Report and Accounts 1997

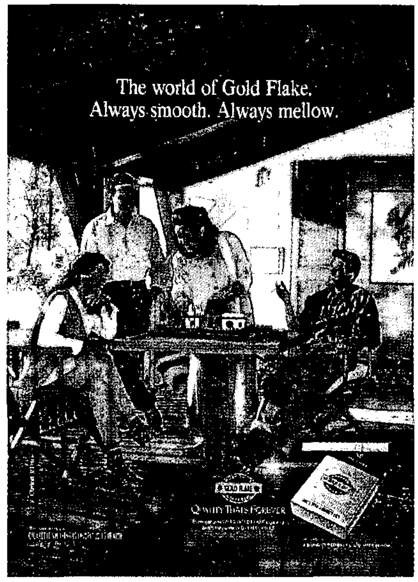
Notice not available

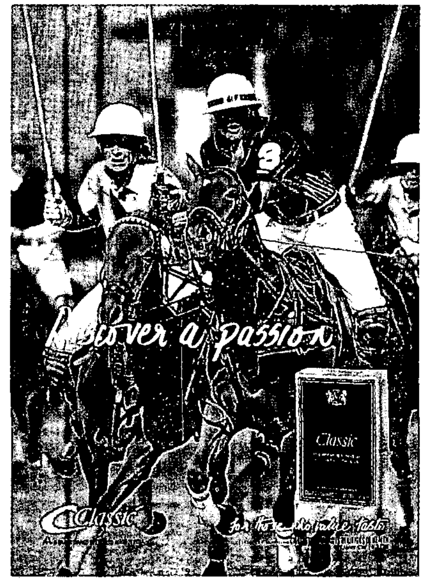
I.T.C. Limited

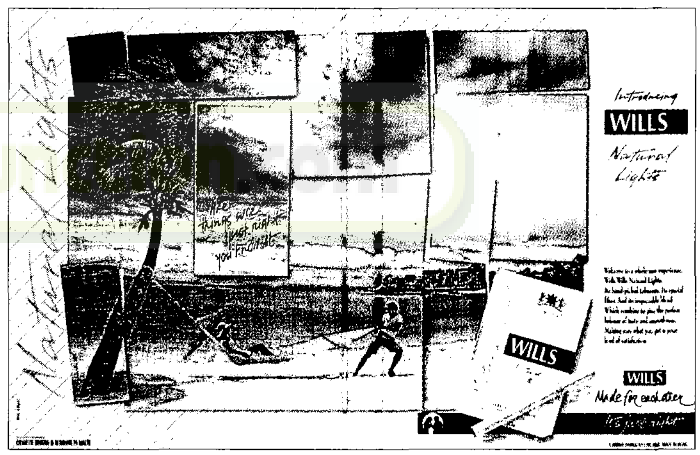
THE CONSUMER IS SOVEREIGN

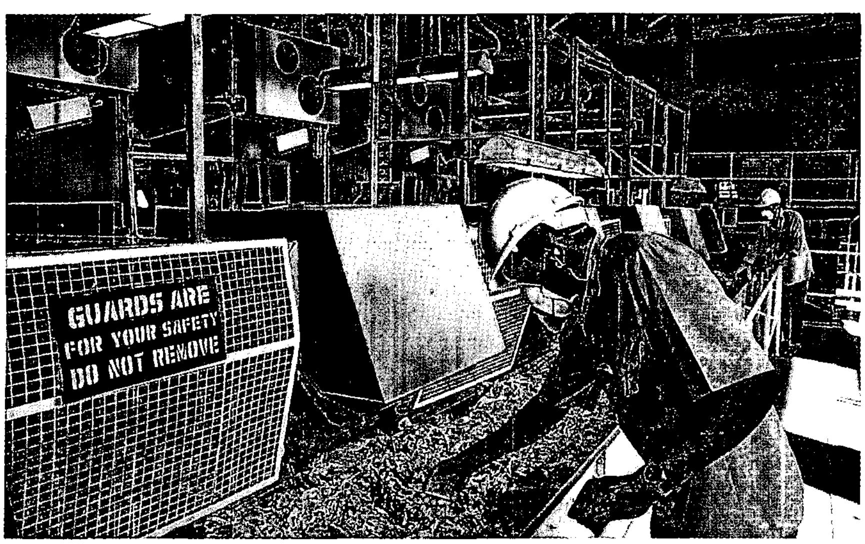
Market Leadership Through Consumer Satisfaction

India Tobacco Division's products and communication are constantly changing to meet consumer needs which are evolving continuously. The recent style and pack variant launches in line with international trends have been designed to cater to the discerning smoker. State-of-the-art promotions have positioned ITC's brands in a dynamic and contemporary fashion, offering the consumer a wide choice with international quality - the cornerstone of the Company's market leadership strategy.









