

Annual Report 2009-10
Serving new India



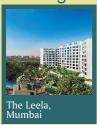
The Leela Palace, New Delhi at Chanakyapuri

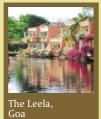


Mission Statement

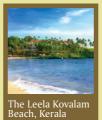
TO DELIGHT AND SATISFY OUR GUESTS BY AIMING BEYOND THEIR EXPECTATIONS AND DELIVERING WARM, GRACIOUS INDIAN HOSPITALITY AND EXTRAORDINARY SERVICE.

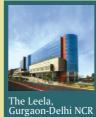
Existing Hotels

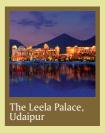








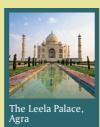




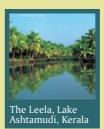
Proposed Hotels and Resorts

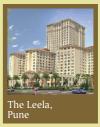




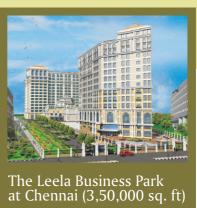












Pan India Presence

Existing Hotels



Proposed Hotels and Resorts 🛞



Serving new India



We are evolving to serve the new face of a more confident India. We are adapting to the needs and tastes of present and future generations. For our discerning guests, from both outside and within India, We are offering our unique idea of supreme luxury, Laced with Indian values and the best of modern day comforts. As a leading luxury hotel group of India, we are not standing still. With an evolving Pan India presence and quantum growth in assets, We are setting new benchmarks of luxury, tranquility and service.

CORPORATE INFORMATION

Statutory Auditors PICARDO & CO. **Chartered Accountants**

Mulla & Mulla & Craigie Blunt & Caroe

Registered & Corporate Office

The Leela Kempinski, Sahar Mumbai 400 059 Website: www. theleela.com E-mail: investor.service@theleela.com

Company Secretary Dinesh Kalani

Registrar & Share Transfer Agents M/s. Sharepro Services (India) Pvt. Ltd. 13 A/B Samhita Warehousing Complex 2nd Floor, Off. Andheri Kurla Road Sakinaka Telephone Exchange Lane Sakinaka, Andheri East Mumbai - 400 072 E-mail: hotelleela@shareproservices.com

Investor relations centre: 912, Raheja Centre

Free Press Journal Road Nariman Point Mumbai - 400 021

Bankers / Financial Institutions

Housing Development Finance Corporation Limited

State Bank of India & Associated Banks

Export Import Bank of India

Bank of India

Union Bank of India

Bank of Baroda

Vijaya Bank

J & K Bank Limited

IDBI Bank Limited

The Federal Bank Limited

Oriental Bank of Commerce

Syndicate Bank

29th Annual General Meeting

Date: Tuesday, 10th August, 2010 Time: 11.00 a.m.

Shree Bhaidas Maganlal Sabhagriha U-1, Juhu Vile Parle Development Scheme Vile Parle (West) Mumbai - 400 056

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CHAIRMAN'S **STATEMENT**



Dear Colleagues

As an emerging economic power and the world's largest free and democratic nation, India prominently features on everybody's lips. Its true calling came when it demonstrated its ability to muster a quick rebound in the midst of an ongoing global recession and the financial meltdown. Against this background, we remained firm in our belief that the value of top quality assets are maximised through long term holding.

We are now beginning to see some signs that the world's major economies, particularly those in Asia are stirring back to life. I am heartened to see that globally too we are beginning to see some positive indication of economic revival.

During this challenging period, our path forward was straight and unwavering - we decided to focus on doing what we do best - serve our loval guests to our best abilities, giving them good reasons to repeatedly want an uncompromised Leela experience. Throughout the year, the Company constantly optimized its organisation, deploying cost-reduction plans and introducing innovative sales initiatives, with the goal of limiting the decline in sales and margins and preparing for a rebound at the first signs of a recovery. As a result of this strategy, we limited our revenue and contribution decline and generated sufficient cash to comfortably meet all our on-going obligations, while being fully prepared to take advantage of an improved economic climate.

