

## REPORT OF THE DIRECTORS FOR THE FINANCIAL YEAR ENDED 31ST ASADH 2070 (15TH JULY, 2013)

Your Directors are pleased to submit their Report and Audited Accounts of your Company for the year ended 31st Asadh 2070 (15th July 2013).

### SOCIO-ECONOMIC ENVIRONMENT

During the year under review the operating environment in Nepal continued to remain uncertain due to political instability. The Constituent Assembly, unable to fulfil its mandate of drafting a constitution, was dissolved in May 2012. The caretaker Government installed thereafter made way for a new Council of Ministers headed by the Chief Justice of Nepal which has been entrusted with the mandate of conducting the Constituent Assembly elections, slated now for November 2013.

The prevailing political instability has led to deceleration in economic growth & employment generation and slowed down investments. GDP growth for the year ending mid July 2013 is estimated at 3.6% against 4.5% in the last year. This has been due to lower growth of 1.3% (last year 5%) in the overall agricultural sector and 1.5% (last year 3%) in the industrial sector.

As regards the tobacco sector, Nepal's unique pattern of tobacco consumption has been reported in earlier years. Unlike most other countries where cigarettes constitute over 90% of consumption, 50% of tobacco consumption in Nepal is in the form of non-cigarette products such as Bidis, Khaini, Gutkha and other non-smoking tobacco products which are either lightly taxed or evade taxation. Only 50% of overall tobacco consumed is accounted for by the cigarette industry and this sector is subjected to punitive taxation. As a result, as much as 90% of revenue from tobacco is collected from the cigarette industry and only 10% from the rest.

The Cigarette Industry is also impacted by the increasing inflow of smuggled cigarettes into Nepal which comprise 11% of the total cigarette market and pose a severe challenge to legitimate players in the industry. Consequently the legal cigarette industry represents only 45% of the total tobacco consumed in the Country. The Company in its various interfaces with the Government officials has continued to stress the need to have moderation in cigarette taxation as well as to improve border vigilance and contain smuggling which otherwise results in significant loss of revenue to the exchequer.

A report on Tobacco Control in Nepal published by the Ministry of Health and Population has, inter alia, highlighted that low taxation on bidis and lack of uniformity in taxation on all forms of tobacco products are some of the weaknesses in the Government's tobacco industry related policies. This discriminatory taxation policy and regulatory framework has led to steady and continuous erosion of the legal cigarette share in the overall tobacco basket. This has led to several unintended and adverse consequences like increase in smuggling of cigarettes and other tobacco products and increase in consumption of lightly taxed / tax evaded tobacco products. Even the World Health Organisation (WHO) in its Technical Manual, on Tobacco Administration, recognizing such impact has highlighted the importance of increasing taxes on other forms of tobacco products.

The Tobacco Products (Control & Regulatory) Act, 2011 that took effect from 7th August, 2011, has put impractical restrictions on the use of tobacco products and its sale and distribution. The tobacco legislation has certain provisions that places the legal cigarette industry at a disadvantage and are out of step with similar legislations in most of the other Asian countries. These are likely to further encourage smuggling of cigarettes and will also fuel further growth in the consumption of other tax evading tobacco products. The disproportionate size of warning on cigarette packs at 75% of the total pack surface required to be implemented from November 2011, would have led to increased smuggling of cigarette packs with less stringent / no health warnings.

The Company as a responsible member of the industry, is committed to a pragmatic and purposeful policy for the country's tobacco industry and has represented to the Government for reconsideration of certain provisions of the Tobacco Control legislation that may not be consistent with the approach of creating a pragmatic and purposeful policy framework. The Graphical Health Warnings Directives envisaged an immediate implementation giving no time for the industry to comply with the provisions. Hence, the tobacco stakeholders like farmers, bidi manufacturers, importers and cigarette manufacturers including your Company, had no recourse but to challenge certain provisions of the legislation, especially directives on Graphic Health Warnings in the Hon'ble Supreme Court of Nepal. The Hon'ble Supreme Court granted stay on the implementation of the provisions related to Graphic Health Warnings, pending completion of final hearing on the matter. Despite such orders, the Government proceeded to promulgate the Rules for the Tobacco legislation for immediate implementation in April 2012. These Rules were also impractical and certain provisions were challenged in the Supreme Court by the bidi manufacturers and your Company. The Hon'ble Supreme Court has granted a stay against certain Rules from being given effect to till further hearing on the matter. Hearings on the matters by the Supreme Court are in progress.

### COMPANY PERFORMANCE

Your directors are pleased to report that the Company posted another year of strong performance despite the challenging operating environment. For the year ended 31st Asadh 2070, Gross Revenue for the year grew by 16%

to NRs. 1738 (₹ 1086) Crores. Profit before taxation increased by 24% to NRs. 545 (₹ 341) Crores while Net Profit at NRs. 379 (₹ 237) Crores registered a growth of 25%. Earnings per share for the year stands at NRs. 173 (₹108) {Previous year NRs. 139 (₹ 89)}. Cash flows from operations aggregated NRs. 648 (₹ 405) Crores compared to NRs.331(₹ 207) Crores in the previous year.

### CONTRIBUTION TO THE EXCHEQUER

Your Company continues to be one of the largest contributors to the Government Exchequer, accounting for about 3% of the total revenues of the Government of Nepal. Your Company paid NRs. 896 (₹ 560)Crores by way of Excise Duty, VAT, Income Tax and other taxes during the year {Previous Year: NRs. 806 (₹ 504) Crores}.

Your Company's Excise Duty contribution to the exchequer constitutes nearly 14% of the Government's total Excise revenue while the VAT and Income tax contribution constitute nearly 2.7% of the Government's total VAT & Income Tax revenue.

The corporate income tax policy of the Government acts as a disincentive to invest in new areas in the Country, as it has limited scope for set-off of losses from new ventures with profits from other businesses. Your Company, along with leading Trade Bodies like FNCCI and NICCI, continues to represent to the Government to widen the scope of business loss set-off to create an investment friendly environment which supports business diversification leading to industrialisation and employment generation in the country.

### EMPLOYMENT GENERATION

Your Company, through its multiple businesses, continues to directly / indirectly provide livelihood to more than a lakh people in the country, which includes 8,000 farmers and 20,000 farm labourers. As a responsible corporate citizen of the country, your Company will continue to create enablers for generating employment and economic surplus for the nation.

### BUSINESS SEGMENTS

#### CIGARETTE BUSINESS

Your Company further consolidated its leadership position in the Cigarette market through continued investment in product quality and value addition to its product portfolio. The drive towards differentiation and value creation through product innovation and adoption of international standards continued during the year. In this connection, the Product & Packaging Development Agreement entered into by your company with the Holding Company, ITC Limited (ITC), India was approved by the Department of Industries, Nepal during the year under review.

In continuation of your Company's strategy, majority of 69 mm filters were converted from Soft Cup to Hinge Lid packing. Considering the wide income dispersion in Nepal, the product portfolio spans across various price points and geographies which also helps to counter the menace of illegal trade. However, with regular increase in taxes and the resultant impact on affordability, legal products find it increasingly difficult to arrest the growth of low priced contraband and smuggled products at the lower end of the cigarette industry.

Your Company continues to invest in augmenting distribution infrastructure particularly for reaching consumers in the generally inaccessible remote areas of the Country. This helps in enhancing market standing and consumer franchise.

The Customer Satisfaction Measurement Study 2012, conducted by an independent Agency has ranked your Company as the "Benchmark FMCG Supplier" in Nepal which is a testimony to its relentless focus on giving superior service to members of the trade.

On the manufacturing front, investment in best in class technology and embedding of best practice has ensured continued delivery of products of International quality. Your Company's focus on remaining contemporary through the induction of new generation technology platforms and enhancement of internal capabilities has further strengthened its competitiveness.

The second cigarette factory near Pokhara, now at an advanced stage of construction, will help in improving supply chain effectiveness. The new Cigarette factory has several eco-friendly features and has been designed to achieve LEED (Leadership in Energy and Entrepreneurial Design) GOLD rating.

Energy conservation and efficiency continue to engage your Company's attention as areas of priority. Accordingly, Variable Frequency Drives have been installed and Compressor load optimised to further augment efforts in this area. A waste heat recovery system is under commissioning.

During the year your Company has taken up multiple initiatives and awareness programmes on sustainability to create a positive environmental footprint. Water conservation measures as recommended by TERI (The Energy and Resource Institute) have been adopted. The bio gas capacity has been expanded to reduce usage of LPG cylinders in the factory canteen. A Vermi compost pit has been built in the employees housing colony to manage domestic waste. Additional light pipes have been installed in godowns and the Primary Department to harness natural light.

### Environment Health and Safety

Your Company reinforced its commitment towards ensuring a safe and healthy workplace by institutionalizing systems with respect to environment, health and safety that have enabled a benchmarked and safe work environment for all employees.

#### Leaf Tobacco

Your Company's leaf operations are accredited with the Quality Management System (ISO 9001:2008), Environmental Management Systems (ISO 14001:2004) and Occupational Health and Safety Systems (OHSAS 18001:2007). Your Company continues to work towards further process and quality improvement initiatives in domestic leaf and is investing in a state of the art leaf re-drying facility.

#### GARMENT BUSINESS

In the domestic Branded Apparel industry, offers under the brand name of "John Players" and "Springwood" are the preferred choice of consumers in the premium and economy segments respectively. The overall thrust of the business during the year has been on consolidation, enhancement of product range and building Supply Chain efficiencies.

#### MATCHES BUSINESS

In the Safety Matches business, your Company's brand "Tir", demonstrated robust growth, a testimony to its strong and growing consumer franchise. Your Company is augmenting contract manufacturing capacities and evaluating opportunities in other product segments of the Industry to further improve its market standing in the category.

#### DIVIDEND

Your Directors have declared an Interim Dividend of NRs. 25 (₹ 15.63) per Ordinary Share for the year ended 31st Asadh 2070. The consequent outflow on this account, including Dividend Tax, amounts to NRs. 50.40 (₹ 31.50) Crores. Your Board has also recommended a Final Dividend of NRs. 148 (₹ 92.50) per Ordinary Share.

