

REPORT OF THE DIRECTORS FOR THE FINANCIAL YEAR ENDED 31ST ASADH 2073 (15TH JULY 2016)

Your Directors are pleased to submit their Report and Audited Accounts of your Company for the year ended 31st Asadh 2073 (15th July 2016).

SOCIO ECONOMIC ENVIRONMENT

The year under review continued to be turbulent for Nepal. GDP grew by a mere 0.77% during the year compared to a growth of 2.32% in the previous year. On the external side, due to the economic slow-down in countries like Malaysia, UAE and Saudi Arabia – all major foreign employment destinations – the number of outbound Nepalese job seekers decreased by 18.4% compared to the previous year. This has consequently impacted the rate of growth of inward remittances which slowed down to 7.7% as compared to 13.6% in the previous year. Annual average consumer inflation increased to 9.9% against 7.2% in the previous year. This does not augur well for the economy which is expected to be sluggish over the short to medium term with subdued growth in demand.

The industry sector de-grew by 6.3% against 3.6% growth last year. The supply situation, which was adversely impacted due to severe earthquake last year, has slowly returned to normalcy. However, the path to revitalizing the economy lies very clearly in sustained political stability and enabling policies that encourage trade, commerce and industry. In this context the Government has already initiated the process of re-aligning the existing legislative framework of the country with the new Constitution.

Contemporary intellectual property laws that are compatible with provisions of the World Trade Organisation (WTO) framework and the Paris Convention of the World Intellectual Property Organization (WIPO), together with bilateral and multilateral trade treaties and investment friendly trade and taxation regulations will enhance investor confidence and attract further foreign investments.

As in the past, in a spirit of participatory governance, your Company will continue to engage with the policy – makers and regulators with its suggestions and views for rejuvenation of the economy.

The cigarette industry comprises about 18% of the manufacturing GDP of the country and provides more than 10% of the excise revenue collected by the Government of Nepal and also supports the livelihood of more than 4 lakh farmers, farm workers and others engaged in tobacco cultivation and tobacco trade. In spite of such special economic significance, the operating landscape for the industry continues to be extremely challenging with high levels of punitive and discriminatory taxation and an increasingly draconian regulatory framework.

Unlike the global trend where more than 90% of tobacco consumption is in cigarette form, in Nepal such consumption is only 19% of the total tobacco consumed in the country. The balance 81% of the tobacco is consumed in the form of bidis and smokeless tobacco (SLT) products like khaini, gutka, snuff and betel-quin (“Paan”). These products are lightly taxed and, in many events, evade taxes and avoid statutory compliance with provisions of the Tobacco Products Control Act (TOPCA), including those relating to Graphic Health Warnings (GHW), by virtue of fragmented manufacture over thousands of units operating in the unorganised sector.

Cigarettes, on the other hand, are taxed at rates that are 9 times more than those imposed on SLTs and contribute more than 81% of total revenue generated from the tobacco sector, despite accounting for only 19% of tobacco consumption. The punitive and discriminatory taxes make cigarettes less affordable to consumers and diverts consumption to the cheaper (by virtue of being lightly taxed/tax evaded) tobacco products like bidis and SLTs and smuggled cigarettes of international brands. Since manufacture / sourcing of these products is mostly unregulated, their credentials of quality and hygiene are also highly questionable. The importance of increasing taxes on non-cigarette tobacco products has been recognized in the Technical Manual on Tobacco Administration published by the World Health Organisation. Despite this, the tax on tobacco products in Nepal continues to be cigarette focused. Thus, not only does the cigarette centric tax policy of the Government undermine the revenue potential from the tobacco sector but also defeats the health objectives of tobacco control besides giving a huge incentive to the growth of contraband. These distortions in the Government’s tax policy on tobacco products have also been highlighted in the Report on Tobacco Control in Nepal published by the Ministry of Health.

Another factor responsible for the increase in smuggled cigarettes is the Tobacco Products Control and Regulation Act (TOPCA) which stipulates that cigarette packages have to carry Graphic Health Warning (GHW) that covers at least 75% of the area of the packages. Since the smuggled international brands do not carry the GHW, these cigarettes are perceived by consumers to be less harmful. The resultant growth in demand for these brands will adversely impact the income levels of tobacco farmers since the smuggled cigarettes do not contain any Nepalese tobacco. The requirement of 75% GHW is one of the most stringent in the world. Studies conducted by the Canadian Cancer Society reveal that of the 198

countries/jurisdiction, 119 do not require GHW as can be seen from the table below:

Particulars of Warnings	No. of Countries/Jurisdictions
No Warnings Required	55
Only Textual Warnings	64
Graphic Health Warnings	79
Total	198

Pertinently, USA, China and Japan – countries that account for more than half the global tobacco consumption do not mandate any GHW on cigarette packages and have, instead, adopted textual warnings only and that too covering upto only 30% of the pack area.

Significantly, GHW proposed by the US Food and Drug Administration (FDA) have been found to be unconstitutional by US Courts on the grounds that they are factually incorrect and evidence regarding their efficacy is lacking. The Courts have observed in this regard that GHWs do not impart purely factual and uncontroversial information to consumers and that FDA has not provided a shred of evidence showing that the graphic warnings will directly advance its interest in reducing the number of Americans who smoke and in fact one of the principal researchers, David Hammond on whom FDA relies recently surveyed the relevant literature and conceded that there is no way to attribute declines in smoking to the new health warnings.

Similarly no correlation has been established between implementation of GHW and reduction in consumption or increase in cessation of tobacco use in Nepal. Despite this, the Ministry of Health issued two new Directives in Kartik’71 and Poush’71 (Nov’14 and Jan’15), which, inter alia, required manufacturers to print multiple pictorial warnings and warning messages on at least 90% of the pack area.

