs.185 million in respect of the property at Mumbai payable over 5 years from the date of readiness.

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

During the year ended 31 March 2006, the Company had 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. The proceeds of the issue have been utilized as under :

Opening balance	1,037,176,353	1,082,489,172
Add :		
Interest received during the year	31,369,203	79,137,000
Less :		
Funds withdrawn towards IPO expenses	-	19,125,622
Funds withdrawn for investment in projects/subsidiaries	857,821,500	70,004,197
Funds withdrawn for payment of security deposits for hotel properties	116,069,500	35,320,000
Closing balance	**94,654,556**	**1,037,176,353**

7. 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.

During the year, the Company has filed a legal suit on a lessor for a property taken on lease which is currently under construction and assigned to its subsidiary Royal Orchid Hyderabad Private Limited. The Company has sought injunctive relief to restrain the lessor from selling or mortgaging the property or carrying out the business of a hotel without the consent of the Company. As at the balance sheet date, the subsidiary has paid Rs 10,000,000 as a refundable security deposit under this lease agreement. Based on a legal opinion received by the Company, management believes that this litigation will not adversely impact the operations of the company and consequently, this amount has not been provided for in these financial statements.

b) Capital commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for Rs.Nil (31 March 2007 – Rs 1,320,600)

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.

8. Supplementary information

a) Determination of net profit in accordance with the provisions of Section 349 of Companies Act, 1956 and commission payable to directors

	Year ended 31 March 2008 Rs.	Year ended 31 March 2007 Rs.
Profit before tax as per Profit & Loss Account	399,548,308	449,762,240
Add:		
Managerial Remuneration	20,008,849	18,827,815
Provision for bad and doubtful debts	824,773	4,966,642
Less:		
Gain on sale of current investments	20,622,580	7,721,320
Net Profit	**399,759,350**	**465,835,377**
Remuneration Eligible under Section 309:		
To Whole Time Directors	19,987,967	23,291,769
To Non Whole Time Directors	3,997,593	4,658,354
Managerial Remuneration		
i. To Whole Time Directors		
Salary and allowances	11,013,333	8,904,827
Commission	4,996,980	4,961,494
	16,010,313	**13,866,321**
ii. To Non Whole Time Directors		
Commission	3,997,593	4,961,494
	3,997,593	**4,961,494**

The Managing Director of the Company is entitled to remuneration of Rs 3,000,000 (31 March 2007 –Rs 3,000,000) from a subsidiary of the Company.

b) Payment to auditors

a)	Audit fee	900,000	574,000
b)	Other services	400,000	300,000
c)	Certification Fees	30,000	-
d)	Out of pocket expenses	29,102	-
e)	Service tax	167,985	108,026
		1,527,087	**982,026**

c) Particulars relating to foreign exchange

Earnings in foreign exchange

	Year ended 31 March 2008 Rs.	Year ended 31 March 2007 Rs.
Income from operations	407,079,497	424,243,441

Expenditure in foreign currency

Commission	4,896,883	954,923

Value of imports on a CIF basis

Capital goods	20,543,793	32,365,633

d) Imported and indigenous food and beverages consumed

	Year ended 31 March 2008		Year ended 31 March 2007	
	Amount (Rs.)	%	Amount (Rs.)	%
Imported	-	-	-	-
Indigenous	76,164,751	100	64,083,974	100
	76,164,752	**100**	**64,083,974**	**100**

The above includes Rs. 2,955,737 (2007 - Rs. 3,636,059) of internal consumptions which is included in staff welfare costs net of recoveries from staff.

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

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

10. Related party transactions

i. Parties where control exists includes :

Name of party	**Nature of relationship**
Icon Hospitality Private Limited	Subsidiary
Royal Orchid Hyderabad Private Limited.	Subsidiary
Maruti Comforts and Inn Private Limited	Subsidiary
Royal Orchid South Private Limited	Subsidiary
A B Holdings Private Limited	Subsidiary
Royal orchid East Private Limited	Subsidiary (subsidiary of A B Holdings Private Limited)
Royal Orchid Jaipur Private Limited	Subsidiary
Multi Hotels Limited	Subsidiary

Key Management Personnel

Chander K. Baljee

Relatives of key management personnel (KMP)

Arjun Baljee

Keshav Baljee

Sunita Baljee

Entities controlled by KMP

Harsha Farms Private Limited

Royal Orchid West Private Limited

Baljee Hotels and Real Estate Private Limited

Hotel Staylonger Private Limited

Presidency College of Hotel Management

ii. The transactions with related parties for the year summarised below:

Nature of Transaction	Subsidiaries		Associates		Joint Venture		Key Management Personnel		Relatives of Key Management Personnel		Entity controlled by KMP	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Management and technical fee income												
Maruti Comforts and Inn Private Limited	7,879,002	5,523,902	-	-	-	-	-	-	-	-	-	-
Icon Hospitality Private Limited	12,894,492	12,795,757	-	-	-	-	-	-	-	-	-	-
Interest income												
Icon Hospitality Private Limited	5,977,165	3,664,383	-	-	-	-	-	-	-	-	-	-
Maruti Comforts and Inn Private Limited	1,369,059	1,200,000	-	-	-	-	-	-	-	-	-	-
Expenses incurred by related parties on behalf of the company recharged												
Maruti Comforts and Inn Private Limited	-	79,841	-	-	-	-	-	-	-	-	-	-
Icon Hospitality Private Limited	-	36,000	-	-	-	-	-	-	-	-	-	-
Royal Orchid Hyderabad Private Limited.	-	211,607	-	-	-	-	-	-	-	-	-	-
Royal Orchid Jaipur Private limited	-	567,843	-	-	-	-	-	-	-	-	-	-
Royal orchid South Private limited	-	5,530	-	-	-	-	-	-	-	-	-	-
A B Holdings Private Limited	-	83,773	-	-	-	-	-	-	-	-	-	-
Collections by related parties on behalf of the Company												
Icon Hospitality Private Limited	7,360,723	-	-	-	-	-	-	-	-	-	-	-
Collections by the Company on behalf of related parties												
Icon Hospitality Private Limited	3,412,317	-	-	-	-	-	-	-	-	-	-	-

Nature of Transaction	Subsidiaries		Associates		Joint Venture		Key Management Personnel		Relatives of Key Management Personnel		Entity controlled KMP	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Security deposit Received												
Presidency College of Hotel Management	-	-	-	-	-	-	-	-	-	-	20,000	480,000
Loans advanced												
Royal Orchid Jaipur Private limited	4,906,227	44,623,870	-	-	-	-	-	-	-	-	-	-
A B Holdings Private Limited	41,876,101	51,951,321	-	-	-	-	-	-	-	-	-	-
Icon Hospitality Private Limited [4]	-	77,500,000	-	-	-	-	-	-	-	-	-	-
J.H. Builders Private Limited	-	-	-	-	1,487,706	-	-	-	-	-	-	-
Ksheersagar Developers Private Limited	-	-	-	-	10,442,772	-	-	-	-	-	-	-
Rajkamal Buildcon Private Limited	-	-	-	-	1,439,185	-	-	-	-	-	-	-
Ksheersagar Buildcon Private Limited	-	-	-	-	1,437,663	-	-	-	-	-	-	-
Royal orchid South Private limited	500,000	-	-	-	-	-	-	-	-	-	-	-
Royal orchid West Private limited	-	-	-	-	-	-	-	-	-	-	35,000	-
Multihotels Limited	6,889,305	-	-	-	-	-	-	-	-	-	-	-
Investments made												
Icon Hospitality Private Limited	111,459,412	-	-	-	-	-	-	-	-	-	-	-
Maruti Comforts and Inn Private Limited	-	1,000,000	-	-	-	-	-	-	-	-	-	-
Royal Orchid Jaipur Private limited	-	32,990,000	-	-	-	-	-	-	-	-	-	-
Royal Orchid South Private limited	-	9,010,000	-	-	-	-	-	-	-	-	-	-
A B Holdings Private Limited	-	2,500,000	-	-	-	-	-	-	-	-	-	-