All dividends have been paid within the prescribed period and there are no unclaimed dividends lying with your Company.

#### TAX MATTERS

As reported in earlier years, the Hon'ble Supreme Court of Nepal, during the year 2009-10, passed judgments in favour of your Company, with regard to certain Excise and Income Tax demands on the issue of theoretical production.

The Inland Revenue Department, citing the judgments passed in favour of your Company by the Hon'ble Supreme Court of Nepal, on 11th February, 2011 and 12th August 2013 decided the following administrative review petitions in favour of the Company:

1. VAT demand - NRs. 19.01 (₹ 11.88) Crores for the financial years 2058-59 (2001-02) and 2064-65 (2007-08).
2. Income Tax demand - NRs. 4.91 (₹ 3.07) Crores for the financial year 2062-63 (2005-06).

All other pending Show Cause Notices (SCNs) and demands related to excise, income tax and VAT received from time to time on the issue of theoretical production, are similarly based on an untenable contention by the Revenue authorities that the Company could have produced more cigarettes than it has actually produced in a given year, based on an input-output ratio allegedly submitted by the Company in the year 2047-48 and, that the Company is liable to pay taxes on such cigarettes that could have been theoretically produced. This, despite the fact that the Company's cigarette factory is under 'physical control' of the Revenue authorities and the cigarettes produced are duly accounted for and certified as such by the Revenue authorities. No fresh demand has been received during the year and the cumulative demand on the Company on account of theoretical production that remains pending stands at NRs. 68.97 (₹ 43.11) Crores and comprise:

- (a) Excise Demands - NRs. 27.80 (₹ 17.38) Crores.
- (b) VAT Demands - NRs. 17.49 (₹ 10.93) Crores.
- (c) Income Tax Demands - NRs. 23.68 (₹ 14.80) Crores.

Out of the above NRs. 68.97 (₹ 43.11) Crores, demands aggregating NRs. 66.81 (₹ 41.76) Crores are under appeal before the Supreme Court and demands aggregating NRs. 2.16 (₹ 1.35) Crores are under appeal before the Revenue Tribunal / DG-Inland Revenue Department.

Your Company has been advised by its eminent counsel that the cases made out by the Department have no legal or factual basis and that the demand notices raised against your Company are not sustainable, particularly in the light of the decision passed on 29th October, 2009 in favour of your Company by the Full Bench of the Hon'ble Supreme Court on similar matters. The subsequent decisions of the Supreme Court of Nepal and the Inland Revenue Department have further reinforced this position.

#### RISK MANAGEMENT

Your Company's Corporate Governance Policy has laid down the structure, roles and responsibilities of the key entities in the governance process and also mandated periodic reviews of the key areas of operations. In addition, your Company has amongst others, robust policies, procedures and internal control systems covering areas such as Finance & Accounting and Information

Technology. Your Company is engaged in a company-wide implementation of an Enterprise Resource Planning (ERP) system which is expected to significantly strengthen business processes and systems.

#### CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

Your Company remains committed to supporting and investing in endeavours that augment social and economic capital in alignment with the stated priorities of the Government of Nepal. Consistent with such commitment, several initiatives that will provide long term multiplier benefits have been initiated and sustained. Accordingly, your Company:

- Continued to partner with Tobacco farmers in Nepal to ensure higher productivity and quality enhancement at the farm level through the induction of agricultural best practice. The adoption of such practices and other inputs provided by the Company has led to a consistent improvement in quality of domestic grades of tobacco thereby improving marketability of the crop and farmer returns.
- Initiated a programme to assist village farmers, proximate to the Simara factory, in the plantation of high quality Poplar saplings.
- Supported an initiative in the animal husbandry sector by providing extension services that will drive yield improvement and higher returns for underprivileged farmers.
- Partnered with Nepal Tourism Board in hosting Nepal's premier professional golf tournament - the "Surya Nepal Private Limited Masters", with the objective of promoting Nepal as an attractive tourist destination.
- Continued to sponsor the "Surya Nepal Private Limited Asha Social Entrepreneurship Awards", to recognize entrepreneurs who have created employment opportunities amongst local communities.

#### EMPLOYEES

The Directors of your Company place on record their sincere appreciation for the contribution made by the employees during the year.

Your Company continues to provide one of the best employment conditions in the country, which include facilities like housing, medical etc.

#### DIRECTORS

Mr. Sanjiv Keshava, who was on secondment to your Company, stepped down as the Managing Director of your Company with effect from 31st October, 2012, on being recalled by ITC Limited.

Mr. Syed Mahmood Ahmad was seconded from ITC Limited and was appointed the Managing Director of your Company with effect from 1st November 2012 till 11th March 2014.

There were no other changes in the composition of the Board of Directors during the year.

The numbers of shares held by your Directors in the Company as on 31st Asadh 2070 are annexed to this Report (**Annexure I**). The Directors have confirmed that none of them or their close relatives have any direct involvement or any personal interest in any transaction of sale or purchase or any kind of contract or arrangement connected with the business of the Company. No amounts are due to the Company from any of the Directors, Managing Director or their close relatives.

The details of payments made during the year to the Directors, Managing Director and other officials, by way of Board meeting fees etc., are also annexed to this Report (**Annexure II**).

Further, details of Management expenses for the year 2069 / 70 are annexed to this Report (**Annexure III**).

#### AUDITORS

M/s. N Amatya & Company, Chartered Accountants, Kathmandu, Nepal, and M/s. T R Upadhyaya & Co, Chartered Accountants, Kathmandu, Nepal, Auditors of the Company, retire at the ensuing Annual General Meeting and being eligible, have offered themselves for re-appointment.

#### FUTURE OUTLOOK

Your Company continues to explore and pursue opportunities for profitable growth and looks forward to the future with optimism and confidence and stands committed to creating a brighter future for all stakeholders.

On behalf of the Board

Date : 15th Aswin 2070      Y. C. Deveshwar      K. N. Grant      S M Ahmad  
(1st October 2013)      Chairman      Director      Managing Director

**Annexure I**

Sl. No.	Name of Director	Number of Ordinary Shares of NRs. 100/- (₹ 63/-) each held singly and / or jointly as on 31st Asadh 2070 (15th July-2013)
1.	Y. C. Deveshwar	Nil
2.	A. K. Mukerji	Nil
3.	B. B. Chatterjee	Nil
4.	K. N. Grant	Nil
5.	S. R. Pandey	67,212
6.	S. SJB Rana	600
7.	S M Ahmad	Nil

**Annexure II**

**THE AMOUNT OF REMUNERATION, ALLOWANCE AND FACILITIES PAID TO DIRECTOR, MANAGING DIRECTOR, CHIEF EXECUTIVE AND OFFICIALS**

During the financial year 2069/70, the following amounts have been paid to the Directors:

- Board Meeting Fee paid - NRs. 52,941 (₹ 33,088)
- Incidental expenses paid - NRs. 15,000 (₹ 9,375)

Payment to / on behalf of the Managing Director(s) for the financial year 2069/70:

- Salary - NRs. 8,580,350 (₹ 5,362,719)
- Allowances - NRs. 8,426,297 (₹ 5,266,436)

In addition to the above, the Managing Director(s), as applicable, have been provided the following as per their terms of appointment:

- Fully furnished accommodation with gas, electricity, water, three domestic helpers, furnishings and necessary security at his residence.
- Airfares incurred for the Managing Director and his family for the purpose of Leave Travel and Reporting Trips.
- Entrance fees and annual subscription charges for two clubs.
- Personal accident insurance.
- Company car with driver and telephone at residence.

Payment to/ on behalf of officials for the financial year 2069/70:

- Salary - NRs. 20,201,852 (₹ 12,626,158)
- Allowances - NRs. 19,211,567 (₹ 12,007,229)

In addition to the above, some of the Company officials, as applicable, have been provided the following as per their terms of appointment:

- Accommodation with gas, electricity, water, security guard, domestic help, gardener and furnishings.
- Airfares incurred for the Managers and their families for the purpose of Leave Travel & Reporting Trips.
- Entrance fees and annual subscription charges for clubs as applicable.
- Personal accident insurance.
- Company car with driver and telephone at residence.

**Annexure III**

**MANAGEMENT EXPENSES**

The expenses incurred by the Company for its management and administration for the financial year 2069/70 comprising postage, telephone, telex, fax, legal and service fees, bank charges, rates & taxes, printing & stationery, business entertainment, rent, electricity, fuel & water, repair & improvement, information technology services, travel & conveyance, insurance premium, board meeting fees, donations, books & periodicals, miscellaneous expenses etc. amounted to NRs. 938,597,667 (₹ 586,623,542).

**AUDITORS' REPORT TO THE SHAREHOLDERS OF SURYA NEPAL PRIVATE LIMITED**

We have audited the accompanying Balance Sheet of Surya Nepal Private Limited as at 31st Asadh 2070 (15th July 2013), the related Profit & Loss Account for the year ended on that date annexed thereto, Cash Flow Statement and Statement of Changes in Equity for the year then ended, and significant accounting policies and other explanatory notes. These financial statements are the responsibility of the management of the Company.

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with Nepal Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes obtaining audit evidence, on test basis, supporting the amounts and disclosures in the financial statements including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We report that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- b. The enclosed Balance Sheet, Profit and Loss Account, the Cash Flow Statement and Statement of Changes in Equity, read with significant accounting policies and the explanatory notes attached thereto comply with the provisions of the Company Act 2063 and have been prepared as per the provisions of Company Act, 2063 of Nepal and the same are in conformity with the books of account maintained by the Company;
- c. 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;

- d. In our opinion and to the best of our information and according to the explanations given to us the enclosed financial statements read with significant accounting policies and the explanatory notes attached thereto, in accordance with Nepal Accounting Standards, give a true and fair view of:
  - i. in the case of Balance Sheet, the financial position of the Company as at 31st Asadh 2070 (15th July 2013);
  - ii. in the case of Profit & Loss Account, the profit of the Company for the year ended on 31st Asadh 2070 (15th July 2013);
  - iii. in the case of Cash Flow Statement, the cash flows of the Company for the year ended on 31st Asadh 2070 (15th July 2013);
  - iv. in the case of Statement of Changes in Equity, the changes in equity for the year ended on 31st Asadh 2070 (15th July 2013).
- e. In our opinion and to the best of our information and according to the explanations given to us and from our examination of the books and records of the Company, carried out in accordance with Nepal Standards on Auditing, we have neither come across cases where the Board of Directors or any member thereof or any employee of the Company has acted contrary to the provisions of law relating to the accounts or committed any misappropriation or caused loss or damage to the Company nor any fraud committed, relating to the accounts, in the Company.