Market Expansion Through Quality Tobaccos

Indian Leaf Tobacco Development Division has achieved the status of the largest exporter of unmanufactured cigarette tobaccos from India. This has been possible through understanding customer requirements, developing new varieties, providing farmers with comprehensive services to produce quality tobaccos and procuring the right styles. Its tobacco processing plants of international standards meet stringent specifications to deliver the right product and create lasting customer confidence.

CHAIRMEN EMERITUS
Ajit Narain Haksar
Krishan Lal Chugh

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

CHAIRMAN
Yogesh Chander Deveshwar

DEPUTY CHAIRMEN
Saurabh Misra
Feroze Rustom Vevaina

DIRECTORS
Biswadev Mitter
Narayanaswami Sitaraman

NON-EXECUTIVE DIRECTORS

Gary Richard Armstrong
(Alternate : Peter Lampard Clarke)
Tapan Ganguli
Pillutla Venkata Narasimham
Kumbakonam Padmanabha Narasimhan
Richard Henry Pilbeam
(Alternate : Timothy Geoffrey Fraser Lord)
Basudeb Sen
Ram S Tarneja
Balakrishnan Vijayaraghavan

BOARD COMMITTEES

CORPORATE MANAGEMENT COMMITTEE

DIRECTORS

Y.C. Deveshwar	Chairman
S. Misra	Member
F.R. Vevaina	Member
B. Mitter	Member
N. Sitaraman	Member

EXECUTIVES

M. Palta	Member
A. Singh	Member
P.K. Sinha	Member
K.S. Vaidyanathan	Member
A. Nayak	Invitee
B.B. Chatterjee	Secretary

NOMINATION COMMITTEE

Y.C. Deveshwar	Chairman
G.R. Armstrong	Member
T. Ganguli	Member
P.V. Narasimham	Member
K.P. Narasimhan	Member
R.H. Pilbeam	Member
B. Sen	Member
R.S. Tarneja	Member
B. Vijayaraghavan	Member
N. Sitaraman	Secretary

AUDIT COMMITTEE

K.P. Narasimhan	Chairman
G.R. Armstrong	Member
T. Ganguli	Member
P.V. Narasimham	Member
R.H. Pilbeam	Member
B. Sen	Member
R.S. Tarneja	Member
B. Vijayaraghavan	Member
B. Mitter	Permanent Invitee
K. Vaidyanath	Secretary

BOARD COMPENSATION COMMITTEE

K.P. Narasimhan	Chairman
G.R. Armstrong	Member
T. Ganguli	Member
P.V. Narasimham	Member
R.H. Pilbeam	Member
B. Sen	Member
R.S. Tarneja	Member
B. Vijayaraghavan	Member
N. Sitaraman	Secretary

SHARE & DEBENTURE REGISTRATION COMMITTEE

S. Misra	Member
F.R. Vevaina	Member
T. Ganguli	Member
B. Mitter	Member
P.V. Narasimham	Member
K.P. Narasimhan	Member
B. Sen	Member
N. Sitaraman	Member

EXECUTIVE VICE PRESIDENT & COMPANY SECRETARY

Bishwa Behari Chatterjee

SENIOR VICE PRESIDENT & SOLICITOR

Piyush Kanti Sinha

INVESTOR SERVICE CENTRE

37 Chowringhee, Calcutta 700 071.
Phone : (09133) 226-0034/29-6426
Fax : (09133) 245-2258

AUDITORS

Lovelock & Lewes
Chartered Accountants, Calcutta.

REGISTERED OFFICE

Virginia House
37 Chowringhee, Calcutta 700 071
India.

REPORT OF THE DIRECTORS FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 1997

Your Directors submit their Report & Accounts for the Financial Year ended 31st March, 1997.