Nature of Transaction	Subsidiaries		Associates		Joint Venture		Key Management Personnel		Relatives of Key Management Personnel		Entity controlled KMP	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Remuneration including commission												
Chander K. Baljee	-	-	-	-	-	-	15,010,917	13,377,180	-	-	-	-
Sunil Sikka	-	-	-	-	-	-	999,396	-	-	-	-	-
Arjun Baljee	-	-	-	-	-	-	-	-	850,093	-	-	-
Keshav Baljee	-	-	-	-	-	-	-	-	1,931,862	1,440,000	-	-
Rental Expenses to											-	-
Baljee Hotels and Real Estate Private Limited		-	-	-	-	-	-	-	-	-	11,700,294	14,578,780
Hotel Staylonger Private Limited	-	-	-	-	-	-	-	-	-	-	2,925,074	3,644,695
Balances payable/receivable to related parties:												
Loans receivable												
J.H. Builders Private Limited	-	-	-	-	1,165,683	-	-	-	-	-	-	-
Ksheersagar Developers Private Limited	-	-	-	-	10,485,468	-	-	-	-	-	-	-
Rajkamal Buildcon Private Limited	-	-	-	-	1,117,162	-	-	-	-	-	-	-
Ksheersagar Buildcon Private Limited	-	-	-	-	1,115,640	-	-	-	-	-	-	-
Royal Orchid Jaipur Private Limited	48,804,919	43,898,692	-	-	-	-	-	-	-	-	-	-
A B Holdings Private Limited	93,852,662	52,275,757	-	-	-	-	-	-	-	-	-	-
Maruti Comforts and Inn Private Limited	15,060,149	16,967,384	-	-	-	-	-	-	-	-	-	-
Royal Orchid South Private Limited	962,730	-	-	-	-	-	-	-	-	-	-	-
Icon Hospitality Private Limited[4]	3,317,670	85,225,009	-	-	-	-	-	-	-	-	-	-
Multihotels Limited	6,889,305	-	-	-	-	-	-	-	-	-	-	-

Nature of Transaction	Subsidiaries		Associates		Joint Venture		Key Management Personnel		Relatives of Key Management Personnel		Entity controlled KMP	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Satkar Realties Private Limited	-	-	19,637,992	-	-	-	-	-	-	-	-	-
Security deposit given												
Hotel Staylonger Private Limited	-	-	-	-	-	-	-	-	-	-	10,000,000	10,000,000
Chander K. Baljee	-	-	-	-	-	-	60,000,000	60,000,000	-	-	-	-
Security deposit received												
Presidency College of Hotel Management	-	-	-	-	-	-	-	-	-	-	3,000,000	2,980,000
Amount payable												
C.K.Baljee	-	-	-	-	-	-	4,997,429	4,851,805	-	-	-	-
Arjun Baljee	-	-	-	-	-	-	-	-	850,093	1,118,088	-	-
Keshav Baljee	-	-	-	-	-	-	-	-	998,959	-	-	-

Note :

1. For balances of investments at 31 March 2008 & 2007, refer Schedule 6 forming part of the financial statements.

2. The Company has provided for commission payable to a relative of key management personnel in excess of the limits defined in the approval from the Central Government by Rs 662,930. The Company is in the process of obtaining the necessary approvals from the concerned authorities for this amount.

3. Loans to joint ventures and associates.

   The Company has extended certain loans to joint ventures and associates for which prior approvals are required from the relevant authorities. The Company is in the process of obtaining these necessary approvals for these transactions.

4. This amount was converted to investment in equity during the year ended 31 March 2008.

11. Employee Benefits

A. Defined Benefit Plan

The Company has gratuity as defined benefit retirement plans for its employees. Disclosures as required by Revised AS 15 are as under:

		For the year ended 31 March 2008 Rs.
1	The amounts recognised in the Balance Sheet are as follows:	
	Present value of the obligation as at the end of the year	3,120,220
	Fair value of plan assets as at the end of the year	-
	Net liability/(asset) recognised in the Balance Sheet	**3,120,220**
2	The amounts recognised in the Profit and Loss Account are as follows:	
	Service cost	1,255,731
	Interest cost	244,602
	Expected return on plan assets	-
	Net actuarial (gain)/loss recognized in the year	(644,125)
	Expense recognized in the Profit and Loss Account of the year	**856,208**
3	Changes in the present value of defined benefit obligation	
	Defined benefit obligation as at 1 April 2007	2,357,473
	Service cost	1,255,731
	Interest cost	244,602
	Actuarial losses/(gains)	(644,125)
	Benefits paid	(93,461)
	Defined benefit obligation as at 31 Mar 2008	**3,120,220**
4	Changes in the fair value of plan assets	
	Fair value as at 1 April 2007	-
	Expected return on plan assets	-
	Actuarial (loss)/ gains	64,615
	Contributions	(35,769)
	Benefits paid	(28,846)
	Fair value as at 31 Mar 2008	-
	Assumptions used in the above valuations are as under:	
	Interest rate	7.95% - 8%
	Discount rate	8%
	Expected return on plan assets	NA
	Future salary increase	6%
	Attrition rate	2% - 5%
	Retirement age	58

The Company has adopted the provisions of Accounting Standard 15 (revised) with effect from 1 April 2007. The impact on this adoption on the opening reserves was not material and being the first year of adoption, prior period comparatives have not been provided.

12. Stock based compensation

The Employee Stock Option Plan 2006 was approved in the Annual General Meeting of the members held in the month of September 2006 and was subsequently amended at the Annual General meeting held on 8 August 2007 to include the employees of the subsidiaries and also increase the period available to exercise the options.

The plan provides for the issuance of stock options to eligible employees (including directors of the Company and employees of the subsidiaries) with the total options issuable under the Plan not to exceed 2,723,300 options (being 10% of the issued and paid up capital) and includes a limit for the maximum number of options that may be granted to each employee. Under the plan, these options vest over a period of three years after the date of grant and can be exercised within a period of one year from the date of vesting.

As per the ESOP scheme of the Company, all the taxes, including FBT, are to be borne by the employees and hence will not have an impact on the profit and loss account of the company.

The disclosures along with the weighted average price for options movement during the year ended 31 March 2008 have been provided below :

	31 March 2008	
	Shares arising out of options	Weighted average exercise price
	(Numbers)	Rs
Options outstanding at the beginning of the year	-	-
Granted during the year	512,500	165.00
Forfeited during the year	-	-
Lapsed during the year	9,400	165.00
Cancelled during the year	-	-
Exercised during the year	-	-
As at 31 March 2008	503,100	165.00

The weighted average exercise price of the options outstanding at 31 Mar 2008 is Rs 165.00 and they had weighted average remaining contractual life of 24 months.

Had compensation cost been determined in a manner consistent with the fair value approach as prescribed under the fair value method, the Company's net profit and earnings per share as reported would have been adjusted to the pro-forma amounts indicated below :

	Year ended 31 March 2008 Rs.
Net profit, as reported	306,799,805
Add: Stock-based employee compensation expense included in the Profit and loss account	598,896
Less: Stock based employee compensation expense determined under the fair value method	(8,384,034)
Pro forma net profit	**299,014,667**
Earnings per share – Basic	
As reported	11.27
Pro forma	10.98
Earnings per share – Diluted	
As reported	11.27
Pro forma	10.98

The fair value of the options granted is determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions :

Dividend yield %	3.28%
Expected life	18 to 24 months
Risk free interest rate	7.34% to 7.63%
Volatility	40.37%

13. Segment 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.

14. Subsequent events

The Company has acquired a 50% equity interest in Cosmos Premises Private Limited for the purpose of operation of a hotel property in Goa, India.