Date : 15th Aswin 2070  
(1st October 2013)  
Place : Kolkata

Nem Lal Amatya Partner N Amatya & Co. Chartered Accountants	Shashi Satyal Partner T R Upadhya & Co. Chartered Accountants
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BALANCE SHEET AS AT 31st ASADH 2070 (15TH JULY, 2013)

		Figures in NRs. As at 31st Asadh 2070 (15th July, 2013)	Figures in ₹ As at 31st Asadh 2070 (15th July, 2013)	Figures in NRs. As at 31st Asadh 2069 (15th July, 2012)	Figures in ₹ As at 31st Asadh 2069 (15th July, 2012)
<b>CAPITAL &amp; LIABILITIES</b>					
<b>SHARE CAPITAL AND RESERVES</b>					
(a) Share Capital	1	2,016,000,000	1,260,000,000	2,016,000,000	1,260,000,000
(b) Reserves & Surplus	2	1,235,612,719	772,257,945	934,016,875	583,760,542
<b>LONG TERM BORROWINGS - INTEREST BEARING</b>					
(a) Secured Loan	3	1,710,000,000	1,068,750,000	1,710,000,000	1,068,750,000
<b>CURRENT LIABILITIES AND PROVISIONS</b>					
(a) Trade and Other Payables	4	1,924,757,568	1,202,973,484	1,153,939,155	721,211,975
(b) Short Term Borrowings	5	—	—	404,210,497	252,631,561
(c) Provisions for Taxation	6	234,822,821	146,764,263	165,785,999	103,616,250
(d) Provisions	7	3,611,731,459	2,257,332,162	2,903,311,534	1,814,569,709
<b>Total</b>		<b>10,732,924,567</b>	<b>6,708,077,854</b>	<b>9,287,264,060</b>	<b>5,804,540,037</b>
<b>ASSETS</b>					
<b>FIXED ASSETS</b>					
(a) Tangible Assets - Property, Plant & Equipment	8	2,485,815,992	1,553,634,994	2,564,661,880	1,602,913,673
(b) Intangible Assets		—	—	—	—
(c) Capital Work-in-Progress - Tangible Assets		852,433,122	532,770,701	361,097,584	225,685,990
(d) Intangible Assets under Development		109,619,993	68,512,495	45,537,786	28,461,116
<b>INVESTMENTS</b>	9	109,882,338	68,676,461	109,882,338	68,676,461
<b>DEFERRED TAX ASSET - NET</b>	10	46,220,383	28,887,740	33,223,491	20,764,682
<b>CURRENT ASSETS</b>					
(a) Cash and Cash Equivalents	11	686,796,228	429,247,642	36,456,761	22,785,476
(b) Trade and Other Receivables	12	44,010,482	27,506,552	57,962,235	36,226,397
(c) Inventories	13	2,751,535,766	1,719,709,855	2,424,085,439	1,515,053,400
(d) Loans and Advances	14	3,646,327,031	2,278,954,394	3,653,806,236	2,283,628,898
(e) Other Current Assets	15	283,232	177,020	550,310	343,944
<b>Total</b>		<b>10,732,924,567</b>	<b>6,708,077,854</b>	<b>9,287,264,060</b>	<b>5,804,540,037</b>

The accompanying notes 1 to 24 are an integral part of the Financial Statements.

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

Subhaketan Mitra  
Head of Finance

Syed Mahmood Ahmad  
Managing Director

Saurya SJB Rana  
Director

K N Grant  
Director

Y C Deveshwar  
Chairman

S R Pandey  
Director

A K Mukerji  
Director

B B Chatterjee  
Director

Nem Lal Amatya  
Partner

Shashi Satyal  
Partner

Date: 15th Aswin 2070 (1st October 2013)

N. Amatya & Co.  
Chartered Accountants

T R Upadhya & Co.  
Chartered Accountants

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st ASADH 2070 (15TH JULY, 2013)

		Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
	Note	For the year ended 31st Asadh 2070 (15th July, 2013)	For the year ended 31st Asadh 2070 (15th July, 2013)	For the year ended 31st Asadh 2069 (15th July, 2012)	For the year ended 31st Asadh 2069 (15th July, 2012)
Gross Revenue	16	17,384,267,457	10,865,167,161	15,026,109,024	9,391,318,140
Less: Duties	17	5,026,366,783	3,141,479,239	4,732,030,886	2,957,519,303
Net Sales		<u>12,357,900,674</u>	<u>7,723,687,922</u>	<u>10,294,078,138</u>	<u>6,433,798,837</u>
Raw Materials Consumed, etc.	18	3,886,041,973	2,428,776,233	3,548,446,749	2,217,779,219
Gross Profit		8,471,858,701	5,294,911,689	6,745,631,389	4,216,019,618
Other Operating Income	19	7,044,560	4,402,850	24,941,580	15,588,488
Total		<u>8,478,903,261</u>	<u>5,299,314,539</u>	<u>6,770,572,969</u>	<u>4,231,608,106</u>
Manufacturing, Admin, Selling Expenses etc.	20	1,993,924,807	1,246,203,006	1,476,760,512	922,975,320
Provision for Employees' Bonus		515,034,356	321,896,473	416,618,684	260,386,678
Operating Profit		<u>5,969,944,098</u>	<u>3,731,215,060</u>	<u>4,877,193,773</u>	<u>3,048,246,108</u>
Other Income	21	50,058,232	31,286,395	37,444,723	23,402,953
Finance Cost	22	219,049,847	136,906,154	162,672,939	101,670,587
Depreciation and Amortisation Expenses		352,431,140	220,269,462	344,578,427	215,361,518
Profit before Taxation		5,448,521,343	3,405,325,839	4,407,387,130	2,754,616,956
Provision for Taxation (Refer 2G of Note 24)	23	1,659,245,499	1,037,028,436	1,364,117,804	852,573,628
Net Profit		<u>3,789,275,844</u>	<u>2,368,297,403</u>	<u>3,043,269,326</u>	<u>1,902,043,328</u>
Transferred from General Reserve		—	—	170,965	106,853
Available for Appropriation		<u>3,789,275,844</u>	<u>2,368,297,403</u>	<u>3,043,440,291</u>	<u>1,902,150,181</u>
Appropriation					
Provision for Employees' Housing		298,177,785	186,361,116	241,200,291	150,750,181
Interim Dividend		504,000,000	315,000,000	403,200,000	252,000,000
Proposed Final Dividend		2,983,680,000	1,864,800,000	2,399,040,000	1,499,400,000
Balance Carried Over to Balance Sheet		<u>3,418,059</u>	<u>2,136,287</u>	—	—
		<u>3,789,275,844</u>	<u>2,368,297,403</u>	<u>3,043,440,291</u>	<u>1,902,150,181</u>

The accompanying notes 1 to 24 are an integral part of the Financial Statements.

This is the Profit & Loss Account referred to in our Report of even date.

Subhrocketan Mitra  
Head of Finance

Syed Mahmood Ahmad  
Managing Director

Saurya SJB Rana  
Director

K N Grant  
Director

Y C Deveshwar  
Chairman

S R Pandey  
Director

A K Mukerji  
Director

B B Chatterjee  
Director

Nem Lal Amatya  
Partner

Shashi Satyal  
Partner

Date: 15th Aswin 2070 (1st October 2013)

N. Amatya & Co.  
Chartered Accountants

T R Upadhyya & Co.  
Chartered Accountants

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST ASADH 2070 (15TH JULY, 2013)