Most importantly, we stayed with our commitment to invest with an extended horizon in mind, willing to wait patiently for our investments to bear fruit through asset appreciation and enhanced operational earnings over time.

Pursuing our transformation

As we move into a more business friendly conducive economic environment, we are steadfastly pursuing our agenda of becoming a pan India luxury hotels group. This agenda is being implemented by the basic tenets as follows:

Our continued focus on the luxury segment of hospitality: we wish to stand out as a premier player within the luxury segment of the Indian hospitality industry, through our exquisite palaces and unique resorts.

Our asset-right real estate strategy: we wish to continue building our pipeline of new properties through judicious acquisitions and disposals within our real estate portfolio, in line with our strategy to become a pan India luxury chain.

"Thanks to our proactive strategy, discipline and creativity, we held up well and stayed on course. 2010 will be the year of a new adventure for Leela."

Assertive expansion: Perhaps the one single distinguishing event this year has been the opening of The Leela Palace Udaipur, which benchmarked new standards of luxury in Udaipur. I am delighted with the global response and appreciation received on this property. During FY2010, we also successfully opened a luxury business hotel in Gurgaon through a Management Contract. A first within Leela's business set-up, we are encouraged by the solid returns we are making through the management business model, giving us the nudge to replicate and grow this side of our business.

In terms of our current pipeline of new assets, we are well on track to open our landmark luxury property at Chanakyapuri, New Delhi and a top-end hotel at Adyar in Chennai through FY2011. Going forward, we also plan to add properties in Agra, Lake Ashtamudi, Kerala, Hyderabad and Pune, where we own ideal land assets.

Ongoing marketing innovations: with a determination to maintain and gain market share, we continue to invest in our customer relationships and loyalty programmes with support from strong visible promotional campaigns.

Solidifying our financial foundation: I am pleased to inform you that your Company capitalized on the global financial scenario and bought back and reduced its Euro Bond 2010 exposure from Euro 60 Mn to Euro 39.20 Mn and US\$ Bond 2012 exposure from US\$ 100 Mn to US\$ 41.60 Mn. Your Company benefitted by the saving in the premium on the redemption of the Bonds which would otherwise have been payable on maturity and has at the same time deleveraged its balance sheet in the process. Sensing a strong recovery going forward, we are determined to further optimise our gearing by exploring well thought-out land asset consolidations and strategic equity fund raising.

Committed for the future

While the crisis has impacted the Company's results in FY2010, it did not call into question the Company's development objectives. Leela's hotel expansion program demonstrated solid resilience during the year. Backed by a sound financial position that puts Leela in control of its own future, we opened nearly 495 rooms during the last 2 years with 592 rooms coming up through the next 12 months. This focus on growth during a period of recession has positioned the Company to take full advantage of the forthcoming economic recovery that has already begun to take shape. The timing of the Delhi property's opening in line with the Commonwealth games also bodes well for the Company. The Leela Palace in Delhi will herald the ushering of new benchmarks in luxury, service and comfort - giving the national capital a new hotel to be proud of.

Industry initiatives

In recent years, our tourism officials have done a commendable job in globally promoting India, but much more can be done. A country as versatile and rich as ours can manage to tailor-make itineraries for every kind of holiday-whether it is hills, rivers, beaches or religious spots-India has enough to offer for a vacation lasting 365 days. Little has been done by way of improving infrastructure to promote India's sites of heritage and pilgrimage.

Today, perseverance is an important element in operating a hospitality business. The experience of building our latest Delhi project has taught us how essential it is for every state to have a single window committee to approve and fast track plans within a turnaround time as little as seven days, without compromising on the intrinsic features of a destination.

Indian tourism is beginning to face serious competition from many destinations regionally and we need to look at ways to make it much easier for tourists to choose India for their vacations. The easing of visa procedures would be one strong measure we could take towards this. Furthermore, to compete globally, the industry needs to have access to global multilateral financing. As hotel projects are capital intensive and need long-term loans for 15 years or longer, the Government of India would do well to make low cost loans from sources such as the World Bank available to hoteliers, helping to substantially pare down the cost of finance required for such projects.