15. Prior year comparatives

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

For and on behalf of the board of directors

Chander K Baljee	**Naresh K Malhotra**	**B Chandrasekaran**
Managing Director	Director	Company secretary

Bangalore
04 June 2008

CASH FLOW STATEMENT

		Year ended 31-Mar-08	Year ended 31-Mar-07
		Rs.	Rs.
A.	Cash flow from operating activities		
	Net profit before taxation	399,548,308	449,762,240
	Adjustments for:		
	Depreciation	32,147,661	33,333,547
	Loss on disposal of Investments		
	Provision no longer required write back	-	
	Interest income	(33,848,610)	(86,552,671)
	Gain on sale of current investments	(20,622,580)	-
	Gain on Foreign Currency Transactions	-	
	Interest expense	19,952,205	21,557,837
	Provision for doubtful debts	-	4,966,642
	Employee stock based compensation expense	598,896	-
	Operating profit before working capital changes	397,775,880	423,067,595
	Movements in working capital :		
	(Increase)/Decrease in sundry debtors	14,385,027	(12,081,632)
	(Increase)/Decrease in unbilled revenue	(4,164,929)	3,786,190
	(Increase)/Decrease in inventories	(6,614,731)	348,684
	(Increase)/Decrease in Loans and Advances	(91,549,384)	(64,846,598)
	(Increase)/Decrease in Margin Money	-	
	(Increase)/Decrease in margin monies	-	20,878,016
	Increase/(Decrease) in Current Liabilities and provision	22,458,530	10,480,482
	Increase/(Decrease) in Provisions		
	Cash generated from operations	332,290,393	381,632,737
	Direct taxes paid	(98,577,290)	(79,585,000)
	Fringe benefit tax paid	(1,557,735)	(1,397,055)
	Net cash from operating activities	232,155,368	300,650,682
B.	Cash flows from investing activities		
	Purchase of fixed assets and decrease in capital work-In-progress	(187,101,717)	(98,380,808)
	Net movement in term deposits & margin money	937,550,351	20,878,016
	Advances for projects	(82,244,215)	-
	Investments made in subsidiaries	(111,459,412)	(45,500,000)
	Purchase consideration for acquisition of subsidiaries	(74,060,100)	-
	Purchase consideration for acquisition of interest in associate	(36,400,000)	-
	Purchase consideration for acquisition of interest in joint ventures	(211,280,000)	-
	Purchase of current investments	(1,540,000,000)	-
	Sale of current investments	1,560,622,580	
	Loans to subsidiaries	(48,669,465)	(174,075,171)
	Loans to associates	(19,637,992)	-
	Loans to joint ventures	(13,519,237)	-
	Other investments	-	(200,000)
	Interest received	51,563,542	66,163,405
	Net cash used in investing activities	225,364,335	(231,114,558)

CASH FLOW STATEMENT *(Contd...)*

	Year ended 31-Mar-08	Year ended 31-Mar-07
	Rs.	Rs.
C. Cash flows from financing activities		
Dividend paid including taxes thereon	**(191,174,264)**	(155,267,643)
Share issue expenses paid	**-**	(9,449,821)
Repayment of term loan	**(50,000,000)**	(55,060,463)
Repayment of long-term borrowings	(841,968)	-
Proceeds from short term borrowing	**-**	1,002,869
Interest paid	**(20,294,525)**	(21,144,685)
Net cash generated by /(used in) financing activities	**(262,310,757)**	(239,919,743)
Net increase in cash and cash equivalents (A + B + C)	**195,208,946**	(170,383,619)
Cash and cash equivalents at the beginning of the year	**44,133,051**	214,516,670
Cash and cash equivalents at the end of the year (a)	**239,341,997**	44,133,051
	195,208,947	(170,383,619)

Note:

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

Components of cash and cash equivalents as at year end

	2008	2007
	Rs.	Rs.
Cash and bank balances at 31 March	**467,930,601**	1,210,272,005
Less : Margin monies and Deposits considered separately (Refer note above)	**228,588,604**	1,166,138,954
	239,341,997	44,133,051

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

For Walker, Chandiok & Co
Chartered Accountants

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

Bangalore
4th June 2008

For and on behalf of the Board of Directors

Chander K Baljee
Managing Director

Naresh K. Malhotra
Director

B Chandrasekaran
Company Secretary

Bangalore
4th June 2008

AUDITORS' REPORT

The Board of Directors
Royal Orchid Hotels Limited

1. We have audited the attached Consolidated Balance Sheet of Royal Orchid Hotels Limited ('the Company'), its subsidiaries, joint ventures and associate (collectively referred to as 'the Group') as at 31 March 2008 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto (collectively referred as the 'Consolidated Financial Statements'). These Consolidated 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 misstatements. 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 presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. We have not audited the financial statements of certain consolidated entities, whose financial statements reflect total assets of Rs 955,037,616 as at 31 March 2008, total revenue of Rs 91,708,345 for the year ended on that date and cash flows amounting to Rs 70,689,997 for the year ended on that date. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us and our opinion in respect thereof is based solely on the report of the other auditors.

4. We report that the Consolidated Financial Statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard ('AS') 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements and AS 27, Financial Reporting for interests in Joint Ventures, prescribed by the Companies (Accounting Standards) Rules, 2006.

5. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India, in case of:

   (a) the Consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2008;
   (b) the Consolidated Profit and Loss Account, of the profit of the Group for the year ended on that date; and
   (c) the Consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

For Walker, Chandiok & Co
Chartered Accountants

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

Bangalore
4 June 2008

CONSOLIDATED BALANCE SHEET

	Schedule	31st March 2008	31st March 2007
		Rs.	Rs.
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Capital	1	**272,339,650**	272,339,650
Employee stock options outstanding account		**598,896**	-
Reserves and surplus	2	**1,603,747,038**	1,426,192,748
		1,876,685,584	1,698,532,398
MINORITY INTEREST		**264,455,061**	58,091,391
LOAN FUNDS			
Secured loans	3	**605,992,036**	224,555,056
Unsecured loans		**25,263,906**	89,080,376
		631,255,942	313,635,432
DEFERRED TAX LIABILITY, NET	4	**53,450,000**	36,170,000
TOTAL		**2,825,846,587**	2,106,429,221
APPLICATION OF FUNDS			
GOODWILL		**66,217,558**	61,732,120
FIXED ASSETS	5		
Gross block		**2,174,067,129**	752,326,775
Less: Accumulated Depreciation / Amortisation		**237,244,524**	174,366,620
Net block		**1,936,822,605**	577,960,155
Capital work-in-progress (including capital advances)		**51,152,856**	14,680,780
		1,987,975,461	592,640,935
INVESTMENTS (LONG TERM, UNQUOTED, AT COST)	6	**36,660,095**	225,000
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	7	**17,612,914**	8,030,843
Sundry debtors	8	**48,638,180**	68,585,651
Unbilled revenues		**9,836,197**	3,846,119
Cash and bank balances	9	**565,325,157**	1,284,089,739
Loans and advances	10	**489,534,732**	478,588,634
		1,130,947,180	1,843,140,986
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	11	**194,766,656**	194,417,120
Provisions	12	**201,187,051**	196,951,400
		395,953,707	391,368,520
NET CURRENT ASSETS		**734,993,473**	1,451,772,466
Miscellaneous expenditure		**-**	58,700
TOTAL		**2,825,846,587**	2,106,429,221
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	20		

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

This is the Consolidated Balance Sheet referred to in our report of even date.

For Walker, Chandiok & Co
Chartered Accountants

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

Bangalore
4th June 2008

For and on behalf of the Board of Directors

Chander K Baljee
Managing Director

Naresh K. Malhotra
Director

B Chandrasekaran
Company Secretary

Bangalore
4th June 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Schedule	Year ended 31st March 2008 Rs.	Year ended 31st March 2007 Rs.
INCOME			
Operating income	13	**1,293,506,755**	1,137,019,835
Other income	14	**74,047,185**	104,560,618
		1,367,553,940	1,241,580,453
EXPENDITURE			
Food and beverages consumed	15	**125,459,969**	98,729,586
Employee costs	16	**162,382,779**	113,893,097
Other operating expenses	17	**279,998,572**	262,278,089
Selling, general and administrative expenses	18	**226,153,638**	195,333,824
Depreciation/amortisation	5	**62,877,904**	43,981,998
Interest	19	**43,707,085**	25,293,427
		900,579,947	739,510,021
PROFIT BEFORE TAX, MINORITY INTEREST AND SHARE IN PROFITS OF ASSOCIATES		**466,973,993**	502,070,432
Provision for income tax			
- Current Tax		**(99,200,000)**	(132,270,000)
- Fringe Benefit Tax		**(2,557,069)**	(1,953,007)
- Deferred tax (charge) / credit		**(17,280,000)**	230,000
- Tax of prior year		**(951,304)**	-
PROFIT AFTER TAX AND BEFORE MINORITY INTEREST		**346,985,620**	368,077,425
Minority Interest		**(24,339,030)**	(15,508,948)
Share in profits of associates		**35,095**	-
NET PROFIT		**322,681,685**	352,568,477
Balance brought forward from the previous year		**237,862,142**	110,412,131
Balance available for appropriation		**560,543,827**	462,980,608
APPROPRIATIONS			
Proposed dividend		**(163,403,790)**	(163,403,790)
Tax on distribution of dividend		**(27,770,474)**	(27,770,474)
Transfer to general reserve		**(30,700,000)**	(33,944,202)
SURPLUS CARRIED TO BALANCE SHEET		**338,669,563**	237,862,142
Basic and diluted Earnings per share (Par value – Rs.10)		**11.85**	12.95
(Refer note 3 in Schedule 20)			
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	20		

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

This is the Consolidated Profit & Loss account referred to in our report of even date.