SOCIO-ECONOMIC ENVIRONMENT

Both the Union Budget and the new credit policy announced by the RBI have been widely acclaimed, and are expected to provide a growth impulse to the economy. Concurrent investments in the infra-structure sector will help to provide sustainable economic growth. Your Company's core businesses have been further strengthened, and are competitively positioned to capitalise on growth opportunities that arise as a consequence.

PERFORMANCE OF THE COMPANY

During the year under review your Company has reinforced its leadership position in all its core businesses.

- Net Profit at a record Rs. 347 crores represents an increase of 33% over last year.
- Gross Turnover at Rs. 5,863 crores is also at a record level and represents a growth of nearly 15% over last year, even after the restructuring and consolidation of export operations. Consequently, Foreign Exchange inflows of Rs. 653 crores generated directly from your Company's trading activities were higher than Rs. 622 crores generated last year.
- As outlined in the Section on "Excise" appearing later in this Report, your Company had made a deposit of Rs. 170 crores in the year ended 31st March, 1996, in pursuance of the CEGAT Order dated 15.3.96. A further Rs. 180 crores deposit was made in 1996/97 in fulfilment of the CEGAT Order. The aggregate amount thus deposited is Rs. 350 crores.
- Your Directors are pleased to recommend a dividend of Rs. 4.00 per Share (previous year Rs. 2.50 per Share) for the year ended 31st March, 1997. The consequent outflow, including the dividend tax of Rs. 9.82 crores, will be Rs. 107.99 crores (previous year Rs. 61.35 crores). Although your Board is confident of the Company's stand in various pending legal disputes, as a measure of abundant prudence, it recommends transfer of Rs. 190 crores to a Contingency Reserve out of unappropriated profits to take care of any unforeseen developments. Your Board further recommends a transfer to General Reserve of a statutory maximum of Rs. 34.26 crores from current year's profits, after appropriating an amount of Rs. 38.51 crores to the Debenture Redemption Reserve. Consequently, your Board recommends leaving an unappropriated balance in its Profit & Loss Account of Rs. 128.46 crores.

PROFITS, DIVIDENDS & RETENTION

(Rs. in crores)

	1997	1996
a) Profit Before Tax	**586.65**	452.23
b) Income Tax	**239.75**	191.15
c) Profit After Tax	**346.90**	261.08
d) Add : Profit brought forward from previous year	**156.62**	2.00
Hotel Foreign Exchange Earnings Reserve written back	**10.90**	3.78
e) Less : Transfer to Hotel Foreign Exchange Earnings Reserve	**15.20**	11.00
f) Surplus available for Appropriation	**499.22**	255.86
g) Transfer to Debenture Redemption Reserve	**38.51**	12.50
h) Transfer to Contingency Reserve	**190.00**	—
i) Transfer to General Reserve	**34.26**	25.39
j) Proposed dividend for the financial year at a rate of Rs. 4.00 per Equity Share (previous year Rs. 2.50 per Equity Share subject to tax)	**98.17**	61.35
Income Tax on Proposed Dividend	**9.82**	—
k) Retained Profits carried forward to the following year	**128.46**	156.62
	499.22	255.86

FOREIGN EXCHANGE EARNINGS

As outlined in last year's Report, your Company has consolidated its export activities with focus on a more compact product range. Foreign Exchange earnings are expected to grow through the hotels business and exports of packaging & speciality paper, apart from the on-going thrust on agri-exports, which links Indian farmers to world markets.

Foreign Exchange earnings amounted to Rs. 798 crores (1995/96 – Rs. 747 crores) including Rs. 653 crores directly by your Company, Rs. 117 crores through ITC Hotels Ltd. and Rs. 28 crores earned by the small-scale sector, through the marketing efforts of your Company.

Your Company continues to retain the prestigious **"Super Star Trading House"** status which is the highest recognition in the country for export performance. Your Company takes pride in its contribution to this national priority, and has contributed over US $ 1100 million in foreign exchange earnings over the last 5 years.

PRODUCT GROUPS

a) Cigarettes and Tobacco

The cigarette industry contributes nearly 90% of Government revenue from tobacco, even though it accounts for less than 20% of tobacco consumption in India. Hence, any growth in the share of cigarettes within the tobacco basket, helps to expand the tax base.