The proposed GHWs will commoditise the market where price will be the sole or prime driver of consumer choice thus eroding the value of locally manufactured brands that have been developed and nurtured over the years. On the other hand, the new GSW will encourage illegal trade in brands owned by international companies into the country since such brands are manufactured in many jurisdictions which do not mandate the printing of GSW on cigarettes packages. As already stated, these are perceived to be relatively safer products by the consumer vis-à-vis domestic legal cigarettes which are mandated to carry large health warnings. Besides, these illegal cigarettes will be available at a fraction of a price of legal cigarettes since these have not been subjected to any tax. The proposed GSW has since been challenged in the Hon’ble Supreme Court of Nepal.

The Domestic industry including your Company, farmers and retailers had made several representations expressing concern on the ultra-virus nature of the proposed directives. Thereafter, the Ministry of Industry has asked the Ministry of Health to keep the implementation of the new directives in abeyance.

The tobacco policies/regulations on GHWs have to be equitable, pragmatic and implementable and should take into account the fact there is no evidence that demonstrate GHWs/ larger GHWs lead to decrease in tobacco consumption. They should be tailored to Nepalese conditions taking into account the important role that tobacco plays in the country’s economy and the adverse impact these measures are likely to have – particularly in terms of agricultural employment, export potential and revenue generation.

Whilst your Company has always complied with the law and will always do so in future, it continues to engage with the policy-makers for evidence-based, practical, reasonable and non-discriminatory tobacco control legislation.

COMPANY PERFORMANCE

Your Company posted Gross revenue of NRs. 2,568 (₹ 1,605) Crores for the year ended 31st Asadh 2073 as against NRs. 2,209 (₹ 1,381) Crores during the previous year. Profit before taxation increased to NRs. 932 (₹ 583) Crores from NRs. 750 (₹ 469) Crores during the previous year. The Company registered Net Profit of NRs. 652 (₹ 408) Crores as against NRs. 522 (₹ 326) Crores in previous year. Earnings per share for the year, after allocation of Employee Housing Reserve, stands at NRs. 298 (₹ 186) {Previous year NRs. 238 (₹ 149)}. Net cash flows from operations aggregated NRs. 793 (₹ 496) Crores compared to NRs. 674 (₹ 421) 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. 1,382 (₹ 864) Crores by way of Excise Duty, Excise sticker charges, VAT Customs duty,

Dividend distribution tax and Income Tax during the year (Previous Year: NRs. 1,165 (₹ 728) Crores). Your Company's Excise Duty contribution to the exchequer constitutes nearly 10% of the Government's total Excise revenue while the VAT and Income Tax contribution constitute nearly 2.5% of the Government's total VAT & Income Tax revenue.

Though the existing income tax law permits set-off of losses from one business with the profits generated from other businesses, tax assessment authorities of the Government are not allowing such set off by interpreting the law differently. This is acting as a disincentive to diversification and inhibiting the capacity of the Company to further invest in the Country. Your Company while representing the matter to the relevant Government authorities is also exploring the legal remedies on the matter.

EMPLOYMENT GENERATION

Your Company, through its multi-product business portfolio remains one of the largest employers in the country providing direct/indirect employment to more than a lakh people in the country, which includes engagement of estimated 8,500 farmers and 21,000 farm labourers. Further, the Company's Agarbatti and Matches business remain providers of employment to economically disadvantaged sections of society, especially women.

As a responsible corporate citizen of the country, your Company is committed to creating enablers for generating employment and economic surplus for the nation.

BUSINESS SEGMENTS

A. AGARBATTI BUSINESS

During the year, your Company significantly improved its market standing through a strategy of deploying a diverse portfolio of offerings targeting all consumer segments. In addition new launches in identified geographies, rapid scaling up of availability across markets supplemented with brand investments grew consumer franchise. Outsourced manufacturing was scaled up to cater to the growing demand. The focus has been to build and strengthen local Supply Chain capacity and capability, involving Small & Medium Enterprises (SMEs), which provides employment opportunities to economically deprived sections of society, thereby enabling and inclusive growth of the economy. This underlines your Company's commitment to contribution to society.

B. CIGARETTE BUSINESS

Your Company strengthened its market standing during the year through sustained focus on product quality, portfolio of offerings and Trade Marketing & Distribution practices. The relentless focus on developing world class product offerings through product innovation and adoption of international standards sets your Company's offerings at a significant advantage over the rest of the industry. The Product & Packaging Agreement entered into by your Company with ITC Limited contributes significantly towards innovation and adoption of best practices in packaging and product design. Further, during the year your Company also extended the term of the Agreement executed with ITC Limited for availing Business Advisory Services by another 5 years. During the year under review, your Company's distribution and supply chain was further strengthened with specific focus on emerging channels, thereby ensuring pan-Nepal availability.

The manufacturing system of your Company continued to deliver benchmarks in Quality, Productivity and Sustainability. The new factory in Seratar delivered an impressive performance across all parameters and has been fully stabilised in terms of induction of new technologies, building skill levels of the team and efficient operations. The availability of capacity at Seratar factory was a critical advantage to the Company in mitigating the risk of business discontinuity during the period of market disturbances. With the stabilisation of Seratar factory, your Company has been able to achieve its objectives of de-risking the Supply Chain. During the year a long-term agreement valid for a period of two years has been signed with the workmen of your Company's cigarette factory in Simra in cordial circumstances.

The Company's commitment to the environment has been reflected in several initiatives that were successfully implemented during the year. The environment-friendly design, systems and processes of the Seratar factory was recognized by the Indian Green Building Council which awarded its 'Gold' rating – the first of its kind in Nepal. In addition, your Company made significant progress in Renewable Energy using solar technologies. During the year, two solar plant of 400 KW and 30 KW capacity were made operational in Simara factory and Simara Housing Colony respectively. Initiatives in water usage have resulted in a significant drop in consumption during the year.

C. GARMENT BUSINESS

Your Company's offering, John Players is a leading brand in the premium segment of the branded Menswear segment, and has

a significant presence across markets through Exclusive Branded Outlets, Departmental Chains and Multi-brand Outlets. The business offers a diverse range of products – Formal wear, Casual wear and Denims, that cater to the quality conscious and discerning consumer. The focus continues to be on building efficiencies in the Supply Chain and generating brand salience and loyalty through targeted marketing initiatives.