For Walker, Chandiok & Co
Chartered Accountants

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

Bangalore
4th June 2008

For and on behalf of the Board of Directors

Chander K Baljee
Managing Director

Naresh K. Malhotra
Director

B Chandrasekaran
Company Secretary

Bangalore
4th June 2008

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 1		
CAPITAL		
Authorised		
30,000,000 (31 March 2007 – 30,000,000) equity shares of Rs. 10 each	**300,000,000**	300,000,000
Issued, subscribed and paid up		
27,233,965 (31 March 2007 – 27,233,965) equity shares of Rs. 10 each fully paid up	**272,339,650**	272,339,650
	272,339,650	272,339,650

Note:

a) Of the above 6,000,000 (31 March 2007: 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.

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 2		
RESERVES & SURPLUS		
Share Premium	**1,130,684,095**	1,130,684,095
Foreign Exchange Earnings Reserve	**1,750,000**	1,750,000
General Reserve		
Balance at the beginning of the year	**55,148,582**	21,204,380
Add : Transfer during the year	**30,700,000**	33,944,202
Balance at the end of the year	**85,848,582**	55,148,582
Capital Reserve	**46,794,798**	747,929
Profit and Loss Account		
Balance at the beginning of the year	**237,862,142**	110,412,131
Add : Net profit for the year	**322,681,685**	352,568,477
	560,543,827	462,980,608
Less: Proposed dividend	**163,403,790**	163,403,790
Less: Tax on distribution of dividend	**27,770,474**	27,770,474
Less: Transfer to general reserve	**30,700,000**	33,944,202
	338,669,563	237,862,142
Balance at the end of the year	**1,603,747,038**	1,426,192,748

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 3		
SECURED LOANS		
Term Loan From Banks	598,297,778	213,650,992
Other Loans	6,211,880	9,079,366
Interest accrued and due	1,482,378	1,824,698
	605,992,036	224,555,056

Note:

a) On 16 December 2004, the Company was sanctioned a term loan from State Bank of Hyderabad for Rs 300 million. During the financial year 2005 - 06 the company drew down Rs.192 million of which Rs.154 million was utilised towards the repayment of the previous loan outstanding with the balance of Rs.38 million being utilised for the purposes of the expansion by the Company. 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.

Additionally, this borrowing has also been backed by the personal guarantees of Mr Chander K. Baljee, the Managing Director and Mrs Sunita Baljee 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 (Amount outstanding as at 31 March 2008 Rs.163.65 million).

b) During the year ended 31 March 2008, Icon Hospitality Private Limited (ICON) has availed a term loan facility of Rs. 450 million from State Bank of Hyderabad (Rs. 250 million) and State Bank of Travancore (Rs. 200 million) for acquisition of the hotel premises. This loan is repayable in 32 quarterly instalments of Rs. 14.06 million each (State Bank of Hyderabad - Rs. 7.81 million and State Bank of Travancore - Rs. 6.25 million) ending in September 2014 and was secured by way of Pari Passu charge in favour of SBH and SBT Consortium equitable mortgage of the hotel property and a first charge on all movable fixed assets of the Company both present and future. Additionally, this borrowing was backed by the personal guarantees of the Directors of the Company. Amount outstanding as at 31 March 2008 Rs. 421.88 million)

c) During the year ended 31st March 2008, Maruti Comforts and Inn Private Limited has availed a term loan facility of Rs. 12.5 million from State Bank of Hyderabad.

d) Other loans represent loans taken to purchase vehicles that are secured by the hypothecation of the vehicles concerned.

Amounts due in one year are as follows:

	31st March 2008	31st March 2007
	Rs.	Rs.
Term loans	106,248,000	50,000,000
Other Loans	2,938,165	3,201,321
	109,186,165	53,201,321
SCHEDULE 4		
DEFERRED TAX LIABILITY, NET		
Deferred tax liability arising on account of :		
Depreciation	56,785,994	40,035,285
Less: deferred tax asset arising on account of :		
Employee benefits	2,578,807	1,510,341
Provision for doubtful debts	281,328	1,678,324
Lease rentals allowable on payment basis	475,859	676,620
	53,450,000	36,170,000

The Company is eligible for a deduction of 30 percent of its profits from the Royal Orchid Hotel, being a new industrial undertaking as defined under Section 80IB of the Income-tax Act, 1961. This benefit is available for a period of ten consecutive years ending on 31 March 2010. Consequently, the deferred tax assets and liabilities as at 31 March 2008 have been recorded to the extent of the timing differences that reverse outside the tax holiday period.

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE 5

FIXED ASSETS — Amount in Rs.

	Gross Block					Accumulated Depreciation / Amortisation					Net Block	
Categories of Assets	Balance as at 1 April 2007	Additions during the year	Transfers during the year	Deletions during the year	Balance As at 31 March 2008	Balance as at 1 April 2007	Deletions during the year	Charge for the year	Transfers during the year	Balance As at 31 March 2008	As at 31 March 2008	As at 31 March 2007
Tangible assets:												
Freehold land	-	598,906,857	-	-	598,906,857	-	-	-	-	-	598,906,857	-
Building	-	159,586,895	44,173,308	-	203,760,203	-		6,085,896	2,834,455	8,920,351	194,839,852	-
Leasehold buildings (including improvements)	316,985,783	81,689,204	(44,173,308)	-	354,501,679	50,535,593	-	10,535,534	(2,834,455)	58,236,672	296,265,007	266,450,190
Plant and machinery	185,862,033	416,937,759	-	-	602,799,792	42,904,073	-	15,911,441	-	58,815,514	543,984,278	142,957,960
Office equipments	10,388,901	68,733,044	-	-	79,121,945	3,937,002	-	1,877,523	-	5,814,525	73,307,420	6,451,899
Computers and related equipment	17,451,548	10,534,358	-	-	27,985,906	5,692,019	-	2,927,272	-	8,619,291	19,366,615	11,759,529
Furniture and fixtures	170,831,204	73,198,829	-	-	244,030,033	63,169,727	-	18,131,244	-	81,300,971	162,729,062	107,661,477
Vehicles	46,252,854	3,250,608	-	-	49,503,462	7,572,416	-	4,413,914	-	11,986,330	37,517,132	38,680,438
Intangible assets												
Goodwill	4,554,452	8,902,800	-	-	13,457,252	555,790	-	2,995,080	-	3,550,870	9,906,382	3,998,662
Total	**752,326,775**	**1,421,740,354**	**-**	**-**	**2,174,067,129**	**174,366,620**	**-**	**62,877,904**	**-**	**237,244,524**	**1,936,822,605**	**577,960,155**
Previous year	604,747,682	147,579,093	-	-	752,326,775	130,384,622	-	43,981,998	-	174,366,620	577,960,155	474,363,060

	31 March 2008	31 March 2007
	Rs.	Rs.
SCHEDULE 6		
INVESTMENTS (LONG TERM, UNQUOTED, AT COST)		
Investment in Government Securities	**225,000**	225,000
Investment in Associates (unquoted and fully paid up including share of profits)		
Satkar Realties Private Limited	**36,435,095**	-
(392,599 (2007 – Nil) Equity Shares of Rs 10 each)		
	36,660,095	225,000
SCHEDULE 7		
INVENTORIES		
Food and beverages	**11,662,914**	5,375,835
Stores and spare parts	**5,950,000**	2,655,008
	17,612,914	8,030,843