	Figures in NRs. For the year ended 31st Asadh 2070 (15th July, 2013)	Figures in ₹ For the year ended 31st Asadh 2070 (15th July, 2013)	Figures in NRs. For the year ended 31st Asadh 2069 (15th July, 2012)	Figures in ₹ For the year ended 31st Asadh 2069 (15th July, 2012)
<b>A Cash Flow From Operating Activities</b>				
Profit Before Tax	5,448,521,343	3,405,325,839	4,407,387,130	2,754,616,956
<b>Adjustments for :</b>				
Depreciation	352,431,140	220,269,462	344,578,427	215,361,518
Interest	219,049,847	136,906,154	162,672,939	101,670,587
Interest from Investments	(5,683,125)	(3,551,953)	(5,683,125)	(3,551,953)
Interest on Short Term/Call Deposits	(33,301,811)	(20,813,632)	(20,374,758)	(12,734,224)
Unrealised Loss/(Gain) on Foreign Exchange (Net)	(491,659)	(307,287)	(2,115,443)	(1,322,152)
Loss on Fixed Assets sold/discarded (Net)	—	—	4,663,834	2,914,896
Claims and Advance written off	—	—	152,454	95,284
Provision for Doubtful Debts and Advance	1,305,781	816,113	477,178	298,236
Provision for Sales Return	2,356,907	1,473,067	—	—
Liability no longer required written back	(583,279)	(364,549)	(11,185,333)	(6,990,833)
Provision for Doubtful Advance/Debts written back	(89,051)	(55,657)	(2,423,370)	(1,514,606)
<b>Operating Profit Before Working Capital Changes</b>	<b>5,983,516,093</b>	<b>3,739,697,557</b>	<b>4,878,149,933</b>	<b>3,048,843,709</b>
<b>Adjustments for :</b>				
Trade and Other Receivables, Loans and Advances and Other Current Assets	15,663,948	9,789,968	(1,465,577,107)	(915,985,692)
Inventories	(327,450,327)	(204,656,454)	(255,281,295)	(159,550,810)
Trade and Other Payables and Provisions	803,642,012	502,276,258	151,712,457	94,820,286
<b>Cash Generated From Operation</b>	<b>6,475,371,726</b>	<b>4,047,107,329</b>	<b>3,309,003,988</b>	<b>2,068,127,493</b>
Income Tax Paid	(1,603,205,569)	(1,002,003,481)	(1,372,209,848)	(857,631,155)
<b>Net Cash From Operating Activities (A)</b>	<b>4,872,166,157</b>	<b>3,045,103,848</b>	<b>1,936,794,140</b>	<b>12,104,96,338</b>
<b>B Cash Flow From Investing Activities</b>				
Purchase of Fixed Assets	(835,670,263)	(522,293,914)	(920,974,314)	(575,608,946)
Proceeds from Disposal of Fixed Assets	—	—	57,492	35,933
Interest Received	39,252,014	24,532,508	26,340,322	1,642,701
<b>Net Cash Used in Investing Activities (B)</b>	<b>(796,418,249)</b>	<b>(497,761,406)</b>	<b>(894,576,500)</b>	<b>(559,110,312)</b>
<b>C Cash Flow From Financing Activities</b>				
Proceeds from Long Term Borrowing	—	—	1,710,000,000	1,068,750,000
Net Increase/(Decrease) in Cash Credit/Overdraft Facilities	(404,210,497)	(252,631,561)	(329,037,278)	(205,648,299)
Interest Paid	(219,449,603)	(137,156,002)	(155,323,262)	(97,077,039)
Dividends Paid	(2,802,240,000)	(1,751,400,000)	(2,247,840,000)	(1,404,900,000)
<b>Net Cash Used in Financing Activities (C)</b>	<b>(3,425,900,100)</b>	<b>(2,141,187,563)</b>	<b>(1,022,200,540)</b>	<b>(638,875,338)</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents (A+B+C)</b>	<b>64,98,47,808</b>	<b>406,154,879</b>	<b>20,017,100</b>	<b>12,510,688</b>
Cash and Cash Equivalents (Opening balance)	34,812,475	21,757,797	14,795,375	9,247,109
<b>Cash and Cash Equivalents (Closing balance)</b>	<b>684,660,283</b>	<b>427,912,676</b>	<b>34,812,475</b>	<b>21,757,797</b>
<b>Cash and Cash Equivalents:</b>				
Cash and Cash Equivalents as above	684,660,283	427,912,676	34,812,475	21,757,797
Unrealised Gain / (Loss) on Foreign Currency Cash and Cash Equivalents - Net	2,135,945	1,334,966	1,644,286	1,027,679
<b>Cash and Cash Equivalents (Note 11)</b>	<b>686,796,228</b>	<b>429,247,642</b>	<b>36,456,761</b>	<b>22,785,476</b>

The accompanying notes 1 to 24 are an integral part of the Financial Statements.

This is the Cash Flow Statement referred to in our Report of even date.

Subhraketan Mitra Head of Finance	Syed Mahmood Ahmad Managing Director	Saurya SJB Rana Director	K N Grant Director	Y C Deveshwar Chairman
S R Pandey Director	A K Mukerji Director	B B Chatterjee Director	Nem Lal Amatya Partner N. Amatya & Co. Chartered Accountants	Shashi Satyal Partner T R Upadhyaya & Co. Chartered Accountants

Date: 15th Aswin 2070 (1st October 2013)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST ASADH 2070 (15TH JULY, 2013)

	Figures in NRs. Share Capital	Figures in ₹ Share Capital	Figures in NRs. Revaluation Reserve	Figures in ₹ Revaluation Reserve	Figures in NRs. General Reserve	Figures in ₹ General Reserve	Figures in NRs. Employees' Housing Reserve	Figures in ₹ Employees' Housing Reserve	Figures in NRs. Surplus	Figures in ₹ Surplus	Figures in NRs. Total	Figures in ₹ Total
Balance as at 32nd Asadh 2068 (16th July 2011)	2,016,000,000	1,260,000,000	12,181,280	7,613,300	105,531,307	65,957,063	575,274,962	359,546,851	—	—	2,708,987,549	1,693,117,214
Net Profit for the year	—	—	—	—	—	—	—	—	3,043,269,326	1,902,043,328	3,043,269,326	1,902,043,328
Transferred to Employees' Housing Reserve	—	—	—	—	—	—	241,200,291	150,750,181	(241,200,291)	(150,750,181)	—	—
Transferred to Profit and Loss Appropriation Account	—	—	—	—	(170,965)	(106,853)	—	—	170,965	106,853	—	—
Dividend	—	—	—	—	—	—	—	—	(2,802,240,000)	(1,751,400,000)	(2,802,240,000)	(1,751,400,000)
Total	—	—	—	—	(170,965)	(106,853)	241,200,291	150,750,181	—	—	241,029,326	150,643,328
Balance as at 31st Asadh 2069 (15th July 2012)	2,016,000,000	1,260,000,000	12,181,280	7,613,300	105,360,342	65,850,210	816,475,253	510,297,032	—	—	2,950,016,875	1,843,760,542
Net Profit for the year	—	—	—	—	—	—	—	—	3,789,275,844	2,368,297,403	3,789,275,844	2,368,297,403
Transferred to Employees' Housing Reserve	—	—	—	—	—	—	298,177,785	186,361,116	(298,177,785)	(186,361,116)	—	—
Transferred to Profit and Loss Appropriation Account	—	—	—	—	—	—	—	—	—	—	—	—
Dividend	—	—	—	—	—	—	—	—	(3,487,680,000)	(2,179,800,000)	(3,487,680,000)	(2,179,800,000)
Transferred to Reserve	—	—	—	—	34,18,059	21,36,287	—	—	(3,418,059)	(2,136,287)	—	—
Total	—	—	—	—	3,418,059	2,136,287	298,177,785	186,361,116	—	—	301,595,844	188,497,403
Balance as at 31st Asadh 2070 (15th July 2013)	2,016,000,000	1,260,000,000	12,181,280	7,613,300	108,778,401	67,986,497	1,114,653,038	696,658,148	—	—	3,251,612,719	2,032,257,945

This is the Statement of changes in Equity referred to in our Report of even date.

The accompanying notes 1 to 24 are an integral part of the Financial Statements.

Subhraketan Mitra Head of Finance	Syed Mahmood Ahmad Managing Director	Saurya SJB Rana Director	K N Grant Director	Y C Deveshwar Chairman
S R Pandey Director	A K Mukerji Director	B B Chatterjee Director	Nem Lal Amatya Partner N. Amatya & Co. Chartered Accountants	Shashi Satyal Partner T R Upadhya & Co. Chartered Accountants

Date: 15th Aswin 2070 (1st October 2013)

NOTES TO THE FINANCIAL STATEMENTS

	Figures in NRs. As at 31st Asadh 2070 (15th July, 2013)	Figures in ₹ As at 31st Asadh 2070 (15th July, 2013)	Figures in NRs. As at 31st Asadh 2069 (15th July, 2012)	Figures in ₹ As at 31st Asadh 2069 (15th July, 2012)
--	--	---	--	---

1: SHARE CAPITAL

Authorised

65,000,000 Ordinary Shares of NRs. 100/- each 6,500,000,000 4,062,500,000 6,500,000,000 4,062,500,000

Issued, Subscribed & Paid up

20,160,000 Ordinary Shares of NRs.100/- each, fully paid 2,016,000,000 1,260,000,000 2,016,000,000 1,260,000,000

2,016,000,000 1,260,000,000 2,016,000,000 1,260,000,000

Out of the above:

- 16,800,000 Ordinary Shares were issued as fully paid up bonus shares in 2065-66 (2008-09).
- 2,800,000 Ordinary Shares were issued as fully paid up bonus shares in 2060-61 (2003-04).
- 280,000 Ordinary Shares were issued as fully paid up bonus shares in 2052-53 (1995-96).
- 11,894,400 Ordinary Shares are held by the Holding Company, ITC Limited.

Reconciliation of number of Shares outstanding:

	Number of Shares			
At the beginning of the year	<u>20,160,000</u>	<u>20,160,000</u>	20,160,000	20,160,000
At the end of the year	<u>20,160,000</u>	<u>20,160,000</u>	20,160,000	20,160,000

	Figures in NRs. As at 31nd Asadh 2069 (15th July, 2012)	Figures in ₹ As at 31nd Asadh 2069 (15th July, 2012)	Figures in NRs. Addition	Figures in ₹ Addition	Figures in NRs. Withdrawal	Figures in ₹ Withdrawal	Figures in NRs. As at 31st Asadh 2070 (15th July, 2013)	Figures in ₹ As at 31st Asadh 2070 (15th July, 2013)
<b>2: RESERVES &amp; SURPLUS</b>								
Revaluation Reserve								
Revaluation of Land	12,181,280	7,613,300	—	—	—	—	12,181,280	7,613,300
Revenue Reserve								
General Reserve	105,360,342	65,850,210	3,418,059	2,136,287	—	—	108,778,401	67,986,497
Housing Fund								
Provision for Employee Housing	816,475,253	510,297,032	298,177,785	186,361,116	—	—	1,114,653,038	696,658,148
Surplus								
Profit & Loss Account	—	—	3,418,059	2,136,287	3,418,059	2,136,287	—	—
	<u>934,016,875</u>	<u>583,760,542</u>	<u>305,013,903</u>	<u>190,633,690</u>	<u>3,418,059</u>	<u>2,136,287</u>	<u>1,235,612,719</u>	<u>772,257,945</u>

	Figures in NRs. As at 31st Asadh 2070 (15th July, 2013)	Figures in ₹ As at 31st Asadh 2070 (15th July, 2013)	Figures in NRs. As at 32nd Asadh 2069 (15th July, 2012)	Figures in ₹ As at 32nd Asadh 2069 (15th July, 2012)
<b>3: LONG TERM BORROWINGS - INTEREST BEARING</b>				
Secured Loan *				
Current Maturities	427,500,000	267,187,500	—	—
Non-current Maturities (repayable after 12 months)	1,282,500,000	801,562,500	1,710,000,000	1,068,750,000
	<u>1,710,000,000</u>	<u>1,068,750,000</u>	<u>1,710,000,000</u>	<u>1,068,750,000</u>

\* Long term loan availed from Holding Company, ITC Limited.