The small size cigarettes (of length less than 60 mm) helped the cigarette industry to achieve a record volume in 1996/97, thereby enabling a larger number of tobacco users to upgrade to the most modern form of tobacco consumption. Simultaneously, this helped to expand the tax base for the exchequer by bringing a larger number of tobacco users in the tax net. Unfortunately, the excise increase of 20% announced in the recent Union Budget, may reverse this trend, as smokers in the lowest price slabs are forced to convert to other forms of tobacco, which yield marginal revenue. This is likely to impede revenue accretion, and thereby sub-optimise the revenue potential of this sector.

Your Company has further strengthened its position as the market leader in all segments. Five out of the top six trademarks in the industry are owned by your Company. The WILLS GOLD FLAKE family is the largest single trademark in the consumer goods sector in India. Similarly, WILLS NAVY CUT is the largest free standing brand amongst consumer goods.

Your Company recognises the potential of its trademarks and invests continuously to upgrade their value. The launch of CLASSIC ULTRA MILDS and WILLS NATURAL LIGHTS has further enriched the brand portfolio offered by your Company.

The Delhi State administration has imposed a ban on tobacco advertising. This is an unfortunate development, and your Company has represented to the authorities to reconsider this decision, as it infringes the consumers' right to receive information. The role of advertising is to inform consumers in product differentiation in features and value, intensify competition, thereby encouraging quality upgradation, thus providing better value to the consumer. Contrary to general impression, advertising does not necessarily help to expand consumer demand for a product group, specially for mature product categories like tobacco. Such bans have not succeeded on other products, most notably, liquor.

Your Company is in the midst of a major modernisation programme which is part of an on-going endeavour to remain globally competitive. Investments of Rs. 850 crores have been planned over the next 5 years, apart from Rs. 300 crores invested in the immediate past. This will help to keep quality contemporary with international trends. Simultaneously, landmark employee agreements were concluded at the Saharanpur and Calcutta factories to improve capital and employee productivity.

Your Company has entered into Agreements with Ardath Tobacco Company Ltd., U.K. and Benson & Hedges (Overseas) Limited, U.K., both subsidiaries of British American Tobacco (Holdings) Ltd., U.K., also a signatory to the said Agreements, for licencing, including manufacturing and sale in India, of certain BAT's International Brands to the Company. The above is subject to the approval of the Government of India and other statutory authorities for which necessary steps are being initiated.

In the year under review, leaf tobacco exports registered an increase of 30% by volume and

65% by value, with your Company having achieved a record export turnover. The performance would have been even better, but for disruptions in exports during the peak season, due to government enquiry into certain export transactions. A substantial proportion of your Company's leaf tobacco exports were to subsidiaries of British American Tobacco Holdings. Your Company consolidated its export position to discerning customers in Western Europe, regained volume in the C.I.S. and entered new markets; and is confident of maintaining this momentum in 1997/98 as well.

b) Hotels

The Welcomgroup chain of hotels turned in another good year with both turnover and Foreign Exchange earnings growth of 16%, despite a slow-down in tourist arrivals.

Your Company's flagship Maurya Sheraton Hotel & Towers, which is operated and marketed by ITC Hotels Ltd., has further consolidated its status as the preferred hotel for the upmarket business traveller in New Delhi, as well as heads of states and celebrities. The capacity of this hotel is being augmented through the addition of a second tower, work on which has now commenced.

Your Company plans to make major investments directly in this sector, in addition to your Company's subsidiary – ITC Hotels Ltd.– which has embarked on a major expansion programme, covered later in this Report.

c) Packaging & Printing

This business has made significant improvements, with focus on cigarette and liquor packaging, where it has a leadership position. A strong entry position has now been built-up on the export front, with growing sales of cigarette packaging to BAT subsidaries in Africa and Central Asia.

The Division has earned the status of the number one exporter in its category, having won the top exporter award from CAPEXIL. Fresh investments have been initiated to support the export programme and the growing sophistication of the Indian market.

d) Speciality Paper

The world paper industry is going through a severe recession, which has triggered intense price competition. This has intensified competition in the Indian market, aided by the reduction in import duties on most grades of paper to 20%, as announced in the 1996 Union Budget.

These developments have increased the gestation for your Company's investments in the modernisation and expansion of the Tribeni Mill. Several initiatives have been introduced to make the Mill quality and cost competitive, including focus on selected product segments, greater export thrust and an operations improvement programme in collaboration with a specialist consulting firm.