D. SAFETY MATCHES BUSINESS

During the year, your Company strengthened its market leadership in the industry, leveraging the investments made in the wooden matches segment and its trade marketing and distribution reach to ensure availability across markets. Your Company is now the largest domestic player in the Wooden Matches segment. The supply chain of Wooden Matches that was set up through an outsourced contract manufacturing model has stabilized, delivering superior quality.

LEAF TOBACCO

Your Company continued to partner with Tobacco farmers in Nepal to enable higher productivity and quality enhancement at the farm level through the induction of sustainable agricultural best practices. 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 usage, marketability of the crop and farmer returns.

As part of extension services, support to the farmers on livestock management and agro-forestry through Poplar plantation promoting "Grow Wood Grow Food" concept through inter-cropping continued.

ENVIRONMENT HEALTH AND SAFETY

Your Company continues to focus on ensuring a safe and healthy workplace by institutionalizing systems with respect to environment & occupational health and safety enabling creation of a benchmarked and safe work environment for all employees. The Company continued to upgrade the EHS standards of its Supply Chain infrastructure across the country with specific focus in the current year to upgrade EHS standards also in all leased warehouses storing finished goods.

DIVIDEND

Your Directors have declared an Interim Dividend of NRs 37.50 (₹ 23.44) per Ordinary Share for the year ended 31st Asadh 2073. The consequent outflow on this account, including Dividend Tax, amounts to NRs. 75.60 (₹ 47.25) Crores. Your Board has also recommended a Final Dividend of NRs. 260.50 (₹ 162.81) 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 (1990-91) 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 was 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 as stated below are under appeal before the Supreme Court.

- (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.

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.

CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

Your Company, as a responsible corporate citizen, places immense emphasis, on contributions that go towards building the social and economic capital of the Nation. Towards this endeavour, your Company pursues an integrated CSR strategy that operates through the following platforms:

- "Prakriti" - Platform for initiatives on environmental preservation.
- "Khelaparyatan" - Platform to promote sports tourism in the country.
- "Asha" - Platform for initiatives on social empowerment.
- "Suswasthya"- Platform for promoting community health.

Your Company accordingly:

- Continued with its programme to assist village farmers, proximate to the Simara factory, in agro forestry through high quality Poplar plantation promoting "Grow Wood Grow Food" concept through inter cropping.
- Continued to support an initiative in the animal husbandry sector by providing extension services covering animal breeding, health and nutrition that will drive yield improvement and higher returns for underprivileged farmers.
- Under its CSR platform "Khelaparyatan", continued to sponsor sports tournaments and leverage the same to promote sports tourism in the country.
- Continued to focus on providing community health services through various programmes such as periodic health camps and awareness programmes in the catchment areas of the manufacturing units.
- Providing employment and skill development opportunities in the Agarbatti and Matches business to women from economically disadvantaged sections of society.

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. P V Dhobale, nominated by ITC Limited, ceased to be a Director of your Company with effect from 6th December, 2015, on withdrawal of his nomination by ITC Limited consequent to his retirement. Mr. Sanjiv Puri has been nominated by ITC Limited and was appointed a Director of your Company with effect from 6th December, 2015. Consequent to the appointment of Mr. Sanjiv Puri as a Director, he ceased to be Alternate Director to Mr. Y C Deveshwar with effect from the said date. Mr. B Sumant was appointed as Alternate Director to Mr. Y C Deveshwar with effect from 6th December, 2015.

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

The number of shares held by your Directors in the Company as on 31st Asadh 2073 is annexed to this Report (Annexure I). The Directors have confirmed that none of them or their close relatives has 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 2072 / 73 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 and sustainable 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: 23rd September, 2016 Y C Deveshwar Sanjiv Puri A K Poddar
(7th Aswin 2073) Chairman Director Managing Director

Annexure I

Sl. No.	Name of Director	Number of Ordinary Shares of NRs. 100/- each held singly and / or jointly as on 31st Asadh 2073 (15th July, 2016)
1.	Y C Deveshwar	Nil
2.	A K Mukerji	Nil
3.	B B Chatterjee	Nil
4.	S Puri	Nil
5.	S R Pandey	67,212
6.	S SJB Rana	600
7.	A K Poddar	Nil

Annexure II

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

During the financial year 2072/73, the following amounts have been paid to the Directors:

- Board Meeting Fee paid –NRs. 70,588 (₹ 44,118)
- Incidental expenses paid –NRs. 26,471 (₹ 16,544)

Payment to / on behalf of the Managing Director for the financial year 2072/73:

- Salary – NRs. 88,87,069 (₹ 55,54,418)
- Allowances – NRs. 29,97,158 (₹ 18,73,224)

In addition to the above, the Managing Director, as applicable, has been provided the following as per his terms of appointment:

- Furnished accommodation with necessary security at residence.
- Entrance fees and annual subscription charges for two clubs.
- Personal accident insurance.
- Company car with driver and telephone at residence.
- Fuel for generator and reimbursement of water tanker charges for residence.
- Stock Options as may be granted by ITC Limited under its Employee Stock Option Scheme.

Payment to/ on behalf of Company officials for the financial year 2072/73:

- Salary – NRs. 2,16,31,978 (₹ 13,519,986)
- Allowances – NRs. 68,99,138 (₹ 4,311,961)

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

- Furnished accommodation with necessary security at residence.
- Entrance fees and annual subscription charges for clubs as applicable.
- Personal accident insurance.
- Company car with driver and telephone at residence.
- Fuel for generator and reimbursement of water tanker charges for residence.
- Stock Options as may be granted by ITC Limited under its Employee Stock Option Scheme.

Annexure III

MANAGEMENT EXPENSES

The expenses incurred by the Company for its management and administration for the financial year 2072/73 comprising rent, electricity, fuel & water, rates & taxes, insurance premium, repairs & improvements, safety & pollution control cost, maintenance, travel & conveyance, postage, telephone, telex, fax, bank charges, legal fees, printing & stationery, consultancy charges, professional service charges & other fees, information technology services, business entertainment expenses, board meeting fees, donations, books & periodicals and miscellaneous expenses amounted to NRs. 1,11,26,94,741 (₹ 69,54,34,213).