Acknowledgement

I want to express my special gratitude to every person working at Leela for their grit, determination and hard work in keeping our facility and guest relationship management to the highest standards possible, even in the face of tough market conditions and cost rollbacks. They have ensured that the 'Leela Experience' was never compromised. Together, we have witnessed a willingness to innovate and a tenacity to improve, that leaves me greatly appreciative of the strength and confidence that has grown with the Company and our shared vision for the future. I also take this opportunity to extend my heartfelt gratitude to all our shareholders and Board members for their support and good wishes.

Captain C.P. Krishnan Nair Chairman Hotel Leelaventure Limited



OPERATIONAL EXCELLENCE

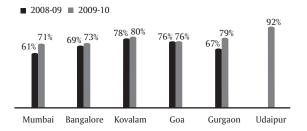
Ensuring Guest Delight



Mr. Rajiv Kaul, President

The Leela saw the challenging FY2010 period as an opportunity to further strengthen its processes and improve on efficiency and productivity. While we were unable to control the adverse macro economic conditions, we focused on working harder and smarter to protect and enhance our market share by strengthening our customer relationships across all six cities in which we operate. We worked on consolidating business relationships, avoided knee-jerk cost cuts and instead identified and worked on sustainable cost saving initiatives. We eliminated wastages in heat, light and power and "right-sized" our manpower staffing to achieve higher productivity levels. As market demand returns to pre 2008 levels across India and ARR's have also started to climb, today the Company is better poised to take advantage of the upswing in business and tourism travel.

Table-I: Guest Survey "Would you recommend this hotel to others?"



At the heart of The Leela's operational prowess is its endeavor to continuously raise guest service levels, based on robust operational processes. The Company believes that there is a "science behind the art of hospitality". It has set up a system of regular surveys and feedback mechanisms that measure progress against both tangible and intangible objectives. By analyzing the information obtained through such tools, and using the same for improvement, we are working to continuously enhance our operational efficiencies.

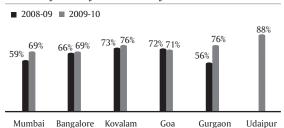
Guest Feedback

Since nearly 40% of our business comes from "word-ofmouth" referrals, it is vital to track and focus on the satisfaction levels of our guests. The organisation has in place a Web-based "Customer Feedback System" to gather unbiased & empirical feedback & opinions from all guests post their stay. Table-I shows that the Average Customer Feedback Scores for "Would you recommend us to others?" across all our properties, rose from 70% to 76% on a Y-O-Y basis, with Udaipur achieving a 92% rating in its maiden year itself.

Similarly, Table-II shows comparable improvements for "Would you stay with us again on your next stay?" across our entire properties rise from 65% to 72% on a Y-O-Y basis, with Udaipur achieving an 88% rating on its first year itself.

To measure and ensure consistency of guest service standards, the Company also implements Mystery Operational Audits conducted by multiple external agencies. The scores of all the properties have shown satisfactory improvement over the past 2 years. For their first year audit results, Gurgaon and Udaipur displayed impressive results, indicating alignment with group standards of operational excellence.

Table-II: Guest Survey "Would you stay with us on your next visit?"



At the heart of The Leela's operational prowess is its endeavor to continuously raise guest service levels, based on robust operational processes.

Employee Performance Measurement

Employee satisfaction and engagement is key towards maintaining high service levels that delight our guests. The organisation conducts annual Employee Satisfaction Surveys to track employee motivation and improve on the same. Coined as "GEMS" (Guest Expectations - Manage & Serve), we have also set up a system to identify, reward and recognize high performing employees who exhibit excellent guest service, teamwork and innovative ideas. Based on the guest feedback system (which generated over 12900 feedbacks in 2009-10) and internal reviews, the Company intends to felicitate and reward 38 top performers in the current GEMS cycle during FY2010.

We use the system of "Balanced Scorecard" for Strategy deployment as well as Performance measurement of all our executives through KRA's (Key Result Areas). This scorecard adopts a balanced approach towards the perspectives of Financials, Customer Satisfaction, Internal Processes and People parameters. Also, this process has proved useful to the Company for measuring employee performance and identifying high performers - to be groomed for added responsibilities in the future.