The possibility of an international collaboration/ alliance is also being pursued vigorously.

e) International Export Businesses

The focus this year was primarily on consolidating the product range and strengthening the risk management systems. The emphasis was on building sustainable export earnings. The risk-prone aqua food export operations was significantly down-sized. As a consequence, export turnover declined from Rs. 366 crores in 1995/96 to Rs. 257 crores in 1996/97.

Your Company, as a leading Foreign Exchange earner during the '90s, remains committed to this national priority; and is exploring possible international alliances to strengthen the growth potential in this sector.

AUDIT AND SYSTEMS

Your Company continues to update systems and ensure adherence to such systems. This is validated through the process of internal audit, which cover all aspects of operations.

During the year, Project and Information Technology audits were strengthened. The Committee of Directors adopted two comprehensive policy manuals to operationalize systems in these two areas. All internal auditors have been provided training to accord priority to high risk areas.

HUMAN RESOURCE DEVELOPMENT

During the year, a new management structure was put in place to support corporate and business strategies.

Your Company's Human Resource Management and Development initiatives continue to attract, retain and develop the best managerial talent required to take your Company forward.

Your Company went through a difficult and trying phase, during which the employees distinguished themselves by demonstrating exemplary leadership and teamwork. The business results for the year are a testimony to the quality and commitment of your Company's employees.

Your Board acknowledges the excellent contribution of all employees.

EXCISE

In the Report & Accounts of the last ten years, your Directors had mentioned that, consequent upon a search and seizure conducted by the Excise Authorities, a Show Cause Notice dated 27th March, 1987 was issued to your Company for alleged evasion of Excise Duty during the period from 1st March, 1983 to 28th February, 1987. The charge was based on the premise that your Company allegedly colluded with retailers in selling cigarettes at a price higher than that printed on the package, which was the basis of levying duty during the aforesaid period. Your Company was therefore asked to show cause as to why it should not be required to pay duty at the higher slab corresponding to the actual price allegedly charged by the retailers, amounting to an exorbitant sum of Rs. 803.78 crores, besides being subject to other penalties under the law.

The hearing of the Show Cause Notice proceeded before the Commissioner of Central Excise, Delhi, who, by an Order dated 29.12.95, has confirmed a differential excise duty demand of Rs. 681.54 crores against your Company and also levied a penalty of Rs. 66.50 crores on it. Personal penalties aggregating to Rs. 3.15 crores have also been imposed on six ex-Directors of your Company. The Commissioner has also confirmed the demand of Rs. 118 crores on seven Contract Manufacturers of your Company and levied penalties on them aggregating to Rs. 7 crores.

Your Company preferred an Appeal to the Customs Excise and Gold (Control) Appellate Tribunal (CEGAT) against the Commissioner's Order dated 29.12.95, as also an Application for dispensing with the pre-deposit of the differential duty amount of Rs. 681.54 crores and penalty amount of Rs. 66.50 crores, and for stay. Similarly, all six ex-Directors of your Company, as well as the Contract Manufacturers, preferred Appeals to the CEGAT as also Applications for waiver of pre-deposit of the differential duty and penalty amounts, and for stay.

In respect of the Appeals of the Contract Manufacturers the CEGAT directed that the pre-deposit of the entire amounts of differential duty and penalty should be dispensed with in their case. In the case of the six ex-Directors also directions for dispensing with the pre-deposit of the penalties have been given by the CEGAT.

Further, by its Order dated 15.3.96 the CEGAT directed your Company to deposit Rs. 110 crores on or before 30th April, 1996 and a further amount of Rs. 240 crores in eight equal monthly instalments commencing 1st June, 1996. The requirement of pre-deposit of the balance differential duty amount of Rs. 331.54 crores and the entire penalty amount of Rs. 66.50 crores has been waived, subject to the conditions regarding payment of instalments as indicated above and also furnishing of Bonds. In compliance with the above Order of the CEGAT, your Company has deposited with the Excise Collectorates having jurisdiction over five factories of your Company, a total amount of Rs. 350 crores, and has also furnished a Bond.