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 8		
SUNDRY DEBTORS		
(Unsecured)		
Debts outstanding for a period exceeding six months:		
- considered good	**-**	-
- considered doubtful	**1,123,120**	6,975,469
	1,123,120	6,975,469
Other debts		
- considered good	**48,638,180**	68,585,651
- considered doubtful	**-**	-
	49,761,300	75,561,120
Less: Provision for doubtful debts	**1,123,120**	6,975,469
	48,638,180	68,585,651
SCHEDULE 9		
CASH & BANK BALANCES		
Cash balances on hand	**4,619,872**	3,732,335
Bank balances		
- In current accounts	**278,156,910**	67,925,751
- In exchange earners foreign currency accounts	**349,847**	1,108,222
- In deposit account	**269,094,128**	1,191,491,444
- In margin money	**13,104,400**	19,831,987
	565,325,157	1,284,089,739

Note:

a) Margin money represents bank guarantee given by the Company for imports at concessional duty rates under various Export Promotion Capital Goods ('EPCG') licenses

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 10		
LOANS & ADVANCES		
(Unsecured, considered good)		
Advances receivable in cash or in kind or for value to be received		
Prepaid Expenses	**8,031,577**	27,845,964
Advances to suppliers	**22,994,465**	16,986,867
Project advances	**99,892,700**	10,792,012
Other advances	**2,426,545**	1,916,589
Loans to related parties	**26,784,056**	142,191
Advance tax (net of provisions)	**31,083,286**	15,188,198
Interest accrued but not due on fixed deposit with banks	**1,811,649**	19,492,279
Security deposits	**296,510,454**	386,224,534
	489,534,732	478,588,634

Note:

a) Security deposits includes Rs 60,000,000 (31 March 2007 – 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.

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 11		
CURRENT LIABILITIES		
Sundry creditors	**63,535,423**	40,316,278
Accrued expenses	**20,556,243**	43,047,380
Dues to employees	**16,461,605**	12,564,137
Duties and taxes payable	**22,789,029**	29,158,313
Security Deposit received	**3,081,500**	3,035,500
Dues to directors	**7,620,488**	19,260
Other liabilities	**60,722,368**	66,276,252
	194,766,656	194,417,120

Note:

a) Security deposit includes Rs 3,000,000 (31 March 2007 – Rs 2,980,000) 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.

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 12		
PROVISIONS		
Provision for leave encashment	**5,941,089**	2,070,293
Provision for gratuity	**4,071,698**	3,706,843
Proposed dividend	**163,403,790**	163,403,790
Tax on proposed dividend	**27,770,474**	27,770,474
	201,187,051	196,951,400

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	Year ended 31st March 2008	Year ended 31st March 2007
	Rs.	Rs.
SCHEDULE 13		
OPERATING INCOME		
Room revenues	**910,396,930**	824,890,519
Food and Beverages	**350,863,172**	284,814,375
Management & Technical Fees	**5,882,956**	-
Other Service Charges	**26,363,697**	27,314,941
	1,293,506,755	1,137,019,835
SCHEDULE 14		
OTHER INCOME		
Interest income	**31,058,268**	83,253,982
Gain on sale of mutual funds	**20,622,580**	7,721,320
Excess provision written back	**7,021,531**	-
Miscellaneous income	**15,344,806**	13,585,316
	74,047,185	104,560,618
SCHEDULE 15		
FOOD AND BEVERAGES CONSUMED		
Opening Stock	**5,375,835**	6,960,852
Add: Purchases during the year	**131,747,048**	97,144,569
	137,122,883	104,105,421
Less: Closing Stock	**11,662,914**	5,375,835
Consumption for the year	**125,459,969**	98,729,586

Note:

Consumption above is net of Rs 6,689,197 for the year ended 31 March 2008 (31 March 2007 – Rs 5,495,550), representing amounts utilised for internal consumption which has been classified under staff welfare.

	31st March 2008	31st March 2007
	Rs.	Rs.
SCHEDULE 16		
EMPLOYEE COSTS		
Salaries, wages and bonus	**138,990,975**	98,168,211
Contribution to provident fund	**6,926,143**	5,895,736
Staff welfare	**15,736,467**	9,326,377
Employee stock based compensation expense	**598,896**	-
Gratuity	**130,298**	502,773
	162,382,779	113,893,097

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	Year ended 31st March 2008	Year ended 31st March 2007
	Rs.	Rs.
SCHEDULE 17		
OTHER OPERATING EXPENSES		
Linen and room supplies	**27,783,783**	26,774,954
Catering and other kitchen supplies	**16,161,705**	15,339,486
Laundry expenses	**11,463,333**	8,866,399
Power and fuel	**69,355,913**	59,294,602
Water	**5,981,819**	2,638,111
Lease rent for hotel property	**96,477,915**	99,816,064
Hire Charges	**13,142,855**	11,712,100
Guest transportation expenses	**6,988,325**	3,623,370
Management fees	**1,696,607**	791,607
Repairs and maintenance		
- Leasehold building	**19,833,437**	24,027,559
- Machinery	**3,965,678**	3,785,140
- Others	**6,384,964**	3,266,026
Contractor charges	**762,238**	2,342,671
	279,998,572	262,278,089
SCHEDULE 18		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Commission, brokerage and discount	**39,259,347**	39,515,914
Rates and taxes	**20,810,854**	21,112,974
Advertisement and business promotion	**32,638,402**	16,932,027
Legal and professional charges	**16,493,450**	16,070,825
Communication expenses	**13,211,269**	11,189,306
Printing and stationery	**8,046,323**	9,251,713
Travelling and conveyance	**11,754,722**	5,573,823
Director’s remuneration	**20,013,333**	17,904,827
Director’s Commission	**8,995,515**	8,820,434
Security Charges	**6,568,080**	4,511,362
Audit fees	**2,693,864**	1,611,771
Provision for doubtful debts	**982,543**	4,692,752
Insurance	**14,044,269**	13,308,409
Bad debts written off	**601,636**	-
Music and entertainment charges	**8,885,038**	4,426,168
Bank charges	**1,624,567**	825,226
Directors sitting fee	**460,000**	500,000
Recruitment expenses	**1,447,562**	211,894
Miscellaneous expenses	**17,622,864**	18,874,399
	226,153,638	195,333,824
SCHEDULE 19		
INTEREST		
Interest on term loan	**39,131,973**	17,508,984
Interest on vehicle loan	**689,497**	681,019
Interest on unsecured loan	**3,885,615**	7,103,424
	43,707,085	25,293,427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE - 20

1. **Background**

Royal Orchid Hotels Limited ('the Company" or "the Parent 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 together with its subsidiaries, joint ventures and associates (collectively referred to as the 'Group') currently operate the following hotel properties - Royal Orchid Hotel, Royal Orchid Doddis Resorts and Royal Orchid Harsha (Bangalore), Royal Orchid Metropole and Royal Orchid Brindavan, heritage properties in Mysore, Royal Orchid Central, Pune and Jaipur.

2. **Group structure**

The list of the Company's subsidiaries, joint ventures and associates with the percentage holding as at 31 March 2008 is as follows :

	Country of incorporation	Percentage of holding
Subsidiaries		
Icon Hospitality Private Limited	India	51.22%
Maruti Comforts and Inn Private Limited	India	51.00%
Royal Orchid Hyderabad Private Limited	India	100.00%
AB Holdings Private Limited	India	100.00%
Royal Orchid Jaipur Private Limited	India	100.00%
Royal Orchid South Private Limited	India	100.00%
Royal Orchid East Private Limited (subsidiary of AB Holdings Private Limited)	India	100.00%
Multi Hotels Limited	Tanzania	100%
Joint Ventures		
Ksheer Sagar Buildcon Private Limited	India	50%
Ksheer Sagar Developers Private Limited	India	50%
Raj Kamal Buildcon Private Limited	India	50%
J.H.Builders Private Limited	India	50%
Associates		
Satkar Realities Private Limited	India	26%

3. Significant accounting policies

i. Basis of preparation

The financial statements have been prepared and presented on an accrual basis under the historical cost convention and in accordance with the applicable accounting standards prescribed by the Companies (Accounting Standards) Rules, 2006. 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 Group 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 employee benefits.

iii. Principles of consolidation

The consolidated financial statements include the financial statements of the Parent Company, its subsidiaries, joint venture and share of profits in associate. Please refer to Note 1 for the description of the Group.