Secured by hypothecation of movable fixed assets and inventories of the Company, both present and future.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

	Figures in NRs. As at 31st Asadh 2070 (15th July, 2013)	Figures in ₹ As at 31st Asadh 2070 (15th July, 2013)	Figures in NRs. As at 31st Asadh 2069 (15th July, 2012)	Figures in ₹ As at 31st Asadh 2069 (15th July, 2012)
<b>4. TRADE AND OTHER PAYABLES</b>				
(Payable within twelve months, unless otherwise stated)				
Trade Payables				
- Goods and Services				
- Holding Company	304,250,063	190,156,289	118,124,501	73,827,813
- Others	281,038,163	175,648,853	195,753,334	122,345,835
- Advances from Customers	548,865,099	343,040,687	161,942,855	101,214,284
Payable for Fixed Assets	92,083,478	57,552,174	116,790,693	72,994,183
Retention Money				
- Capital Items	21,170,616	13,231,635	7,680,947	4,800,592
- Others	4,118,936	2,574,336	3,240,390	2,025,244
Statutory Liabilities	138,854,990	86,784,370	112,079,860	70,049,914
Payable for Employee Benefits	5,808,828	3,630,518	7,575,096	4,734,435
Provision for Employee's Bonus under The Bonus Act, 2030				
- Distribution by Company	69,305,068	43,315,668	57,417,832	35,886,145
- Deposit with Welfare Funds established under The Labour Act, 2048	312,010,502	195,006,564	251,440,596	157,150,373
- Deposit with National Level Welfare Fund established by Govt. of Nepal	133,718,786	83,574,241	107,760,256	67,350,160
Interest Accrued but not due				
- On Term Loan (from Holding Company)	8,432,877	5,270,548	8,432,877	5,270,548
- On Cash Credit / Overdrafts	162	101	399,918	249,949
Security Deposits from Customers	5,100,000	3,187,500	5,300,000	3,312,500
	<u>1,924,757,568</u>	<u>1,202,973,484</u>	<u>1,153,939,155</u>	<u>721,211,975</u>
<b>5. SHORT TERM BORROWINGS</b>				
Secured				
Cash Credit/Overdraft Facilities from Banks *	—	—	404,210,497	252,631,561
	<u>—</u>	<u>—</u>	<u>404,210,497</u>	<u>252,631,561</u>
* Secured by charge over certain land and building of the Company.				
<b>6. PROVISIONS FOR TAXATION</b>				
Provision for Income Tax	1,763,201,712	1,102,001,070	1,474,990,764	921,869,228
Less: Advance Tax paid / Withholding Tax deducted	(1,528,378,891)	(955,236,807)	(1,309,204,765)	(818,252,978)
	<u>234,822,821</u>	<u>146,764,263</u>	<u>165,785,999</u>	<u>103,616,250</u>
<b>7. PROVISIONS</b>				
Provision for Retirement and Other Employee Benefits (payable after 12 months NRs. 87,978,260 (₹ 54,986,413) {2068-69 (2011-12) - NRs. 82,022,270 (₹ 51,263,919)})	124,051,459	77,532,162	101,071,534	63,169,709
Provision for Interim Dividend	504,000,000	315,000,000	403,200,000	252,000,000
Provision for Proposed Final Dividend	2,983,680,000	1,864,800,000	2,399,040,000	1,499,400,000
	<u>3,611,731,459</u>	<u>2,257,332,162</u>	<u>2,903,311,534</u>	<u>1,814,569,709</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

8 - FIXED ASSETS  
TANGIBLE ASSETS - PROPERTY, PLANT & EQUIPMENT

Description	Basic Depreciation Rates (%)	GROSS BLOCK						DEPRECIATION						NET BLOCK			
		NRs. As at 31.03.2069 (15.07.2012)	NRs. Additions	Withdrawals/ Adjustments	NRs. As at 31.03.2070 (15.07.2013)	As at 31.03.2069 (15.07.2012)	For the year*	Withdrawals/ Adjustments	NRs. As at 31.03.2070 (15.07.2013)	As at 31.03.2069 (15.07.2012)	For the year*	Withdrawals/ Adjustments	NRs. As at 31.03.2070 (15.07.2013)	As at 31.03.2070 (15.07.2012)	As at 31.03.2070 (15.07.2012)		
		₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹		
Land & Land Development		268,511,744	4,343,000	—	272,854,744	170,534,216	—	—	—	—	—	—	—	272,854,744	170,534,216	268,511,744	
Buildings	1.65	603,808,544	20,677,643	—	624,486,187	390,303,866	12,923,527	—	—	79,796,676	10,418,077	144,343,603	90,214,753	480,142,584	300,089,113	476,133,864	
Plant and Machinery	5.30	3,256,095,948	216,016,470	—	3,472,112,418	2,170,070,261	1,676,939,951	1,047,746,220	1,982,338,014	305,944,063	191,215,039	1,982,338,014	1,238,961,259	1,489,774,404	931,109,002	1,579,701,997	
Furniture and Fixtures	3.40 & 5.30	28,083,066	3,444,627	—	31,527,693	19,704,888	13,169,859	8,231,161	4,992,165	3,120,103	18,162,024	11,351,264	13,365,669	8,533,544	14,913,207	9,320,755	
Vehicles	5.30	126,313,362	78,945,851	—	205,259,213	86,104,975	24,667,015	15,416,884	8,934,592	5,584,120	6,848,851	33,601,607	21,001,004	104,166,354	65,103,971	101,646,347	
Computers	7.30	110,671,416	6,069,848	2,697,791	119,439,055	73,553,365	35,437,724	22,146,579	10,958,162	6,848,851	2,392,334	44,003,552	27,502,221	73,681,830	46,051,144	75,233,692	
Office Equipments	5.30	82,365,685	8,976,231	1,942,122	92,283,038	55,874,871	33,844,656	21,152,910	4,933,235	3,083,272	1,208,504	37,569,387	23,480,867	51,830,407	32,394,004	48,521,029	
Total		4,475,849,765	27,462,432	4,639,913	4,746,834,179	2,966,146,362	1,911,187,885	1,194,492,430	352,431,140	220,269,462	3,600,838	2,250,524	1,412,511,368	2,483,815,992	1,553,634,994	2,564,661,880	
Capital Work-in-Progress		361,097,384	7,498,102	258,515,544	161,572,215	532,770,701	—	—	—	—	—	—	—	852,433,122	532,770,701	361,097,384	
Grand Total		4,836,947,149	30,230,920,933	283,155,457	4,908,415,394	3,498,917,063	1,911,187,885	1,194,492,430	352,431,140	220,269,462	3,600,838	2,250,524	1,412,511,368	2,836,249,114	2,086,405,695	2,925,759,464	
Previous Year		3,992,760,060	1,538,455,839	694,288,530	4,836,947,349	3,023,092,093	1,627,082,817	1,016,926,761	344,578,427	215,361,518	60,473,359	37,795,849	1,194,492,430	1,828,599,663	1,828,599,663	—	

INTANGIBLE ASSETS

Description	Basic Depreciation Rates (%)	GROSS BLOCK				DEPRECIATION				NET BLOCK						
		NRs. As at 31.03.2069 (15.07.2012)	NRs. Additions	Withdrawals/ Adjustments	NRs. As at 31.03.2070 (15.07.2013)	As at 31.03.2069 (15.07.2012)	For the year*	Withdrawals/ Adjustments	NRs. As at 31.03.2070 (15.07.2013)	As at 31.03.2069 (15.07.2012)	For the year*	Withdrawals/ Adjustments	NRs. As at 31.03.2070 (15.07.2013)	As at 31.03.2070 (15.07.2012)		
		₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹		
Capitalised Software		40,630,720	—	—	40,630,720	25,394,200	—	—	—	—	—	—	—	—	—	—
Total		40,630,720	—	—	40,630,720	25,394,200	—	—	—	—	—	—	—	—	—	—
Intangible asset under development		45,537,786	68,701,104	4,618,897	118,857,787	68,512,495	—	—	—	—	—	—	—	109,619,993	68,512,495	45,537,786
Grand Total		86,168,506	53,855,316	4,618,897	144,495,720	93,906,695	—	—	—	—	—	—	—	109,619,993	68,512,495	45,537,786
Previous Year		40,630,720	25,394,200	—	66,024,920	45,537,786	28,461,116	—	—	—	—	—	—	45,537,786	28,461,116	—

\* Includes additional depreciation amounting to Nrs. 77,994,215 (₹ 48,746,384) (2068-69 (2011-12) - Nrs. 93,283,088 (₹ 58,301,930)) arising from change in useful life of certain Plant and Machinery, old Computers and Other Assets.