AUDITOR'S REPORT TO THE SHAREHOLDERS OF SURYA NEPAL PRIVATE LIMITED

We have audited the accompanying financial statements of **Surya Nepal Private Limited**, which comprise the Balance Sheet as at 31st Asadh 2073 (15th July, 2016), the Profit & Loss Account, Statement of Changes in Equity and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Nepal Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Nepal Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Surya Nepal Pvt Ltd as of 31st Asadh 2073 (15th July, 2016) and of its financial performance and its cash flows for the year then ended in accordance with Nepal Accounting Standards and the requirements of the Companies Act 2063.

Report on the Requirements of the Companies Act 2063

We have obtained information and explanations asked for, which, to the best of our knowledge and belief, were necessary for the purpose of our audit. In our opinion, the balance sheet, the profit and loss account, cash flows statement and the statement of changes in equity have been prepared in accordance with the requirements of the Companies Act 2063 and are in agreement with the books of account of the Company; and proper books of account as required by law have been kept by the Company.

To the best of our information and according to explanations given to us and from our examination of the books of account of the Company necessary for the purpose of our audit, we have not come across cases where Board of Directors or any employees of the Company have acted contrary to the provisions of law relating to the accounts or committed any misappropriation or caused loss or damage to the Company, relating to the accounts, in the Company.

Nem Lal Amatya	Shashi Satyal
Partner	Partner

Date: 7th Aswin 2072
(23 September, 2016)
Place: Kolkata

N. Amatya & Co.	T R Upadhyaya & Co.
Chartered Accountants	Chartered Accountants

BALANCE SHEET AS AT 31ST ASADH 2073 (15TH JULY 2016)

	Note	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 31st Asadh 2072 (16th July 2015)	Figures in ₹ As at 31st Asadh 2072 (16th July 2015)
CAPITAL & LIABILITIES					
SHARE CAPITAL AND RESERVES					
(a) Share Capital	1	2,016,000,000	1,260,000,000	2,016,000,000	1,260,000,000
(b) Reserves & Surplus	2	8,515,791,016	5,322,369,378	6,795,170,108	4,246,981,311
DEFERRED TAX LIABILITY - NET	3A	-	-	50,256,606	31,410,380
CURRENT LIABILITIES AND PROVISIONS					
(a) Trade and Other Payables	4	2,595,776,188	1,622,360,117	2,374,143,356	1,483,839,600
(b) Short Term Borrowings	5	-	-	926,827,907	579,267,442
(c) Provisions for Taxation	6	327,397,059	204,623,162	162,984,449	101,865,281
(d) Provisions	7	209,827,290	131,142,056	172,743,160	107,964,475
Total		13,664,791,553	8,540,494,713	12,498,125,586	7,811,328,489
ASSETS					
FIXED ASSETS					
(a) Tangible Assets - Property, Plant & Equipment	8	5,920,144,364	3,700,090,223	6,530,860,481	4,081,787,801
(b) Intangible Assets		133,350,679	83,344,170	183,031,120	114,394,450
(c) Capital Work-in-Progress - Tangible Assets		326,222,815	203,889,259	526,776,326	329,235,203
INVESTMENTS	9	25,632,338	16,020,211	25,632,338	16,020,211
DEFERRED TAX ASSET - NET	3B	25,637,795	16,023,622	-	-
CURRENT ASSETS					
(a) Cash and Cash Equivalents	10	1,819,806,757	1,137,379,224	19,606,679	12,254,175
(b) Trade and Other Receivables	11	81,352,264	50,845,165	153,096,312	95,685,196
(c) Inventories	12	3,499,847,331	2,187,404,581	2,734,741,010	1,709,213,131
(d) Loans and Advances	13	1,832,246,132	1,145,153,834	2,323,233,452	1,452,020,904
(e) Other Current Assets	14	551,078	344,424	1,147,868	717,418
Total		13,664,791,553	8,540,494,713	12,498,125,586	7,811,328,489

The accompanying notes 1 to 23 are an integral part of the Financial Statements.

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

Subhraketan Mitra
Head of Finance

Abhimanyu Kumar Poddar
Managing Director

Saurya SJB Rana
Alternate Director

S Puri
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: 7th Aswin 2073 (23rd September 2016)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST ASADH 2073 (15TH JULY 2016)

		Figures in NRs. For the year ended 31st Asadh 2073 (15th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (15th July 2016)	Figures in NRs. For the year ended 31st Asadh 2072 (16th July 2015)	Figures in ₹ For the year ended 31st Asadh 2072 (16th July 2015)
Gross Revenue from sale of products	15	25,681,147,130	16,050,716,958	22,093,992,218	13,808,745,136
Less: Duties	16	6,723,206,185	4,202,003,866	5,818,687,784	3,636,679,865
Net Revenue from sale of products		18,957,940,945	11,848,713,092	16,275,304,434	10,172,065,271
Other Operating Income	17	12,108,577	7,567,861	185,897,652	116,186,033
Net Revenue from operations		18,970,049,522	11,856,280,953	16,461,202,086	10,288,251,304
Raw Materials Consumed, etc.	18	5,203,027,622	3,251,892,263	4,682,956,117	2,926,847,574
Manufacturing, Admin, Selling Expenses etc.	19	2,509,089,591	1,568,180,996	2,762,795,940	1,726,747,467
Provision for Employees' Bonus		880,882,034	550,551,271	709,261,913	443,288,696
Operating Profit		10,377,050,275	6,485,656,423	8,306,188,116	5,191,367,567
Other Income	20	38,754,580	24,221,613	19,916,884	12,448,053
Finance Cost	21	44,895,852	28,059,908	231,720,291	144,825,182
Depreciation and Amortisation Expenses		1,052,104,332	657,565,208	591,140,266	369,462,666
Profit before Taxation		9,318,804,671	5,824,252,920	7,503,244,443	4,689,527,772
Provision for Taxation (Refer 2G of Note 23)	22	2,800,103,763	1,750,064,852	2,286,309,965	1,428,943,728
Net Profit		6,518,700,908	4,074,188,068	5,216,934,478	3,260,584,044
Transferred from Accumulated Profit / Loss		4,798,080,000	2,998,800,000	4,032,000,000	2,520,000,000
Available for Appropriation		11,316,780,908	7,072,988,068	9,248,934,478	5,780,584,044
Appropriation					
Provision for Employees' Housing		509,984,335	318,740,209	410,625,318	256,640,824
Interim Dividend		604,800,000	378,000,000	504,000,000	315,000,000
Final Dividend		4,193,280,000	2,620,800,000	3,528,000,000	2,205,000,000
Balance Carried Over to Balance Sheet		6,008,716,573	3,755,447,859	4,806,309,160	3,003,943,220
		11,316,780,908	7,072,988,068	9,248,934,478	5,780,584,044