The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under Accounting Standard -21 – "Consolidated Financial Statements". The consolidated financial statements have been combined on a line-by-line basis by adding the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances/transactions and resulting unrealized profits in full. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the Parent Company and its share in the post-acquisition increase in the relevant reserves of the consolidated entity.

Minority interest represents the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and its share of movements in the equity since that date. Any excess consideration received from minority shareholders of subsidiaries over the amount of equity attributable to the minority on the date of investment is reflected under Reserves and Surplus.

Proportionate share of interest in joint ventures has been accounted for by the proportionate consolidation method in accordance with Accounting Standard - 27 - "Financial Reporting of Interests in Joint Ventures".

An investment in an associate has been accounted for by the equity method of consolidation from the date on which it falls within the definition of associate in accordance with Accounting Standard - 23 - "Accounting for Investments in Associates in Consolidated Financial Statements".

The excess/deficit of cost to the Parent Company of its investment over its portion of net worth in the consolidated entities at the respective dates on which the investment in such entities was made is recognised in the financial statements as goodwill/capital reserve. The Parent Company's portion of net worth in such entities is determined on the basis of book values of assets and liabilities as per the financial statements of the entities as on the date of investment and if not available, the financial statements for the immediately preceding period adjusted for the effects of significant changes.

Consolidated financial statements are prepared using uniform accounting policies across the Group.

iv. Revenue recognition

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

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

v. Fixed assets

Fixed assets are stated at cost less accumulated depreciation / amortisation 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 and the cost of fixed assets not ready for their intended use, are disclosed as capital work in progress.

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

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

vi. Depreciation

Depreciation on fixed assets is provided on the Straight Line method, using the rates based on 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 to 20
Office equipment	4.75
Computers and related equipment	16.21
Furniture & fittings	9.50
Vehicles	9.50
Buildings	1.63

Assets individually costing less than Rs.5, 000 are fully depreciated in the year of purchase. Leasehold buildings (including improvements) are amortized over the period of the lease.

vii. Goodwill

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

viii. Impairment of assets

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

ix. Inventory

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

x. Foreign currency transactions

(a) Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(b) Conversion

Foreign currency monetary items are reported using the closing rate. The resultant exchange differences are recognised in the profit and loss account. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on a monetary item that, in substance, form part of Group's net investment in a non-integral foreign operation is accumulated in a foreign currency translation reserve in the financial statements until the disposal of the net investment, at which time they are recognised as income or as expenses.

xi. Leases

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

Finance leases

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

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

Operating leases

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

xii. *Retirement benefits*

Expenses and liabilities in respect of employee benefits are recorded in accordance with Accounting Standard 15 - Employee Benefits.

Provident fund

The Group contributes to the statutory provident fund of the Regional Provident Fund Commissioner, in accordance with Employees provident fund and Miscellaneous Provision Act, 1952. The plan is a defined contribution plan and contribution paid or payable is recognised as an expense in the period in which the employee renders services.

Gratuity

Gratuity is a post employment benefit and is a defined benefit plan. The liability recognised in the balance sheet represents the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets (if any), together with adjustments for unrecognised actuarial gains or losses and past service costs. Independent actuaries using the projected unit credit method calculate the defined benefit obligation annually.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the Profit and loss account in the year in which such gains or losses arises.

Leave encashment

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

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 year attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the year. 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 year 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 year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

xv. Provisions and contingent liabilities

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

xvi. Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

4. Earnings per share ('EPS')

	Year ended	Year ended
	31 March 2008	**31 March 2007**
Weighted average number of Equity shares outstanding (Nos.)	27,233,965	27,233,965
	Rs.	**Rs.**
Net profit after tax attributable to equity shareholders	322,681,685	352,568,477
Basic and diluted earnings per share	11.85	12.95
Nominal value per equity share	10	10

5. Acquisition of subsidiaries

On 17 January 2008, Multi hotels Limited became subsidiary of the Company. The financial position of Multi-hotels Limited as at 31 March 2008 is as follows :

Particulars	**Amount (Rs)**
Liabilities	
Unsecured loan (including loan from parent company)	13,684,147
Current liabilities and provisions	119,568
Assets	
Fixed assets	127,137,173
Current assets	6,773,512

6. Investment in joint ventures

Information as required by Accounting Standard – 27 – "Financial Reporting of Interest in Joint Ventures".

A. The group's share in the assets, liabilities, income and expenditure of the joint venture under jointly controlled operations as at 31 March 2008 is as follows:

	Ksheer Sagar Buildcon Private Limited	Ksheer Sagar Developers Private Limited	Raj Kamal Buildcon Private Limited	J.H.Builders PrivateLimited
Fixed Assets	53,455,521	53,455,521	53,455,521	53,455,506
Current assets, loans and advances	2,391	9,212,952	2,309	34,686
Unsecured loans	1,119,191	10,126,143	1,120,343	1,168,829
Current liabilities and provisions	655,324	1,610,573	655,323	639,421
Income	Nil	Nil	Nil	Nil
Expense	Nil	Nil	Nil	Nil

B. The joint ventures were entered into during the year, accordingly previous year figures are not furnished.

7. 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 10).

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 2007 for a period of eleven months with an option to renew for a further 2 terms of 11 months each. 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.

Royal Orchid Metropole

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

Royal Orchid Brindavan

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

Royal Orchid Central, Pune

In July 2006, the Company entered into an agreement for the use of land and building representing the hotel property for a non-cancellable lease period of 5 years. The lease term for the said property is 10 years and extendable by another 10 years subject to conditions as per the agreement.

As a consideration for the property the Company is required to pay a minimum guaranteed lease rent escalated at 15% at a interval of every 3 years or 20% of Net Room Revenue (NRR) for first year and 22% of NRR for 2nd year to 4th year and 25% for the balance period of NRR which ever is higher.

Royal Orchid Central, Bangalore

The operations at Royal Orchid Central were carried out through a lease entered into with Sacred Hospitality Company Limited in January 2003. As per the provisions of this arrangement, the ICON Hospitality Private Limited 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. During the year the company's subsidiary has purchased the property from Sacred Hospitality Company Limited.

Royal Orchid Central, Jaipur

Royal Orchid Jaipur Private Limited (ROJPL) operates Royal Orchid Central in Jaipur, India and for the said property (ROJPL) has leased the land and building and related equipments under a lease arrangement for a period of 19 years and 11 months. The lease rent is enhanced at the rate of 3% over and above the last rent paid at the end of every year.

Peppermint, Hyderabad

Royal Orchid East Private Limited (ROEPL) operates Hotel Peppermint in Hyderabad, India and for the said property (ROEPL) has leased during November 2006 from Sandhya Hotels Private Limited for a period of 20 years.

Hotels yet to commence operations

Properties at Hyderabad

In December 2004, the Company has entered into a lease arrangement for leasing a hotel property in Hyderabad. This arrangement has an initial period of 25 years which commence on the handover of the constructed property to the Company by the lessor. The lease rent comprises a fixed rate per square foot constructed which maybe enhanced by 12% every three years from the commencement of the lease period.

In the event that the Company withdraws from the arrangement during the construction period, the Company is liable to pay the lessor, a sum of Rs 5 million if the withdrawal is within 12 months of the date of construction and Rs 10 million, if the withdrawal is after that period. During the previous year 2006-07 this lease has been assigned to the company's subsidiary, Royal Orchid Hotels Hyderabad Private Limited.

In July 2007 the Company has entered into another agreement to construct a hotel building.

Property at Mumbai

In March 2007, the Company has entered into a lease agreement for the use of land and building representing the hotel property for a total period of 29 years, including the first 5 years being a non-cancellable period.