**NOTES TO THE FINANCIAL STATEMENTS (Contd.)**

	Figures in NRs. As at 31st Asadh 2070 (15th July, 2013)	Figures in ₹ As at 31st Asadh 2070 (15th July, 2013)	Figures in NRs. As at 31st Asadh 2069 (15th July, 2012)	Figures in ₹ As at 31st Asadh 2069 (15th July, 2012)
<b>9. INVESTMENTS *</b>				
Investment in Stocks issued by Nepal Government				
5% Bikash Rinpatra, 2071 #	84,250,000	52,656,250	84,250,000	52,656,250
Investment in Promissory Note issued by Nepal Government				
6.5% Bikash Rinpatra, 2075	<u>25,632,338</u>	<u>16,020,211</u>	<u>25,632,338</u>	<u>16,020,211</u>
	<u>109,882,338</u>	<u>68,676,461</u>	<u>109,882,338</u>	<u>68,676,461</u>
* Pledged with a bank for obtaining letter of credit, guarantee facilities.				
# Maturing within 12 months from the Balance Sheet Date.				
<b>10. DEFERRED TAX ASSET - NET</b>				
Deferred Tax Asset				
On Provision for Retirement and Other Employee Benefits	37,215,437	23,259,648	30,234,585	18,896,616
On Fixed Assets	13,587,932	8,492,458	9,568,550	5,980,344
On Doubtful Advance	700,753	437,971	309,019	193,137
On Provision for Inventories	<u>11,832,099</u>	<u>7,395,062</u>	<u>10,212,325</u>	<u>6,382,703</u>
	<u>63,336,221</u>	<u>39,585,139</u>	<u>50,324,479</u>	<u>31,452,800</u>
Deferred Tax Liability				
On finished goods	<u>17,115,838</u>	<u>10,697,399</u>	<u>17,100,988</u>	<u>10,688,118</u>
Deferred Tax Asset - Net	<u>46,220,383</u>	<u>28,887,740</u>	<u>33,223,491</u>	<u>20,764,682</u>
<b>11. CASH AND CASH EQUIVALENTS</b>				
Cash on Hand	93,722	58,576	56,639	35,399
Cash at Bank				
Current Account	19,122,982	11,951,864	1,867,692	1,167,308
Short Term - Call Deposits	638,176,810	398,860,506	33,417,675	20,886,047
Savings Account (Provident Fund)	58,795	36,747	57,078	35,674
Cheques on Hand	<u>29,343,919</u>	<u>18,339,949</u>	<u>1,057,677</u>	<u>661,048</u>
	<u>686,796,228</u>	<u>429,247,642</u>	<u>36,456,761</u>	<u>22,785,476</u>
<b>12. TRADE AND OTHER RECEIVABLES</b>				
(Receivable within twelve months, unless otherwise stated)				
Trade Receivables				
Due for more than six months				
Good and Secured	—	—	—	—
Good and Unsecured	—	—	—	—
From Holding Company				
From Others	3,612,624	2,257,890	3,574,846	2,234,279
Doubtful and Unsecured - From Others	—	—	89,051	55,657
Less: Provision for Doubtful Debts	—	—	(89,051)	(55,657)
Due for less than six months - considered good				
Secured	389,243	243,277	1,435,752	897,345
Unsecured				
From Holding Company	—	—	—	—
From Others	37,275,182	23,296,989	51,286,616	32,054,135
Other Receivables				
Unsecured - Considered Good				
From Holding Company	<u>2,733,433</u>	<u>1,708,396</u>	<u>1,665,021</u>	<u>1,040,638</u>
	<u>44,010,482</u>	<u>27,506,552</u>	<u>57,962,235</u>	<u>36,226,397</u>
<b>13. INVENTORIES</b>				
Stores & Supplies (including in-transit)	133,225,113	83,265,696	119,165,998	74,478,749
Raw Materials (including in-transit)	1,150,163,612	718,852,258	937,685,252	586,053,283
Stock - In - Process	20,734,901	12,959,313	9,288,015	5,805,009
Finished Goods				
At Cost	1,428,853,513	893,033,446	1,343,493,938	839,683,711
At Net Realisable Value	<u>18,558,627</u>	<u>11,599,142</u>	<u>14,452,236</u>	<u>9,032,648</u>
	<u>2,751,535,766</u>	<u>1,719,709,855</u>	<u>2,424,085,439</u>	<u>1,515,053,400</u>
<b>14. LOANS &amp; ADVANCES</b>				
Recoverable within 12 months				
Short Term				
Commercial Advances				
- Green Leaf / Sapling / Seeds Bought from Tobacco Farmers (net of loan disbursed by Bank)	3,570,716	2,231,698	5,259,708	3,287,318
- Less: Provision for Old Advance	(1,236,118)	(772,574)	—	—
- Other Goods and Services	15,793,448	9,870,904	14,458,070	9,036,293
- Less: Provision for Doubtful Advance	(147,082)	(91,926)	(1,927,102)	(1,204,439)
Capital Advances	80,460,144	50,287,590	6,446,068	4,028,793
Excise Duty Advance	59,486,025	37,178,766	28,493,710	17,808,569
Deposit with Govt. Authorities (Excise Sticker, Excise on Import, etc.)	105,790,678	66,119,174	143,850,989	89,906,868
Less: Provision for Import License for Tobacco	(887,509)	(554,693)	(887,509)	(554,693)
Employee Loans and Advances	11,241,876	7,026,172	11,545,053	7,215,658
Unexpired Expenses	6,227,804	3,892,378	3,816,408	2,385,255
Margin Money Deposit	104,812	65,508	104,812	65,508
Less: Provision for Margin Money Deposit	(104,812)	(65,508)	(35,149)	(21,968)
Other Deposits	2,403,795	1,502,371	10,931,825	6,832,390
Recoverable after 12 months				
Long Term				
Commercial Advances				
- Advance to Holding Company {Refer 2D of Note 24}	3,152,490,974	1,970,306,859	3,134,719,642	1,959,199,776
- Other Goods and Services	2,000,000	1,250,000	2,000,000	1,250,000
Capital Advances	—	—	79,603,431	49,752,144
Employee Loans and Advances	67,880,812	42,425,507	76,874,812	48,046,758
Deposits with Government Authorities - Appeals	<u>141,251,468</u>	<u>88,282,168</u>	<u>138,551,468</u>	<u>86,594,668</u>
	<u>3,646,327,031</u>	<u>2,278,954,394</u>	<u>3,653,806,236</u>	<u>2,283,628,898</u>
<b>15. OTHER CURRENT ASSETS</b>				
Accrued Interest receivable				
- On Investments	274,185	171,366	274,185	171,366
- On Call Deposit with Banks	9,047	5,654	18,372	11,483
- On Commercial Advances	—	—	257,753	161,095
	<u>283,232</u>	<u>177,020</u>	<u>550,310</u>	<u>343,944</u>

**NOTES TO THE FINANCIAL STATEMENTS (Contd.)**

	Figures in NRs. For the year ended 31st Asadh 2070 (15th July, 2013)	Figures in ₹ For the year ended 31st Asadh 2070 (15th July, 2013)	Figures in NRs. For the year ended 31st Asadh 2069 (15th July, 2012)	Figures in ₹ For the year ended 31st Asadh 2069 (15th July, 2012)
<b>16: GROSS REVENUE</b>				
Domestic : Cigarette	17,152,298,078	10,720,186,299	14,713,764,523	9,196,102,827
Garments	58,807,728	36,754,830	55,312,928	34,570,580
Matches	173,161,651	108,226,032	131,145,583	81,965,989
Export : Garments	—	—	125,885,990	78,678,744
	<u>17,384,267,457</u>	<u>10,865,167,161</u>	<u>15,026,109,024</u>	<u>9,391,318,140</u>
<b>17: DUTIES</b>				
Excise Duty	4,905,321,981	3,065,826,238	4,631,115,015	2,894,446,884
Sticker Charges	121,044,802	75,653,001	100,915,871	63,072,419
	<u>5,026,366,783</u>	<u>3,141,479,239</u>	<u>4,732,030,886</u>	<u>2,957,519,303</u>
<b>18. RAW MATERIALS CONSUMED ETC.</b>				
Leaf	2,057,401,745	12,858,76,091	1,949,748,874	1,218,593,046
Casing Materials	32,332,980	20,208,113	26,582,804	16,614,253
Wrapping Materials	1,648,592,438	1,030,370,274	1,290,232,989	806,395,618
Fabrics, Trims etc.*	21,070,554	13,169,096	164,221,692	102,638,558
Purchase and Contract Manufacturing Charges	158,826,866	99,266,791	143,236,645	89,522,903
	<u>3,918,224,583</u>	<u>2,448,890,365</u>	<u>3,574,023,004</u>	<u>2,233,764,378</u>
Allocation of overheads etc. on Finished Goods				
Opening	9,78,46,951	61,154,344	72,270,696	45,169,185
Closing	(130,029,561)	(81,268,476)	(97,846,951)	(61,154,344)
	<u>3,886,041,973</u>	<u>2,428,776,233</u>	<u>3,548,446,749</u>	<u>2,217,779,219</u>
* Includes write down of Inventories amounting to NRs. 1,379,363 (₹ 862,102) {2068-69 (2011-12) - NRs. 45,169,090 (₹ 28,230,681)}				
<b>19 : OTHER OPERATING INCOME</b>				
Liability no longer required written back*	583,279	364,549	11,185,333	6,990,833
Provision for doubtful advance/debts written back	89,051	55,657	2,423,370	1,514,606
Miscellaneous Income	6,372,230	3,982,644	11,332,877	7,083,049
	<u>7,044,560</u>	<u>4,402,850</u>	<u>24,941,580</u>	<u>15,588,488</u>
* Includes write back of provision for sales return, relating to Garments domestic business, for NRs. Nil (₹ Nil) {2068-69 (2011-12) - NRs. 1,033,370 (₹ 645,856)}.				
<b>20. MANUFACTURING, ADMIN, SELLING EXPENSES ETC.</b>				
Salaries, Wages & Allowances	295,392,730	184,620,456	285,238,440	178,274,025
Contribution to Provident Fund	9,481,778	5,926,111	9,102,254	5,688,909
Provision for Retirement and Other Employee Benefits	43,460,071	27,162,544	70,548,624	44,092,890
Labour & Staff Welfare	40,697,308	25,435,818	35,919,625	22,449,765
Rent	86,154,321	53,846,451	68,231,205	42,644,503
Electricity, Fuel & Water	139,725,360	87,328,350	98,607,585	61,629,741
Rates & Taxes	1,781,976	1,113,735	1,730,775	1,081,733
Insurance Premium	49,938,826	31,211,766	44,744,942	27,965,589
Repairs & Improvements - Depreciable Assets	152,525,050	95,328,156	136,671,563	85,419,727
Maintenance - Other Properties	14,956,757	9,347,973	15,420,993	9,638,121
Safety & Pollution Control Cost	12,520,957	7,825,598	9,338,889	5,836,806
Consumption of Stores & Spare Parts *	29,478,266	18,423,916	27,608,107	17,255,067
Freight	66,120,039	41,325,024	55,994,681	34,996,676
Product & Packaging Development - Tools / Accessories	154,429,967	96,518,729	5,413,066	3,383,166
Product Development & License Fees	128,360,410	80,225,256	29,735,325	18,584,578
Advertising	5,842,918	3,651,824	6,110,576	3,819,110
Market Research	19,310,696	12,069,185	19,056,193	11,910,121
Retail Accessories	88,857,485	55,535,928	41,531,503	25,957,189
Trade Marketing Expenses	94,415,772	59,009,858	74,929,378	46,830,861
Information Technology Services	74,230,471	463,4,044	49,387,928	30,867,455
Travel & Conveyance	95,826,859	59,891,787	73,763,899	46,102,437
Training & Recruitment Expenses	39,547,035	24,716,897	12,884,202	8,052,626
Postage, Telephone, Telex, Fax etc.	5,928,971	3,705,607	6,140,052	3,837,533
Bank Charges and Commission	8,536,993	5,335,621	2,745,903	1,716,189
Audit Fees	720,000	450,000	720,000	450,000
Legal Fees	230,300	143,938	201,300	125,813
Printing & Stationery	9,387,609	5,867,256	9,821,483	6,138,427
Consultancy / Professional Service Charges & Other Fees	256,470,025	160,293,766	227,429,132	142,143,208
Business Entertainment Expenses	6,537,133	4,085,708	4,791,482	2,994,676
Promotion & Sponsorship	37,806,254	23,628,909	29,604,341	18,502,713
Board Meeting Fees	52,941	33,088	47,059	29,412
Donations **	7,804,884	4,878,053	10,483,237	6,552,023
Books & Periodicals	400,241	250,151	434,429	271,518
Membership Fee	652,174	407,609	1,186,920	741,825
Loss on Fixed Assets Sold / Discarded (Net)	—	—	3,990,834	2,494,271
Provision for Doubtful Debts and Advances	1,305,781	816,113	477,178	298,236
Claims and Advance Written off	—	—	152,454	95,284
Net Loss / (gain) on Foreign Currency Transactions and Translations	(551,544)	(344,715)	(2,775,027)	(1,734,392)
Miscellaneous Expenses {Refer 2F of Note 24} ***	15,587,993	9,742,496	9,339,982	5,837,489
	<u>1,993,924,807</u>	<u>1,246,203,006</u>	<u>1,476,760,512</u>	<u>922,975,320</u>