The accompanying notes 1 to 23 are an integral part of the Financial Statements.

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

Subhraketan Mitra
Head of Finance

Abhimanyu Kumar Poddar
Managing Director

Saurya SJB Rana
Alternate Director

S Puri
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: 7th Aswin 2073 (23rd September 2016)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST ASADH 2073 (15TH JULY 2016)

	Figures in NRs. For the year ended 31st Asadh 2073 (15th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (15th July 2016)	Figures in NRs. For the year ended 31st Asadh 2072 (16th July 2015)	Figures in ₹ For the year ended 31st Asadh 2072 (16th July 2015)
A Cash Flow From Operating Activities				
Profit Before Tax	9,318,804,671	5,824,252,920	7,503,244,443	4,689,527,772
Adjustments for :				
Depreciation	1,052,104,332	657,565,208	591,140,266	369,462,666
Interest	44,895,852	28,059,908	231,720,291	144,825,182
Interest from Investments	(1,470,625)	(919,141)	(1,470,625)	(919,141)
Interest on Short Term/Call Deposits	(15,235,197)	(9,521,998)	(410,560)	(256,600)
Unrealised Loss/(Gain) on Foreign Exchange (Net)	(450,811)	(281,757)	(420,426)	(262,766)
Loss on Fixed Assets sold/discarded (Net)	4,120,706	2,575,441	(17,535)	(10,959)
Provision for Doubtful Debts and Advance	-	-	339,012	211,883
Provision for Sales Return	4,130,728	2,581,705	3,066,149	1,916,343
Provision for Doubtful Advance/Debts written back	(159,702)	(99,813)	-	-
Operating Profit Before Working Capital Changes	10,406,739,954	6,504,212,473	8,327,191,015	5,204,494,380
Adjustments for :				
Trade and Other Receivables, Loans and Advances and Other Current Assets	560,881,187	350,550,741	234,939,548	146,837,221
Inventories	(765,106,322)	(478,191,451)	261,758,262	163,598,914
Trade and Other Payables and Provisions	438,773,798	274,233,623	29,652,155	18,532,597
Cash Generated From Operation	10,641,288,617	6,650,805,386	8,853,540,980	5,533,463,112
Income Tax Paid	(2,711,585,554)	(1,694,740,971)	(2,109,619,010)	(1,318,511,881)
Net Cash From Operating Activities (A)	7,929,703,063	4,956,064,415	6,743,921,970	4,214,951,231
B Cash Flow From Investing Activities				
Purchase of Fixed Assets	(389,700,962)	(243,563,101)	(945,493,511)	(590,933,444)
Proceeds from Disposal of Fixed Assets	12,345,133	7,715,708	1,222,017	763,761
Interest Received	17,439,990	10,899,993	1,147,796	717,373
Net Cash Used in Investing Activities (B)	(359,915,839)	(224,947,400)	(943,123,698)	(589,452,310)
C Cash Flow From Financing Activities				
Repayment of Long Term Borrowing	-	-	(1,282,500,000)	(801,562,500)
Net Increase/(Decrease) in Cash Credit/Overdraft Facilities	(926,827,907)	(579,267,441)	(255,180,972)	(159,488,108)
Interest Paid	(45,130,050)	(28,206,281)	(239,704,101)	(149,815,063)
Dividends Paid	(4,798,080,000)	(2,998,800,000)	(4,032,000,000)	(2,520,000,000)
Net Cash Used in Financing Activities (C)	(5,770,037,957)	(3,606,273,722)	(5,809,385,073)	(3,630,865,671)
Net Increase/(Decrease) in Cash & Cash Equivalents (A+B+C)	1,799,749,267	1,124,843,293	(8,586,801)	(5,366,750)
Cash and Cash Equivalents (Opening balance)	17,100,029	10,687,519	25,686,830	16,054,269
Cash and Cash Equivalents (Closing balance)	1,816,849,296	1,135,530,812	17,100,029	10,687,519
Cash and Cash Equivalents:				
Cash and Cash Equivalents as above	1,816,849,296	1,135,530,812	17,100,029	10,687,519
Unrealised Gain / (Loss) on Foreign Currency Cash and Cash Equivalents - Net	2,957,461	1,848,412	2,506,650	1,566,656
Cash and Cash Equivalents (Note 10)	1,819,806,757	1,137,379,224	19,606,679	12,254,175

The accompanying notes 1 to 23 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

Abhimanyu Kumar Poddar
Managing Director

Saurya SJB Rana
Alternate Director

S Puri
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: 7th Aswin 2073 (23rd September 2016)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST ASADH 2073 (15TH JULY 2016)