The lease rent for the said property will be 25% of the net room revenue (variable lease rent) subject or a fixed minimum lease rent per annum which ever is higher. The variable lease rent is enhanced by ½% per year for 5 years up to a maximum ceiling limit of 27.5%.The fixed minimum lease rent Is enhanced by 5% annually.

The payment of lease rent on the aforesaid properties will commence on commencement of commercial operations of the respective hotels.

Lease expense

The lease expense for cancellable and non-cancellable operating leases for the year ended 31 March 2008 was Rs 96,477,915 (31 March 2007 – Rs 99,816,064), as the same is currently under renovation.

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

	31st March, 2008	31st March 2007
Payments falling due :	**Amount (Rs.)**	**Amount (Rs.)**
Within 1 year	66,818,984	47,828,611
Later than one year but not later than five years	274,230,502	193,196,073
Later than 5 years	417,671,806	1,095,994,901
TOTAL	**758,721,292**	**1,337,019,585**

The above commitments does not include the lease payments amounting to Rs.185 million for the property at Mumbai payable over 5 years from the date of readiness.

8. Commitments and contingencies

a) Litigation

i) 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.

ii) During the year, the Company's subsidiary, AB Holdings Private Limited ('AB Holdings'), has received a legal notice from the lessor of one of its properties for certain alleged violations of the lease agreement and has demanded a compensation of Rs 34,570,000 (after adjusting the lease deposit of Rs 5,000,000 already paid by AB Holdings) representing rent payable until the conclusion of the lock in period as per the terms of the agreement. The Company has responded to this notice and this matter is currently proposed to be settled through arbitration proceedings. Based on a legal opinion received by the Company, management believes that this litigation will not adversely impact the operations of the Group and consequently, this amount has not been provided for in these financial statements.

iii) During the year, the Company has filed a legal suit on a lessor for a property taken on lease which is currently under construction and assigned to its subsidiary Royal Orchid Hyderabad Private Limited. The Company has sought injunctive relief to restrain the lessor from selling or mortgaging the property or carrying out the business of a hotel without the consent of the Company. As at the balance sheet date, the subsidiary has paid Rs 10,000,000 as a refundable security deposit under this lease agreement. Based on a legal opinion received by the Company, management believes that this litigation will not adversely impact the operations of the Group and consequently, this amount has not been provided for in these financial statements.

b) Capital commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for as at 31 March 2008 - Rs. Nil (31 March 2007 – Rs 4,570,600).

c) Export obligation

The group 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 group has an export obligation equal to eight times the duty amount saved. The group's export turnover till date is in excess of this obligation.

9. Related party transactions

i) Parties where control exists

Parties where control exists include

Key Management Personnel

Chander K. Baljee

Relatives of key management personnel (KMP)

Arjun Baljee

Keshav Baljee

Sunita Baljee

Entities controlled by KMP

Harsha Farms Private Limited

Royal Orchid West Private Limited

Baljee Hotels and Real Estate Private Limited

Hotel Staylonger Private Limited

Presidency College of Hotel Management

Nature of Transaction	Associate		Joint Ventures		Key Management Personnel		Relatives of Key Management Personnel		Entities controlled by KMP	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Security Deposit Received										
Presidency College of Hotel Management	-	-	-	-	-	-	-	-	20,000	480,000
Loans advanced	-									
Satkar Realties Private Limited	19,673,087	-	-	-	-	-	-	-	-	-
J.H. Builders Private Limited	-	-	582,842	-	-	-	-	-	-	-
Ksheersagar Developers Private Limited	-	-	5,060,375	-	-	-	-	-	-	-
Rajkamal Buildcon Private Limited	-	-	558,581	-	-	-	-	-	-	-
Ksheersagar Buildcon Private Limited	-	-	557,820	-	-	-	-	-	-	-
Royal Orchid West Private Limited	-	-	-	-	-	-	-	-	35,000	-
Remuneration (including commission)										
Chander K. Baljee	-	-	-	-	18,010,917	16,377,180	-	-	-	-
Arjun Baljee	-	-	-	-	-	-	850,093	-	-	-
Keshav Baljee	-	-	-	-	-	-	1,931,862	1,440,000	-	-
Sunita Baljee							2,400,000	2,400,000		
Rental Expenses to									-	-
Baljee Hotels and Real Estate Private Limited	-	-	-	-	-	-	-	-	11,700,294	14,578,780
Hotel Staylonger Private Limited	-	-	-	-	-	-	-	-	2,925,074	3,644,695
Balances payable/ receivable to related parties										
Loans receivable										
J.H. Builders Private Limited	-	-	582,842							
Ksheersagar Developers Private Limited	-	-	54,11,726							
Rajkamal Buildcon Private Limited	-	-	558,581							
Ksheersagar Buildcon Private Limited	-	-	557,820							
Satkar Realties Private Limited	19,673,087	-								
Security deposit:										
Hotel Staylonger Private Limited									10,000,000	10,000,000
Chander K. Baljee							60,000,000	60,000,000		
Investment in associates										
Satkar Realties Private Limited	36,400,000	-								
Security deposit received:										
Presidency College of Hotel Management									3,000,000	2,980,000
Amounts payable										
C.K.Baljee					4,997,429	4,851,805				
Arjun Baljee							850,093	1,118,088		
Keshav Baljee							998,959	-		

Notes :

Other transactions

a) The Company has provided for commission payable to a relative of a key management personnel in excess of the limits defined in the approval from the Central Government by Rs 662,930. The Company is in the process of obtaining the necessary approvals from the concerned authorities for this amount.

b) Loans to joint ventures and associates
The Company has extended certain loans to joint ventures and associates for which prior approvals are required from the relevant authorities. The Company is in the process of obtaining these necessary approvals for these transactions.

10. Employee Benefits

A. Defined Benefit Plan

The group has gratuity as defined benefit retirement plans for its employees. Disclosures as required by Revised AS 15 are as under :

		For the year ended
		31 March 2008
		Rs.
1	The amounts recognised in the Balance Sheet are as follows:	
	Present value of the obligation as at the end of the year	4,071,698
	Fair value of plan assets as at the end of the year	-
	Net liability/(asset) recognised in the Balance Sheet	**4,071,698**
2	The amounts recognised in the Profit and Loss Account are as follows:	
	Service cost	1,540,602
	Interest cost	311,246
	Expected return on plan assets	-
	Net actuarial (gain)/loss recognized in the year	(885,012)
	Expense recognized in the Profit and Loss Account of the year	**966,836**
3	Changes in the present value of defined benefit obligation	
	Defined benefit obligation as at 1 April 2007	3,032,567
	Service cost	1,706,358
	Interest cost	311,246
	Actuarial losses/(gains)	(885,012)
	Benefits paid	(93,461)
	Defined benefit obligation as at 31 March 2008	**4,071,698**
4	Changes in the fair value of plan assets	
	Fair value as at 1 April 2007	-
	Expected return on plan assets	-
	Actuarial (loss)/ gains	64,615
	Contributions	(35,769)
	Benefits paid	(28,846)
	Fair value as at 31 March 2008	-
	Assumptions used in the above valuations are as under:	
	Interest rate	7.95% - 8%
	Discount rate	8%
	Expected return on plan assets	NA
	Future salary increase	6%
	Attrition rate	2% - 5%
	Retirement age	58

The group has adopted the provisions of Accounting Standard 15 (revised) with effect from 1 April 2007. The impact on this adoption on the opening reserves was not material and being the first year of adoption, prior period comparatives have not been provided.

11. Stock based compensation

The Employee Stock Option Plan 2006 was approved in the Annual General Meeting of the members held in the month of September 2006 and was subsequently amended at the Annual General meeting held on 8 August 2007 to include the employees of the subsidiaries and also increase the period available to exercise the options.

The plan provides for the issuance of stock options to eligible employees (including directors of the Company and employees of the subsidiaries) with the total options issuable under the Plan not to exceed 2,723,300 options (being 10% of the issued and paid up capital) and includes a limit for the maximum number of options that may be granted to each employee. Under the plan, these options vest over a period of three years after the date of grant and can be exercised within a period of one year from the date of vesting.