\* Includes provision for obsolescence of spares, relating to plant & machinery with no residual useful life for NRs. 2,824,034 (₹ 1,765,021) {2068-69 (2011-12) - NRs. 2,250,835 (₹ 1,406,772)}

\*\* Includes cost of construction of School Building in Pokhara NRs. 5,194,217 (₹ 3,246,386) {2068-69 (2011-12) - NRs. 6,640,337 (₹ 4,150,211)} and Land donated for School NRs. Nil (₹ Nil) {2068-69 (2011-12) - NRs. 673,000 (₹ 420,625)}

\*\*\* Includes provision for sales return, relating to Garments domestic business, for NRs. 2,356,907 (₹ 1,473,067) {2068-69 (2011-12) - NRs. Nil (₹ Nil)}

**NOTES TO THE FINANCIAL STATEMENTS (Contd.)**

	Figures in NRs. For the year ended 31st Asadh 2070 (15th July, 2013)	Figures in ₹ For the year ended 31st Asadh 2070 (15th July, 2013)	Figures in NRs. For the year ended 31st Asadh 2069 (15th July, 2012)	Figures in ₹ For the year ended 31st Asadh 2069 (15th July, 2012)
<b>21: OTHER INCOME</b>				
Interest Received	11,073,296	6,920,810	11,386,840	7,116,776
Interest on Short Term/Call Deposit with Bank	33,301,811	20,813,632	20,374,758	12,734,224
interest from Investments	5,683,125	3,551,953	5,683,125	3,551,953
	<u>50,058,232</u>	<u>31,286,395</u>	<u>37,444,723</u>	<u>23,402,953</u>
<b>22: FINANCE COST</b>				
Interest on Term Loan (from Holding Company)	205,200,000	128,250,000	124,400,591	77,750,369
Interest on Short Term Loan / Overdrafts	7,124,786	4,452,991	35,383,577	22,114,736
Interest on Trading Debts	4,140,650	2,587,906	1,978,539	1,236,587
Interest on Suppliers' Credit	2,584,411	1,615,257	910,232	568,895
	<u>219,049,847</u>	<u>136,906,154</u>	<u>162,672,939</u>	<u>101,670,587</u>
<b>23: PROVISION FOR TAXATION</b>				
Current Tax	1,672,242,391	1,045,151,494	1,386,426,273	866,516,421
Deferred Tax	(12,996,892)	(8,123,058)	(22,308,469)	(13,942,793)
	<u>1,659,245,499</u>	<u>1,037,028,436</u>	<u>1,364,117,804</u>	<u>852,573,628</u>

**NOTES TO THE FINANCIAL STATEMENTS (Contd.)**

**Note- 24**

**1. Significant Accounting Policies**

**i) Convention**

These Financial Statements have been prepared in accordance with applicable Accounting Standards and Generally Accepted Accounting Principles (GAAPs) in Nepal. A summary of Significant Accounting Policies, which have been applied consistently, is set out below. The Financial Statements have also been prepared in accordance with the relevant presentational requirements of the Company Act, 2063 of Nepal.

**ii) Basis of Accounting**

These Financial Statements have been prepared in accordance with the historical cost convention modified by revaluation of certain freehold land as detailed in (iii) below.

The preparation of the accounts requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the date of the Financial Statements. The key estimates and assumptions are set out in the Accounting Policies below, together with the related notes to the Financial Statements.

The most significant items include:

- a) The estimation of and accounting for retirement benefit costs. The determination of the carrying value of assets and liabilities, as well as the charge for the year, involves judgements made in conjunction with independent actuaries. These involve estimates about uncertain future events including life expectancy of members, attrition rate, salary increases as well as discount rates.
- b) The estimation of provisions for taxation, which are subject to uncertain future events, may extend over several years and so the amount and/or timing may differ from current assumptions. The Accounting Policy for taxation is disclosed below in point no. (xiv) including the recognised Deferred Tax Assets and Liabilities.

**iii) Fixed Assets**

Freehold land acquired up to 17.12.2043 (31.03.1987) was revalued and the resultant increase in the value of such land was credited to Revaluation Reserve. Subsequent acquisition of the above asset and the other assets are stated at cost of acquisition inclusive of inward freight, duties and taxes and incidental expenses related to acquisition.

Depreciation on Fixed Assets has been provided on straight-line basis at the rates prescribed by the erstwhile Income Tax (First Amendment) Rules, 2039. The said rates have further been increased by 33 1/3 % as allowed by the Industrial Enterprises Act, 2049. Additional depreciation arising from a change in estimated useful life of assets is charged against revenue.

To capitalise software where it is expected to provide future enduring benefits. Cost related to acquisition / development of such software are capitalised in the year when the relevant software is implemented.

Impairment loss, if any, ascertained as per Nepal Accounting Standard - 18 "Impairment of Assets" issued by Institute of Chartered Accountants of Nepal, is recognised.

**iv) Inventories**

Inventories are valued at cost or net realisable value whichever is lower. The cost is calculated on weighted average method. Cost comprises expenditure incurred in the normal course of business in bringing such inventories to its location and includes, where applicable, appropriate overheads based on normal level of activity.

Obsolete, slow moving and defective inventories are identified at the time of physical verification of inventories and where necessary, provision is made for such inventories.

**v) Investments**

Long Term Investments are valued at cost. Provision is made where there is a permanent fall in the valuation of such Investments.

**vi) Sales**

Net sales are stated after deducting taxes, duties and sticker charges from invoiced value of goods sold.

**vii) Investment Income**

Income from investments is accounted for on an accrual basis, inclusive of related tax deducted at source.

**viii) Foreign Exchange Transaction**

Foreign Exchange transactions are recorded at the exchange rate prevailing on the

date of transactions or where applicable, at the exchange rate covered by forward exchange contracts. Gains/losses arising out of fluctuations in the exchange rates are recognised in the Profit and Loss Account in the period in which they arise. Differences between the forward exchange rates and the exchange rates at the date of transactions are recognised as income or expense over the life of the contracts. Profit/loss arising on cancellation or renewal of forward exchange contracts is recognised as income/expense for the period. Gains/losses on account of foreign exchange rate fluctuations relating to monetary items are accounted for in the Profit and Loss Account at the year end.

**ix) Lease Rentals**

Operating lease rentals are charged to the Profit and Loss Account as incurred.

**x) Retirement Benefits**

**(a) Gratuity**

Liability for gratuity benefits payable to the employees is actuarially determined at the year end and provided for.

**(b) Provident Fund**

Regular monthly contributions are made to Provident Funds, which are charged against revenue.

**(c) Leave Encashment and Other Retirement Benefits**

Leave encashment and other retirement benefits, wherever applicable, are determined on the basis of actuarial valuation at the year end and provided for.

**xi) Bonus**

Bonus is provided as per the provisions of the Bonus Act, 2030.

**xii) Employees' Housing**

Employees' Housing is provided as per the provisions of Labour Act, 2048.

**xiii) Cash and Cash Equivalents**

Cash and cash equivalents represent cash and cheques on hand and balance in Bank Accounts.

**xiv) Tax on Income**

Provision for current tax is made with reference to profit for the period covered by the Financial Statements as per the provisions of Income Tax Act, 2058.

Deferred Tax is recognised and provided for on temporary differences between carrying amount of assets and liabilities and their respective tax base, subject to consideration of prudence.

Deferred Tax Assets are recognised to the extent it is probable that future taxable profit will be available against which the temporary difference, unused tax losses and unused tax credit can be utilised, unless the Deferred Tax Asset arises from the initial recognition of an asset or liability in a transaction.

Deferred Tax is determined using the tax rates that have been enacted or substantively enacted at the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

**xv) Dividend**

Final Dividend is provided for as proposed by the Directors, pending approval at the Annual General Meeting. Interim dividend is provided for as declared by the Board of Directors and confirmed at the Annual General Meeting.

**2. Notes to the Accounts**

A. For the year ended 31st Asadh 2070, the Board of Directors of the Company at its meeting held on 15th Ashwin 2070 (1st October 2013) have:

- a) declared interim dividend of NRs.25 (₹ 15.63) per share and
- b) recommended final dividend of NRs.148 (₹ 92.50) per share.

B. Claims against the Company not acknowledged as debts:

- a) Demands raised by Revenue Authorities on theoretical production of cigarettes: Excise, Income Tax and Value Added Tax (VAT) authorities issued Show Cause Notices (SCNs) and raised demands to recover taxes for different years on theoretical production of cigarettes. The basis for all these SCNs and demands is an untenable contention by the Revenue Authorities that the Company could have produced more cigarettes than it has actually produced in a given year, by applying an input-output ratio allegedly submitted by the Company in the year 2047-48 (1990-91) and, that, the Company is liable to pay taxes on such cigarettes that could have been theoretically produced and sold. This, despite the fact that the Company's cigarette factory is under 'physical control' of the

SCHEDULES TO THE ACCOUNTS (Contd.)