	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
	Share Capital	Share Capital	Revaluation Reserve	Revaluation Reserve	General Reserve	General Reserve	Employees' Housing Reserve	Employees' Housing Reserve	Accumulated Profit / Loss	Accumulated Profit / Loss	Total	Total
Balance as at 32nd Asadh 2071 (16th July 2014)	2,016,000,000	1,260,000,000	12,181,280	7,613,300	108,778,401	67,986,497	1,456,602,122	910,376,327	4,032,673,827	2,520,421,143	7,626,235,630	4,766,397,267
Net Profit for the year	-	-	-	-	-	-	-	-	5,216,934,478	3,260,584,044	5,216,934,478	3,260,584,044
Transferred to Employees' Housing Reserve	-	-	-	-	-	-	410,625,318	256,640,824	(410,625,318)	(256,640,824)	-	-
Interim Dividend	-	-	-	-	-	-	-	-	(504,000,000)	(315,000,000)	(504,000,000)	(315,000,000)
Final Dividend	-	-	-	-	-	-	-	-	(3,528,000,000)	(2,205,000,000)	(3,528,000,000)	(2,205,000,000)
Total	-	-	-	-	-	-	410,625,318	256,640,824	774,309,160	483,943,220	1,184,934,478	740,584,044
Balance as at 31st Asadh 2072 (16th July 2015)	2,016,000,000	1,260,000,000	12,181,280	7,613,300	108,778,401	67,986,497	1,867,227,440	1,167,017,151	4,806,982,987	3,004,364,363	8,811,170,108	5,506,981,311
Net Profit for the year	-	-	-	-	-	-	-	-	6,518,700,908	4,074,188,068	6,518,700,908	4,074,188,068
Transferred to Employees' Housing Reserve	-	-	-	-	-	-	509,984,335	318,740,209	(509,984,335)	(318,740,209)	-	-
Interim Dividend	-	-	-	-	-	-	-	-	(604,800,000)	(378,000,000)	(604,800,000)	(378,000,000)
Final Dividend	-	-	-	-	-	-	-	-	(4,193,280,000)	(2,620,800,000)	(4,193,280,000)	(2,620,800,000)
Total	-	-	-	-	-	-	509,984,335	318,740,209	1,210,636,573	756,647,859	1,720,620,908	1,075,388,068
Balance as at 31st Asadh 2073 (15th July 2016)	2,016,000,000	1,260,000,000	12,181,280	7,613,300	108,778,401	67,986,497	2,377,211,775	1,485,757,360	6,017,619,560	3,761,012,222	10,531,791,016	6,582,369,379

The accompanying notes 1 to 23 are an integral part of the Financial Statements.
This is the Statement of Changes in Equity referred to in our Report of even date.

Subhaketan Mitra Head of Finance	Abhimanyu Kumar Poddar Managing Director	Saurya SJB Rana Alternate Director	S Puri 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: 7th Aswin 2073 (23rd September 2016)

NOTES TO THE FINANCIAL STATEMENTS

	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
	As at 31st Asadh 2073 (15th July 2016)	As at 31st Asadh 2073 (15th July 2016)	As at 31st Asadh 2072 (16th July 2015)	As at 31st Asadh 2072 (16th July 2015)

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
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
		<u>2,016,000,000</u>	<u>1,260,000,000</u>	<u>2,016,000,000</u>

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

	Figures in NRs. As at 31st Asadh 2072 (16th July 2015)	Figures in ₹ As at 31st Asadh 2072 (16th July 2015)	Figures in NRs. Addition	Figures in ₹ Addition	Figures in NRs. Withdrawal	Figures in ₹ Withdrawal	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)
2 RESERVES & SURPLUS								
Revaluation Reserve								
Revaluation of Land	12,181,280	7,613,300	-	-	-	-	12,181,280	7,613,300
Revenue Reserve								
General Reserve	108,778,401	67,986,497	-	-	-	-	108,778,401	67,986,497
Housing Fund								
Provision for Employee Housing	1,867,227,440	1,167,017,151	509,984,335	318,740,209	-	-	2,377,211,775	1,485,757,360
Accumulated Profit / Loss	4,806,982,987	3,004,364,363	6,008,716,573	3,755,447,858	(4,798,080,000)	(2,998,800,000)	6,017,619,560	3,761,012,222
	<u>6,795,170,108</u>	<u>4,246,981,311</u>	<u>6,518,700,908</u>	<u>4,074,188,067</u>	<u>(4,798,080,000)</u>	<u>(2,998,800,000)</u>	<u>8,515,791,016</u>	<u>5,322,369,378</u>