As per the ESOP scheme of the Company, all the taxes, including Fringe benefit tax, are to be borne by the employees and hence will not have an impact on the profit and loss account of the company.

The disclosures along with the weighted average price for options movement during the year ended 31 March 2008 have been provided below:

	31 March 2008	
	Shares arising out of options	**Weighted average exercise price**
	(Numbers)	**Rs**
Options outstanding at the beginning of the year	-	-
Granted during the year	512,500	165.00
Forfeited during the year	-	-
Lapsed during the year	9,400	165.00
Cancelled during the year	-	-
Exercised during the year	-	-
As at 31 March 2008	**503,100**	**165.00**

The weighted average exercise price of the options outstanding at 31 Mar 2008 is Rs 165.00 and they had weighted average remaining contractual life of 24 months.

Had compensation cost been determined in a manner consistent with the fair value approach as prescribed under the fair value method, the Company's net profit and earnings per share as reported would have been adjusted to the pro-forma amounts indicated below:

	Year ended 31 March 2008
	Rs.
Net profit, as reported	322,681,685
Add: Stock-based employee compensation expense included in the Profit and loss account	598,896
Less: Stock based employee compensation expense determined under the fair value method	8,384,034
Pro forma net profit	**314,896,547**
Earnings per share – Basic	
As reported	11.85
Pro forma	11.56

Earnings per share – Diluted	
As reported	11.85
Pro forma	11.56

The fair value of the options granted is determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions :

Dividend yield %	3.28%
Expected life	18 to 42 months
Risk free interest rate	7.34% to 7.63%
Volatility	40.37%

12. Segmental Information

The group'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 group derives its entire revenues from services rendered in India. Consequently, the disclosure of business and geographic segment - wise information is not applicable to the group.

13. Prior year comparatives

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

14. Sebsequent Events

Royal Orchid Hotels Limited has acquired a 50% Equity interest in Cosmos Premises Private Limited for the purpose of operation of a hotel properity in Goa, India.

For and on behalf of the board of directors

Chander K Baljee	**Naresh K Malhotra**	**B. Chandrasekaran**
Managing Director	Director	Company Secretary

Bangalore
4 June 2008

CASH FLOW STATEMENT

		Year ended 31st March 2008	Year ended 31st March 2007
		Rs.	Rs.
A.	**Cash flow from operating activities**		
	Net profit before taxation	**466,973,993**	502,070,432
	Adjustments for:		
	Depreciation	**62,877,904**	43,981,998
	Interest income	**(31,058,268)**	(87,678,937)
	Gain on sale of current investments	**(20,622,580)**	-
	Interest expense	**43,707,085**	28,913,043
	Provision for doubtful debts	**982,543**	6,061,593
	Miscellaneous expenditure written off	**58,700**	-
	Employee stock based compensation expense	**598,896**	-
	Bad debts written off	**601,636**	-
	Operating profit before working capital changes	**524,119,909**	493,348,129
	Movements in working capital :		
	(Increase)/Decrease in sundry debtors	**25,567,367**	(22,972,519)
	(Increase)/Decrease in unbilled revenue	**(5,990,078)**	1,362,503
	(Increase)/Decrease in inventories	**(9,582,071)**	(385,619)
	(Increase)/Decrease in Loans and Advances	**110,260,962**	(333,484,593)
	Increase/(Decrease) in Current Liabilities	**(2,251,347)**	45,550,242
	Cash generated from operations	**642,124,742**	183,418,143
	Direct taxes paid	**(114,985,373)**	(101,291,401)
	Fringe benefit tax paid	**(2,188,952)**	-
	Net cash from operating activities	**524,950,4187**	82,126,742
B.	**Cash flows from investing activities**		
	Purchase of fixed assets and decrease in capital work-In-progress	**(1,413,236,557)**	(158,992,705)
	Project Advances	**(99,892,700)**	-
	Net investment in term deposits & margin money	**931,595,070**	19,167,034
	Purchase consideration for acquisition of interest in assoicates	**(36,400,000)**	-
	Purchase of investments	**-**	(200,000)
	Gain on sale of MF	**20,622,580**	-
	Loans to subsidiaries	**(26,641,865)**	-
	Interest received	**51,982,020**	67,785,631
	Net cash used in investing activities	**(571,971,452)**	(72,240,040)
C.	**Cash flows from financing activities**		
	Dividend paid including taxes thereon	**(191,174,264)**	(155,267,643)
	Share issue expenses paid	**-**	(9,449,821)
	Minority Interest	**104,049,238**	-
	Proceeds from long-term borrowings	**462,500,000**	77,500,000
	Repayments of long term borrowings	**(86,163,493)**	(56,387,029)
	Proceeds from short term borrowings	**11,584,505**	1,002,869
	Interest paid	**(43,414,630)**	(21,797,569)
	Net cash generated by /(used in) financing activities	**257,381,356**	(164,399,193)
	Net increase in cash and cash equivalents (A + B + C)	**210,360,321**	(154,512,491)
	Cash and cash equivalents at the beginning of the year	**72,766,308**	227,278,799
	Cash and cash equivalents at the end of the year (a)	**283,126,630**	72,766,308

CASH FLOW STATEMENT *(Contd...)*

Note:

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

Components of cash and cash equivalents as at year end		
	2008	2007
Cash and bank balances at 31 March	**565,325,157**	1,284,089,739
Less : Margin monies and Deposits considered separately (Refer note above)	**282,198,528**	1,211,323,431
	283,126,629	72,766,308

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

For Walker, Chandiok & Co	**For and on behalf of the Board of Directors**		
Chartered Accountants			
Per **Aashish Arjun Singh**	**Chander K Baljee**	**Naresh K. Malhotra**	**B Chandrasekaran**
Partner	Managing Director	Director	Company Secretary
Membership No. 210122			
Bangalore	Bangalore		
4th June 2008	4th June 2008		

SUMMARISED STATEMENT OF FINANCIALS OF SUBSIDIARY COMPANIES

	Icon Hospitality Private Limited	Maruti Comforts & Inn Private Limited	Royal Orchid Jaipur Private Limited	Royal Orchid Hyderabad Private Limited	Royal Orchid South Private Limited	Royal Orchid East Private Limited	AB Holdings Private Limited	Multi Hotels Limited
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Capital	18,776,200	410,00,000	16,600,000	17,700,000	9,100,000	5,000,000	2,600,000	967
Reserves	517,922,539	(371,88,595)	11,633,313	(2,425,536)	(2,782,344)	(14,852,100)	(10,087,283)	120,106,003
Total Assets	1,003,158,711	88,731,056	89,188,298	15,331,591	7,299,582	70,072,418	905,19,658	133,910,685
Total Liabilities	466,389,972	84,919,651	60,954,985	57,127	981,926	79,924,518	98,006,941	13,803,715
Details of Investment (except investment in subsidiaries)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Turnover	296,536,934	59,580,636	82,151,753	15,000	5,596	32,107,113	Nil	Nil
Profit Before Taxation	67,006,279	4,087,969	17,008,829	(53,827)	(2,588,920)	(9,807,053)	(8,092,655)	(121,561)
Provision for Taxation	21,160,000	56,918	5,835,833	50	Nil	21,069	166,000	Nil
Profit After Taxation	45,846,279	4,031,051	11,172,996	(53,877)	(2,588,920)	(9,828,122)	(8,258,655)	(121,561)
Proposed Dividend	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

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:	7392	State code	8
Balance sheet date	31/3/2008		

ii Capital raised during the year

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

iii Position of Mobilisation and deployment of funds (Rs.)

Total Liabilities	1,971,128,655	Total Assets	1,971,128,655

Sources of fund

Paid up capital	272,339,650	Reserves & Surplus (P & L a/c)	1,488,606,379
Secured Loans	169,583,730	Unsecured loans	0

Application of funds

Net Fixed assets	539,643,614	Investments	618,448,512
Net current assets	773,915,542	Preliminary expenses	0
Accumulated losses	0		

iv Performance of the Company (Rs.)

Turnover	921,265,511	Total Expenditure	521,717,203
Profit /(loss) after tax	306,799,805	Earnings per share in Rs.	11.27
Dividend rate%	60%		

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

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

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