Revenue Authorities and cigarettes produced are duly accounted for and certified as such by the Revenue Authorities.

The above basis of theoretical production has been rejected by the Supreme Court of Nepal vide its orders dated 29th October, 2009 and 1st April, 2010. In the said order of the Supreme Court of Nepal dated 1st April, 2010, the Excise demands ((for the financial years 2055-56 to 2059-60 (1998-99 to 2002-03)) and Income Tax demands (for the financial year 2058-59 (2001-02)) were set aside. Citing the aforesaid decisions of the Supreme Court of Nepal, the Inland Revenue Department, on 11th February, 2011 and 12th August 2013 decided the following administrative review petitions in favour of the Company relating to theoretical production:

- (i) Value Added Tax - NRs. 190,142,762 (₹ 118,839,226) for the financial years 2058-59 and 2064-65 (2001-02 and 2007-08).
- (ii) Income Tax - NRs. 49,070,474 (₹ 30,669,046) for the financial year 2062-63 (2005-06).

The Company's counsel appearing in the matter has opined that the verdict of the Supreme Court of Nepal dated 29th October, 2009, which was delivered by a Full Bench of the Court, will add substantial strength to Company's case in all the other matters relating to the issue of theoretical production.

Following is the status of pending demands and Show Cause Notices received from the Revenue Authorities based on similar untenable contention:

Excise Demands and Show Cause Notice

1. Excise demand letter dated 22nd February 2008 for NRs. 149,515,509 (₹ 93,447,193) relating to the financial years 2060-61 to 2062-63 (2003-04 to 2005-06). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 2nd April 2008 and it has issued Show Cause Notices to the respondents.
2. Excise demand letter dated 30th November 2008 for NRs. 128,510,757 (₹ 80,319,223) relating to the financial year 2063-64 (2006-07). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 6th January 2009 and it has issued Show Cause Notices to the respondents.
3. Show Cause Notice dated 19th January 2010 seeking to demand NRs. 196,537,807 (₹ 122, 836,129) by way of Excise Duty for the financial year 2064-65 (2007-08). Company's writ petition challenging the Notice was admitted by the Supreme Court of Nepal. On 7th March 2010, Supreme Court of Nepal issued interim order directing Inland Revenue Department not to raise demand, pending final disposal of the writ petition.

VAT Demands

4. VAT demand letter dated 8th August 2007 for NRs. 57,238,860 (₹ 35,774,288) relating to the financial year 2059-60 (2002-03). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 12th September 2007 and it has issued Show Cause Notices to the respondents.
5. VAT demand letter dated 5th August 2008 for NRs. 10,718,107 (₹ 6,698,817) relating to the financial year 2060-61 (2003-04). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 5th September 2008 and it has issued Show Cause Notices to the respondents.

E. Remuneration to Managing Director:

Particulars	For the year ended 31st Asadh 2070 (15th July 2013)		For the year ended 31st Asadh 2069 (15th July 2012)	
	In NRs.	In ₹	In NRs.	In ₹
Salary, Bonus etc. (Short Term)	19,201,656	12,001,035	15,403,161	9,626,976
Post-Employment Benefits	*	*	*	*
Total	19,201,656	12,001,035	15,403,161	9,626,976

\*Post employment benefits are actuarially determined on overall basis for all employees.

- F. Miscellaneous Expenses include reimbursement of expenses to statutory auditors amounting to NRs. 145,000 (₹ 90,625) [2068-69 (2011-12) – NRs. 132,670 (₹ 82,919)].

G. Reconciliation between tax expenses and accounting profit:

	For the year ended 31st Asadh 2070 (15th July 2013)		For the year ended 31st Asadh 2069 (15th July 2012)	
	In NRs.	In ₹	In NRs.	In ₹
Accounting Profit	5,448,521,343	3,405,325,839	4,407,387,130	2,754,616,956
Tax at the applicable tax rate (Cigarette manufacturing @ 30%, Garments Manufacturing @ 20% and Trading @ 25%)	1,637,533,486	1,023,458,429	1,334,823,317	834,264,573
<b>Factors affecting tax charge for the year</b>				
Effect of :				
Unused Tax Losses not recognised	7,787,174	4,866,984	25,941,272	16,213,295
Expenses not deductible for tax purposes	7,966,857	4,979,286	3,353,215	2,095,759
Others	5,957,982	3,723,739	-	-
<b>Total Tax Expense</b>	<b>1,659,245,499</b>	<b>1,037,028,437</b>	<b>1,364,117,804</b>	<b>852,573,628</b>

H. Capital

The Company is not subject to any capital adequacy norms under regulations presently in force. Employees Housing Reserve is set aside as required by law. It is the Company's policy to maintain a sound capital base that is supportive of the Company's business plans. Return on capital employed is monitored based on asset turnover and profitability ratio.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

1. Related party Disclosures  
Nature of relationship and name of the related parties:
  1. Holding Company  
ITC Limited, India
  2. Fellow Subsidiaries
    - a) Srinivasa Resorts Limited, India
    - b) Fortune Park Hotels Limited, India
    - c) Bay Islands Hotels Limited, India
    - d) WelcomHotels Lanka (Private) Limited, Sri Lanka
    - e) Landbase India Limited, India
    - f) Russell Credit Limited, India and its subsidiary  
Greenacre Holdings Limited, India
    - g) Technico Pty Limited, Australia and its subsidiaries  
Technico Agri Sciences Limited, India  
Technico Technologies Inc., Canada  
Technico Asia Holdings Pty Limited, Australia and its subsidiary  
Technico Horticultural (Kunming) Co. Limited, China
    - h) Wimco Limited, India and its subsidiaries  
Pavan Poplar Limited, India  
Prag Agro Farm Limited, India
  - i) ITC Infotech India Limited, India and its subsidiaries  
ITC Infotech Limited, United Kingdom  
ITC Infotech (USA), Inc., United States of America and its subsidiary  
Pyxis Solutions, LLC, United States of America
  - j) Wills Corporation Limited, India
  - k) Gold Flake Corporation Limited, India
  - l) ITC Investments & Holdings Limited, India
  - m) King Maker Marketing, Inc., United States of America
  - n) BFIL Finance Limited, India and its subsidiary  
MRR Trading & Investment Company Limited, India

The above list does not include ITC Global Holdings Pte. Limited, Singapore (in liquidation)
3. Key Management Personnel:
 

Y C Deveshwar	Chairman & Non-Executive Director
S Puri	Alternate Director to Mr Y C Deveshwar
A K Mukerji	Non-Executive Director
B B Chatterjee	Non-Executive Director
K N Grant	Non-Executive Director
S R Pandey	Non-Executive Director
S SJB Rana	Non-Executive Director
Saurya SJB Rana	Alternate Director to Mr. S. SJB Rana
S M Ahmad	Managing Director

Disclosure of transactions between the Company and related parties during the year and outstanding balances as on 15th July 2013:

	For the year ended 31st Asadh 2070 (15th July 2013)						For the year ended 31st Asadh 2069 (15th July 2012)					
	Holding Company		Fellow Subsidiaries		Key Management Personnel		Holding Company		Fellow Subsidiaries		Key Management Personnel	
	In NRs.	In ₹	In NRs.	In ₹	In NRs.	In ₹	In NRs.	In ₹	In NRs.	In ₹	In NRs.	In ₹
Sale of Goods / Services	—	—	—	—	—	—	91,249,834	57,031,146	50,918	31,824	—	—
Purchase of Goods/ Services	3,155,602,223	1,972,251,389	121,107,977	75,692,486	—	—	2,590,198,763	1,618,874,227	36,471,260	22,794,538	—	—
Remuneration to Managing Director	—	—	—	—	19,201,656	12,001,035	—	—	—	—	15,403,161	9,626,976
Sitting Fees/ Incidental Expenses to Other Directors	—	—	—	—	67,941	42,463	—	—	—	—	57,059	35,662
Interest Expense	205,200,000	128,250,000	—	—	—	—	124,400,591	77,750,369	—	—	—	—
Machine Hire Charges	22,794,067	14,246,292	—	—	—	—	18,223,747	11,389,842	—	—	—	—
Rent Received	—	—	—	—	—	—	—	—	—	—	—	—
Dividend Payments	1,653,321,600	1,033,326,000	—	—	—	—	1,326,225,600	828,891,000	—	—	—	—
Expenses recovered	3,939,062	2,461,914	—	—	—	—	7,312,686	4,570,429	13,968	8,730	—	—
Expenses reimbursed	10,093,723	6,308,577	—	—	—	—	10,934,390	6,833,994	—	—	—	—
Loan												
Taken	—	—	—	—	—	—	1,710,000,000	1,068,750,000	—	—	—	—
Advances Given	1,705,823,120	1,066,139,450	—	—	—	—	2,824,825,274	1,765,515,796	—	—	—	—
<b>Balances as on 15th July</b>												
- Debtors	—	—	—	—	—	—	—	—	—	—	—	—
- Advances / Other Receivables	3,155,224,407	1,972,015,254	—	—	—	—	3,150,448,082	1,969,030,051	—	—	—	—
- Creditors / Payables	312,682,940	195,426,838	59,129,144	36,955,715	—	—	161,149,538	100,718,461	31,008,925	19,380,578	—	—
- Loan Outstanding	1,710,000,000	1,068,750,000	—	—	—	—	1,710,000,000	1,068,750,000	—	—	—	—

- J. Figures have been rounded off to the nearest rupee.
- K. Previous Year's figures have been regrouped and/or rearranged wherever necessary.

Subhkratan Mitra Head of Finance	Syed Mahmood Ahmad Managing Director	Saurya SJB Rana Director	K N Grant Director	Y C Deveshwar Chairman
S R Pandey Director	A K Mukerji Director	B B Chatterjee Director	Nem Lal Amatya Partner N. Amatya & Co. Chartered Accountants	Shashi Satyal Partner T R Upadhy & Co. Chartered Accountants

Date: 15th Aswin 2070 (1st October 2013)