Hygiene and Safety

Events such as 26/11 and SARS underline the importance of health and safety. We, at Leela, lay great emphasis on our hygiene and safety standards and monitor these critical

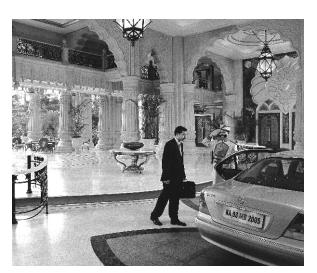
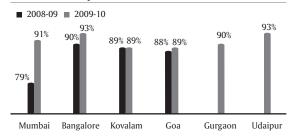


Table-III: Safety Audit Scores



pre-requisites through formal audits. Table-III shows the results of annual safety audits in which the scores are well over an internal target rating of 85%. Hygiene, being an important operational requirement of food handling organizations, it should be noted that, 3 of our units (Bangalore, Kovalam and Goa) have been certified with ISO-22000 (Food Safety) certification. The new units are currently undergoing the accreditation process.

Environment

At The Leela, we lay great emphasis on protecting the environment. Our Bangalore and Kovalam properties have achieved the ISO-14001 certification. Bangalore has also attained the Bronze level in the prestigious Green Globe Environment Sustainability Certification during the year. Going forward, we plan for all our properties to seek similar certifications over a period of time.





BOARD OF DIRECTORS



DIRECTORS' REPORT

To the Members

Your Directors have pleasure in presenting the Twenty-Ninth Annual Report of the Company together with its Audited Statement of Accounts for the year ended 31st March, 2010.

Financial Results

The Company's performance during the year under review is summarised below:

(Rupees in Crores)

	For the year ended 31st March 2010	For the year ended 31st March 2009
Income from Sales, Services and other Income	463.02	582.16
Operating and other expenses (before interest and depreciation)	305.58	296.58
Interest	24.47	27.20
Profit before Depreciation	132.97	258.84
Depreciation	68.33	65.39
Profit before Tax	64.64	193.45
Provision for Taxes / Fringe Benefit Tax / Deferred Tax	19.63	47.58
Profit after Tax for the year	45.01	145.87
Prior Period Adjustments - Net	3.99	0.89
Profit after Tax	41.02	144.98
Balance brought forward	287.74	201.44
Amount available for Appropriation	328.76	346.42
Appropriations:		
Dividend on Equity shares	7.56	15.11
Tax on proposed Dividend	1.25	2.57
Transfer to General Reserve	1.15	11.00
Transfer to Capital Redemption Reserve	6.00	30.00
Balance carried to Balance Sheet	312.80	287.74
EPS Basic (in Rs.)	1.09	3.84
EPS diluted (in Rs.)	0.92	3.13

Buy Back of Foreign Currency Convertible Bonds

During the financial year under review, the Reserve Bank of India liberalized EC Guidelines enabling the Companies to buy back their outstanding Foreign Currency Bonds. Taking advantage of liberalization in the policies governing premature buyback of Foreign Currency Convertible Bonds by the Reserve Bank of India, during the financial year under review, the Company managed to buy back outstanding Dollar Bonds of the face value of US\$ 25.40 million, which were issued by the Company earlier, at a discounted price as compared to the issue price and the book value of the Bonds. The Bonds, bought back under the "Automatic Route", were cancelled as per guidelines issued by the Reserve Bank of India. The particulars of the repurchase and position of outstanding FCC Bonds as on 31st March, 2010 are summarized below:

Particulars	Euro Bonds	US\$ Bonds
Face Value Outstanding Bonds as on 1.4.2009	39.20 Million	US\$ 67 Million
Face Value of Bonds repurchased	-	US\$ 25.40 Million
Current Face Value of Outstanding Bonds	39.20 Million	US\$ 41.60 Million
Maturity	Sep. 2010	April 2012

Secured Redeemable Non-convertible Debentures

During the year under review, the Company prepaid Secured Redeemable Non-convertible Debentures of Rs.60 crores, out of Rs.150 crores raised during the preceding year on Private Placement Basis from Institutional Investors / Banks for business needs. The NCDs have been listed on the Wholesale Debt Market segment of the Bombay Stock Exchange Limited. The NCDs are rated "CARE A" by Credit Analysis & Research Limited, indicating adequate safety for timely servicing of debt obligations and carry low risk.