	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 31st Asadh 2072 (16th July 2015)	Figures in ₹ As at 31st Asadh 2072 (16th July 2015)
3A. DEFERRED TAX LIABILITY - NET				
Deferred Tax Asset				
On Provision for Retirement and Other Employee Benefits	-	-	51,822,947	32,389,342
On Doubtful Advance	-	-	664,991	415,619
On Provision for Inventories	-	-	18,668,336	11,667,710
			<u>71,156,274</u>	<u>44,472,671</u>
Deferred Tax Liability				
On Finished Goods	-	-	15,432,284	9,645,178
On Fixed Assets	-	-	105,980,596	66,237,873
Deferred Tax Liability - Net			<u>50,256,606</u>	<u>31,410,380</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 31st Asadh 2072 (16th July 2015)	Figures in ₹ As at 31st Asadh 2072 (16th July 2015)
3B. DEFERRED TAX ASSET - NET				
Deferred Tax Asset				
On Provision for Retirement and Other Employee Benefits	62,948,187	39,342,617	-	-
On Doubtful Advance	617,080	385,675	-	-
On Provision for Inventories	22,230,319	13,893,949	-	-
	<u>85,795,586</u>	<u>53,622,241</u>	-	-
Deferred Tax Liability				
On Finished Goods	25,213,271	15,758,294	-	-
On Fixed Assets	34,944,520	21,840,325	-	-
Deferred Tax Asset - Net	<u>25,637,795</u>	<u>16,023,622</u>	-	-
4. TRADE AND OTHER PAYABLES				
(Payable within twelve months, unless otherwise stated)				
Trade Payables				
- Goods and Services				
- Holding Company	447,518,759	279,699,224	423,990,339	264,993,962
- Others	397,867,336	248,667,085	466,791,893	291,744,933
- Advances from Customers	529,408,535	330,880,334	332,493,861	207,808,663
Payable for Fixed Assets	17,583,128	10,989,455	162,729,993	101,706,246
Retention Money				
- Capital Items	6,915,943	4,322,464	45,859,821	28,662,388
- Others	2,651,988	1,657,493	2,324,564	1,452,853
Statutory Liabilities	274,517,345	171,573,341	210,859,539	131,787,213
Payable for Employee Benefits	32,931,120	20,581,950	14,047,235	8,779,522
Provision for Employee's Bonus under The Bonus Act, 2030				
- Distribution by Company	91,988,036	57,492,523	89,956,799	56,222,999
- Deposit with Welfare Funds established under The Labour Act, 2048	552,225,799	345,141,124	433,513,580	270,945,988
- Deposit with National Level Welfare Fund established by Govt. of Nepal	236,668,199	147,917,624	185,791,534	116,119,709
Interest Accrued but not due				
- On Cash Credit / Overdrafts	-	-	234,198	146,374
Security Deposits from Customers	5,500,000	3,437,500	5,550,000	3,468,750
	<u>2,595,776,188</u>	<u>1,622,360,117</u>	<u>2,374,143,356</u>	<u>1,483,839,600</u>
5. SHORT TERM BORROWINGS				
Secured				
Cash Credit/Overdraft Facilities from Banks *	-	-	926,827,907	579,267,442
	-	-	<u>926,827,907</u>	<u>579,267,442</u>
* Secured by hypothecation, on a first charge over immovable fixed assets, certain current assets and investments of the Company and on inter se pari passu second charge over movable fixed assets and inventories of the Company, both present and future, as applicable.				
6. PROVISIONS FOR TAXATION				
Provision for Income Tax	2,968,939,789	1,855,587,368	2,302,059,155	1,438,786,972
Less: Advance Tax paid / Withholding Tax deducted	(2,641,542,730)	(1,650,964,206)	(2,139,074,706)	(1,336,921,691)
	<u>327,397,059</u>	<u>204,623,162</u>	<u>162,984,449</u>	<u>101,865,281</u>
7. PROVISIONS				
Provision for Retirement and Other Employee Benefits {payable after 12 months NRs. 143,283,593 (₹ 89,552,246)} {2071-72 - NRs. 133,099,864 (₹ 83,187,415)}	209,827,290	131,142,056	172,743,160	107,964,475
	<u>209,827,290</u>	<u>131,142,056</u>	<u>172,743,160</u>	<u>107,964,475</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

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

Description	Gross Block						Depreciation						Net Block							
	NRS.		₹		NRS.		₹		NRS.		₹		NRS.		₹		NRS.		₹	
	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)
Land & Land Development	305,147,856	190,717,410	-	305,147,856	190,717,410	-	305,147,856	190,717,410	-	305,147,856	190,717,410	-	305,147,856	190,717,410	-	305,147,856	190,717,410	-	305,147,856	190,717,410
Buildings	1,874,166,947	1,171,354,342	16,989,677	1,891,156,624	1,188,348,989	10,618,548	1,908,145,171	1,199,000,537	17,637,095	1,925,782,266	1,216,648,584	10,636,646	1,946,418,912	1,227,285,630	17,674,141	1,964,093,053	1,244,929,771	17,711,286	1,981,804,339	1,262,646,817
Plant and Machinery	6,895,701,380	4,309,813,362	377,749,964	7,273,451,344	4,545,907,090	236,093,728	7,549,544,372	4,781,814,180	236,093,728	7,785,638,100	4,817,907,908	236,093,728	8,021,731,828	4,853,901,636	236,093,728	8,257,825,556	4,890,000,364	236,093,728	8,493,919,284	4,926,094,092
Furniture and Fixtures	96,879,467	60,549,667	2,316,383	99,195,850	61,997,406	1,447,739	101,643,589	63,544,812	1,447,739	103,091,328	65,000,145	1,447,739	104,539,067	66,447,884	1,447,739	106,000,806	67,895,623	1,447,739	107,448,545	69,343,362
Vehicles	172,329,094	107,705,684	4,363,894	177,398,672	108,411,378	2,727,434	180,126,106	109,132,756	2,727,434	182,853,540	111,140,210	2,727,434	185,580,974	113,867,644	2,727,434	188,308,408	116,595,078	2,727,434	191,035,842	119,322,512
Computers	161,839,891	101,174,932	2,241,309	164,121,200	102,295,750	1,400,818	165,522,018	103,700,500	1,400,818	167,122,836	105,196,568	1,400,818	168,523,654	106,600,386	1,400,818	170,000,472	108,001,204	1,400,818	171,401,310	109,402,022
Office Equipments	99,723,427	62,327,142	4,512,386	104,232,813	65,147,383	2,820,241	107,055,156	67,967,766	2,820,241	109,875,407	70,788,007	2,820,241	112,695,648	73,608,248	2,820,241	115,515,889	76,428,489	2,820,241	118,336,130	79,248,730
Total	9,605,828,062	6,003,642,539	408,173,613	9,987,301,983	6,242,063,739	255,108,508	10,242,410,491	6,504,127,478	255,108,508	10,497,519,000	6,759,235,986	255,108,508	10,752,627,508	6,984,344,494	255,108,508	11,007,736,016	7,239,452,992	255,108,508	11,262,844,524	7,494,561,490
Capital Work-in-Progress	526,776,326	329,235,203	203,465,323	326,222,815	203,889,259	127,165,827	453,388,072	287,114,064	127,165,827	580,553,899	310,994,316	127,165,827	707,719,726	438,108,382	127,165,827	834,885,553	565,274,209	127,165,827	962,051,380	692,440,036
Grand Total	10,132,604,388	6,332,877,742	611,638,936	10,313,524,798	6,445,952,998	382,274,335	10,700,098,563	6,791,241,542	382,274,335	11,080,372,417	7,066,230,302	382,274,335	11,463,646,752	7,421,512,704	382,274,335	11,892,921,052	7,804,727,191	382,274,335	12,224,895,814	8,186,901,526
Previous Year	9,215,877,108	5,759,923,192	3,238,989,673	2,036,868,546	6,332,877,743	2,036,868,546	8,369,746,289	5,016,746,289	2,036,868,546	10,406,614,835	5,253,614,835	2,036,868,546	12,443,483,381	5,469,483,671	2,036,868,546	14,480,351,927	5,686,352,217	2,036,868,546	16,517,220,473	5,923,220,763