The above Appeals filed against the Order of the Commissioner dated 29.12.95 by your Company, the ex-Directors and the Contract Manufacturers will be taken up for final hearing in due course. Your Company has obtained the opinion of an eminent jurist that the aforesaid demand is not sustainable in law.

In respect of the excise valuation disputes concerning pre-1983, despite judgments of the Supreme Court and the opinion of eminent jurists, doubts were sought to be raised by the Excise Department, *inter alia*, on the interpretation of Rule 5 of the Central Excise (Valuation) Rules, 1975, which was accepted during the proceedings on the quantification of differential duty determined pursuant to an Order passed by the Director General of Inspection (Customs & Central Excise), New Delhi.

In fact, in the Report in 1987, your Directors had occasion to mention that the Collector of Central Excise, Patna, by Show Cause Notices dated 2nd and 3rd July, 1987 had reopened some of the issues already settled by the order of the Director General, in respect of despatches from your Company's factory in Munger. According to the said Notices the duty allegedly short levied has been estimated at Rs. 43.88 crores besides penalties proposed. Similar Notices dated 25th September, 1987; 7th October, 1987; 27th July, 1988; 16th December, 1988; 21st October, 1987 and 27th January, 1988 were also received from the Collectors of Central Excise, Bangalore, Calcutta, Bombay and Meerut between 15th October, 1987 and 16th December, 1988, alleging short levy of duty estimated at Rs. 143.22 crores, Rs. 31.05 crores, Rs. 41.51 crores and Rs. 26.00 crores in respect of despatches from your Company's factories at Bangalore, Kidderpore, Parel and Saharanpur respectively. The Government of India by Orders dated 25th January, 1989 and 23rd February, 1989 assigned the said Show Cause Notices to the Director General of Inspection (Customs & Central Excise), New Delhi, for investigation and adjudication. However, before hearings could commence, the Government of India by Order dated 5th January, 1990 transferred these cases to the Collector of Central Excise, Delhi, for investigation and adjudication.

On 3rd May, 1991, the Collector of Central Excise, Delhi, passed an order in respect of the Show Cause Notice dated 27th July, 1988 issued by the Assistant Collector of Central Excise, Calcutta ruling that your Company's interpretation of Rule 5 of the Central Excise (Valuation) Rules, 1975, is to be accepted following a judgment of the Customs, Excise and Gold (Control) Appellate Tribunal in the VST Industries case. While answering the issue of Rule 5 in favour of your Company, the Collector of Central Excise, Delhi, also chose to impose a penalty of Rs. 5 lakhs without any legal basis, against which your Company preferred an appeal to the CEGAT. The CEGAT has stayed the recovery of the penalty of Rs. 5 lakhs pending the hearing of the appeal, on deposit of a sum of Rs. 2.5 lakhs as a condition for granting stay. The hearing of the appeal is pending.

However, contrary to his own Order of 3rd May, 1991 and the CEGAT judgment in the VST Industries case mentioned above, the Collector of Central Excise, Delhi, while adjudicating five Show Cause Notices tending to reopen the settlement earlier mentioned of Rs. 47.17 crores, passed an order on 29th November, 1991 accepting a different interpretation of Rule 5 as correct. Your Company filed an Appeal and an Application for Stay to the CEGAT against the said order.

The CEGAT granted an unconditional stay in the first instance and then by its Order dated 18th March, 1994 accepted your Company's contention and held that the earlier CEGAT Judgment in VST Industries case on the interpretation of Rule 5 (i.e. any additional consideration is to be added to the price and not directly to assessable value for purposes of calculation of excise duty) lays down the correct legal position.

The Special Leave Petitions filed by the Excise Department against the CEGAT Order dated 18th March, 1994, as also against the earlier CEGAT Order in VST Industries case, came up for admission before the Supreme Court. The Supreme Court dismissed both the Appeals against the Orders of the CEGAT on merits. Thus, the firm and consistent stand of your Company that any additional consideration can be added only to the price for calculation of excise duty has been approved by the Supreme Court.

In accordance with the law laid down by the CEGAT in its Order dated 18th March, 1994, now upheld by the Supreme Court, exorbitant amounts set out in the Show Cause Notices referred to above would stand virtually extinguished.