DIRECTORS' REPORT (contd.)

Dividend on Equity Shares

Your Directors are pleased to recommended a dividend of Rs. 0.20 per equity share of Rs.2/- each (previous year Rs.0.40 Per share), subject to the approval of the shareholders at the ensuing AGM. The dividend would involve a cash outgo of Rs.7.56 crores towards dividend and Rs. 1.25 crores towards tax on dividend.

In terms of the Provisions of Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001, the Company has transferred unpaid/unclaimed dividends and principal/interest on debentures aggregating Rs. 3.04 lakhs to the IEPF during the financial year under review.

Review of Operations

The overall performance of the Company has declined during the year under review in line with the overall global economic slowdown. The total income stood at Rs. 463.02 crores (including income from discount on redemption of Bonds of Rs. 0.65 Crores) compared to Rs. 582.16 crores in the previous year.

The revenues of the Company from its various units are summarized as under:

(Rupees in Crores)

Name of the Unit	2009-10	Percentage of Revenue	2008-09	Percentage of Revenue
The Leela , Bangalore	142.27	36%	176.72	40%
The Leela, Mumbai	128.18	32%	147.67	34%
The Leela, Goa	66.87	17%	61.85	14%
The Leela, Kovalam	53.43	13%	54.35	12%
The Leela, Udaipur	9.74	2%	NA	NA
Total	400.49	100%	440.59	100%

The Average Room Rates in the city of Bangalore decreased by 32% and in Mumbai by 25% during the year. Overall ARR of the company for 2009-10, decreased by 20% as compared to 2008-09. However, as in the past, this year also, the Company maintained its market dominance in terms of revenue, ARR and Occupancy in Bangalore, Goa and Kovalam.

Product Enhancement

For the first time your company has entered in to a management contract to operate a hotel. The Leela, Gurgaon, owned by Ambiance Hotels & Resorts Limited and managed by our company under 'The Leela' brand, formally commenced business operations from April 2009. The business at this property with 319 guest rooms and 90 service apartments, in first year of operation, has been very successful and has secured 'Brand Leela' presence in North India. Our company earned fees of Rs. 11.84 crores in the year for managing the hotel.

The Leela Palace Udaipur with its breathtaking architecture and opulence started operation in stages in this fiscal year. It has 80 rooms and spa managed by ESPA. Although business has taken time to pick up in the first year of operation but the hotel has received excellent feedback and accolades from both trade analysts and discerning international travelers.

Marketing Alliances

The Company has marketing alliances with Germany based Kempinski Group of Hotels (Hoteliers since 1897) and US based Preferred Hotel Group and is a member of Global Hotel Alliance based in Geneva, Switzerland.

Under the alliance with Kempinski, the Company has been receiving, among others, international marketing services for the existing hotels, technical and pre-opening services for the proposed hotels in New Delhi and Chennai as well as other hotels that the Company would operate in the future, purchasing services, services related to IT and management information systems used in our hotels, as well as personnel and operational support.

This alliances with Preferred Hotel Group and Global Hotel Alliance, amongst others, derives benefits for the Company of Preferred Hotels and Resorts branding, greater recognition of brand in the USA as premium and luxury hotels, opportunity to leverage additional 29 Global Sales Offices in the USA, Singapore, Hong Kong, Japan and Australia; preferred relationship with four of the largest consortia American Express, CWT, BCD and Hogg Robinson, and also lower commission on receipts through American Express Credit Card, which results in substantial savings; opportunities to participate in many more road shows in our main source markets. The alliances assist the Company to acquire more international business and enhances our competitive positioning in the market.

Towards maintaining world-class standards, the Company has engaged ESPA of London, one of the leading Spa management companies in the world, to manage the Company's Spas at Mumbai, Goa, Udaipur, and Delhi.

Expansion / Up-gradation Plans

India is one of the fastest growing tourist markets in the world owing to its splendid historical architecture, rich heritage and ancient culture along with beautiful beaches and rural tourism, and the inherently rooted concept of hospitality in form