The Commissioner of Central Excise, Delhi, to whom the abovementioned Show Cause Notices are assigned, by his Orders both dated 29th March, 1996, has set aside two Show Cause Notices from the Kidderpore Excise Collectorate, one dated 7.10.87 proposing a differential duty demand of Rs. 23.20 crores approximately, and the other dated 16.12.88 proposing a differential duty demand of Rs. 7.37 crores approximately, after accepting your Company's contention that the concerned Assistant Collector had no jurisdiction to issue the same. After setting aside the two Show Cause Notices, the Commissioner of Central Excise, Delhi, has remanded the whole matter back to the Kidderpore Collectorate for fresh assessment in accordance with law. In respect of Bangalore, Parel and Munger, the Commissioner has ordered the Departmental authorities to finalise the assessments, while he is yet to pass any orders in respect of the Saharanpur factory. The Assistant

Commissioner in Bangalore thereafter issued a notice purporting to finalise assessments for the period 1.10.75 to 28.2.83, and subsequently passed an order substantially in terms of the notice. Your Company challenged the order before the Commissioner (Appeals), who has set aside the Order of the Assistant Commissioner and remanded the matter for a *de novo* adjudication.

Besides the above, a demand notice was issued on 29th September, 1987 by the Assistant Collector of Central Excise, Bangalore for Rs. 27.58 crores, allegedly payable under the order of adjudication passed by the Director General of Inspection (Customs & Central Excise) on the basis of the disputed interpretation of Rule 5 of the Central Excise (Valuation) Rules, 1975 even while the Show Cause Notice dated 25th September, 1987 issued by the Collector of Central Excise, Bangalore, raising the same question regarding the interpretation of Rule 5 was pending adjudication. Your Company filed a Writ Petition in the Hon'ble Madras High Court challenging the legality of the Notice and the Hon'ble High Court was pleased to stay the said demand. The Hon'ble High Court has now quashed the demand, granting liberty to the Department to issue a fresh Show Cause Notice in this behalf and proceed further. Similar Demands were issued by the Assistant Collectors of Saharanpur and Patna for approximately Rs. 80.3 crores and Rs. 2.51 crores respectively, while the Show Cause Notices issued by the Collector of Central Excise, Meerut and Patna, on the question of interpretation of Rule 5 are pending. A writ petition against the demand issued by the Assistant Collector, Saharanpur was filed in the Hon'ble Allahabad High Court, which in its Order dated 9th August, 1990 ruled that your Company should first exhaust its remedy of going on appeal against the Order of the Assistant Collector. On a Special Leave Petition filed against the said Order of the High Court, the Hon'ble Supreme Court concurred by an Order dated 22nd August, 1990 with the High Court and permitted your Company to file an appeal before the Collector (Appeals). Pursuant thereto, an appeal has been filed before the Collector (Appeals) who also granted stay of the operation of the impugned Demand on the condition of a pre-deposit of Rs. 20 crores which was paid. On hearing the appeal, the Collector (Appeals), vide Order dated 18.10.94, has confirmed the demand to the extent of Rs. 76.03 crores. Your Company filed an Appeal to the CEGAT against the Order of the Collector (Appeals) together with an Application for Stay. The CEGAT dispensed with the pre-deposit of the balance differential duty amount of Rs. 56.03 crores and has stayed its recovery, pending hearing and disposal of your Company's Appeal. Your Directors are advised that this demand is patently contrary to the CEGAT judgments on Rule 5 of the Central Excise (Valuation) Rules, 1975, now upheld by the Supreme Court as aforesaid, and is, therefore, unsustainable.

It has been mentioned in the Report of your Directors in 1989 that the demand of Rs. 2.51 crores by the Assistant Collector of Central Excise, Patna, was ultimately revised to an amount of Rs. 8.29 crores. As mentioned in the Report of your Directors in 1990, a consequent writ petition was disposed of by the Hon'ble Patna High Court in your Company's favour quashing the Central Excise demand of Rs. 8.29 crores. The Hon'ble Patna High Court held that the said demand of Rs. 8.29 crores was issued in violation of the principles of natural justice, since no Show Cause Notice was issued prior to the raising of the demand. The Patna Collectorate, thereafter, issued a Show Cause Notice dated 1st November, 1990 asking your Company to show cause why a sum of Rs. 8.29 crores should not be demanded from your Company. This Show Cause Notice was adjudicated by the Collector of Central Excise, Patna who confirmed the demand of Rs. 8.29 crores against your Company.

On an appeal filed by your Company, the CEGAT set aside the demand of Rs. 8.29 crores and remanded the matter for *de novo* adjudication. In the meantime, an appeal filed by the Excise authorities in the Hon'ble Supreme Court against the aforesaid Order of the Hon'ble Patna High Court, has been disposed of by the Supreme Court without interfering with the judgment of the High Court.

Although your Company has, in a spirit of settlement, paid the differential Excise Duty that arose out of the Order of the Director General as early as in March 1987, and although the Excise Department's aforesaid demands have either been quashed or stayed, the Collectorates in Meerut, Patna and Bangalore, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bangalore, charging your Company and certain of its Directors and employees who were employed with your Company during the period 1975 to 1983 with offences under the Central Excises & Salt Act, 1944, purportedly on the basis of the Order of the Director General dated 10th April, 1986. Your Directors are advised that no prosecution would lie on the basis of the aforesaid Order of the Director General dated 10th April, 1986. In fact, the Special Court in Kanpur, which initially took cognisance of the complaints, has subsequently on applications filed by the individuals concerned, discharged them. Similar applications have been filed by the individuals in the Special Court in Patna, which are yet to be heard. Meanwhile, on applications filed by the individuals challenging the legality of the criminal complaint, the Hon'ble High Court of Karnataka has stayed the proceedings before the Special Court for Economic Offences at Bangalore.

The Collector of Central Excise, Bangalore, had issued a Show Cause Notice and after adjudication a Demand Notice was received on 12th August, 1988 for Rs. 2.4 crores, including a penalty of Rs. 1.2 crores, on account of alleged variation from the approved surface design of one of your Company's brand packs. On appeal, the CEGAT, Delhi, has passed an order effectively bringing down the duty liability to Rs. 1.5 lakhs and the penalty to Rs. 1 lakh. In the opinion of your Directors, even this Order is unsustainable. Your Company has, therefore, filed an appeal in the Supreme Court against the above Order, and this appeal has been admitted and is pending.

In all the above instances, your Directors are of the view that your Company has a strong case and the Show Cause, the Demand Notices and the Complaints are not sustainable.

Since your Company is contesting the above cases and contending that the Show Cause, the Demand Notices and the Complaints are not sustainable, it does not accept any liability in this behalf. Your attention is drawn to the Note 18 (viii) in the Schedules to the Accounts.

ENQUIRY BY THE ENFORCEMENT DIRECTORATE (FERA)

In June 1996, the Calcutta Office of the Enforcement Directorate under FERA ("the Directorate") started an investigation into the export transactions between the Company and the Chitalia Group of Companies located in the U.S.A. during the years 1990 to 1995. Between June and October 1996, pursuant to requests by the Directorate, the Company provided voluminous information and documents regarding its, and its wholly owned subsidiary in Singapore, ITC Global Holdings Pte. Ltd. in this matter. Further, several of the Company's Directors and Managers were summoned by the Directorate for interrogation and enquiry into alleged violations of the Foreign Exchange Regulation Act by the Company.

On 29th October, 1996, one retired Director, one serving Director (who has since retired), and two ex-Managers of the Company, were detained at the end of their interrogation. On 30th October, 1996, the Directorate carried out search and seizure operations in the Company's Head Office at Calcutta, in the offices of its International Business Division ("IBD") at Hyderabad and other places and also in the residences of the Company's Directors and Managers and retired Directors and Managers at Calcutta and other places. Several current and retired Directors and Managers/ex-Managers of the Company, including two retired Chairmen of the Company, were interrogated and detained by the Directorate and were subsequently released on bail.

In the first week of November 1996, the Customs Authorities in Guntur, Andhra Pradesh, also carried out search and seizure operations in the offices of the Company's Leaf Tobacco Division and in the residences of its Managers in Guntur. Several Managers were interrogated by the Authorities about alleged violations of the Customs & Foreign Exchange Regulation Acts. Three of them were detained and later released on bail.

The investigations by the Directorate and the Customs Authorities are continuing. The Company has been extending the fullest co-operation in these matters.

TAXATION

As mentioned in last year's Report, your Company is yet to receive any communication from the Income Tax Department regarding reasons for their proposal to reopen the past assessments for the period 1.7.83 to 30.6.86. Your Company intends to take all steps to secure its interests.