INTANGIBLE ASSETS

Description	Gross Block						Amortisation						Net Block							
	NRS.		₹		NRS.		₹		NRS.		₹		NRS.		₹		NRS.		₹	
	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	As at 31.03.2022 (16.07.2015)	
Capitalized Software	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579
Grand Total	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579	-	289,032,926	180,645,579
Previous Year	287,084,056	179,427,355	3,897,740	2,456,088	1,948,870	2,456,088	2,456,088	1,948,870	2,456,088	2,456,088	1,948,870	2,456,088	2,456,088	1,948,870	2,456,088	2,456,088	1,948,870	2,456,088	2,456,088	1,948,870

* Includes additional depreciation amounting to NRS. 399,836,691 (₹ 249,897,932) (207172 - NRS. 770,329 (₹ 481,456)) arising from change in estimated 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 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 31st Asadh 2072 (16th July 2015)	Figures in ₹ As at 31st Asadh 2072 (16th July 2015)
9. INVESTMENTS *				
Investment in Promissory Note issued by Nepal Government 6.5% Bikash Rinpatra, 2075	25,632,338	16,020,211	25,632,338	16,020,211
	<u>25,632,338</u>	<u>16,020,211</u>	<u>25,632,338</u>	<u>16,020,211</u>
* Pledged with a bank for obtaining letter of credit, guarantee facilities.				
10. CASH AND CASH EQUIVALENTS				
Cash on Hand	91,825	57,391	91,325	57,078
Cash at Bank				
Current Account	22,197,640	13,873,525	1,388,036	867,523
Short Term - Call Deposits	1,796,041,352	1,122,525,845	18,065,497	11,290,936
Savings Account (Provident Fund)	62,795	39,247	61,821	38,638
Cheques on Hand	1,413,145	883,216	-	-
	<u>1,819,806,757</u>	<u>1,137,379,224</u>	<u>19,606,679</u>	<u>12,254,175</u>
11. TRADE AND OTHER RECEIVABLES (Receivable within twelve months, unless otherwise stated)				
Trade Receivables				
Due for more than six months				
Good and Unsecured				
From Others	3,516,295	2,197,684	4,541,809	2,838,631
Doubtful and Unsecured - From Others	339,012	211,883	339,012	211,883
Less: Provision for Doubtful Debts	(339,012)	(211,883)	(339,012)	(211,883)
Due for less than six months - considered good				
Secured	1,700,000	1,062,500	949,332	593,333
Unsecured				
From Others	75,817,107	47,385,692	146,164,339	91,352,712
Other Receivables				
Unsecured - Considered Good				
From Holding Company	318,862	199,289	1,440,832	900,520
	<u>81,352,264</u>	<u>50,845,165</u>	<u>153,096,312</u>	<u>95,685,196</u>
12. INVENTORIES				
Stores & Supplies (including in-transit)	242,619,570	151,637,231	246,293,880	153,933,675
Raw Materials (including in-transit)	1,709,757,851	1,068,598,657	1,271,295,381	794,559,613
Stock - In - Process	137,044,783	85,652,989	120,078,112	75,048,820
Finished Goods				
At Cost	1,406,591,879	879,119,924	1,095,592,893	684,745,558
At Net Realisable Value	3,833,248	2,395,780	1,480,744	925,465
	<u>3,499,847,331</u>	<u>2,187,404,581</u>	<u>2,734,741,010</u>	<u>1,709,213,131</u>
13. LOANS & ADVANCES				
Recoverable within 12 months				
Short Term				
Commercial Advances				
- Green Leaf / Sapling / Seeds Bought from Tobacco Farmers (net of loan disbursed by Bank)	4,725,322	2,953,326	3,743,710	2,339,819
- Less: Provision for Old Advance	(1,026,872)	(641,795)	(1,116,911)	(698,069)
- Other Goods and Services	10,348,416	6,467,760	26,438,086	16,523,804
- Less: Provision for Doubtful Advance	(4,528)	(2,830)	(4,528)	(2,830)
Capital Advances	-	-	2,009,883	1,256,177
Excise Duty Advance	34,755,455	21,722,159	949,670	593,544
Deposit with Govt. Authorities (Excise Sticker, Excise on Import, etc.)	193,590,812	120,994,258	151,096,435	94,435,272
Less: Provision for Import License for Tobacco and Excise Sticker	(1,030,063)	(643,789)	(1,030,063)	(643,789)
Employee Loans and Advances	12,889,004	8,055,628	14,760,061	9,225,032
Unexpired Expenses	115,750,132	72,343,833	108,363,782	67,727,364
Margin Money Deposit	1,397,815	873,634	392,530	245,331
Less: Provision for Margin Money Deposit	(29,776)	(18,610)	(99,439)	(62,149)
Other Deposits	1,178,352	736,470	1,178,352	736,470
Recoverable after 12 months				
Long Term				
Commercial Advances				
- Advance to Holding Company (Refer 2D of Note 23)	1,325,963,086	828,726,929	1,877,429,096	1,173,393,185
Employee Loans and Advances	43,549,509	27,218,443	54,867,320	34,292,075
Deposits with Government Authorities - Appeals	90,189,468	56,368,418	84,255,468	52,659,668
	<u>1,832,246,132</u>	<u>1,145,153,834</u>	<u>2,323,233,452</u>	<u>1,452,020,904</u>
14. OTHER CURRENT ASSETS				
Accrued Interest receivable				
- On Investments	193,397	120,873	928,710	580,444
- On Call Deposit with Banks	850	531	22	14
- On Commercial Advances	3,883	2,427	3,566	2,229
Unexpired Premium on Forward Contracts	352,948	220,593	215,570	134,731
	<u>551,078</u>	<u>344,424</u>	<u>1,147,868</u>	<u>717,418</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

	Figures in NRs. For the year ended 31st Asadh 2073 (15th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (15th July 2016)	Figures in NRs. For the year ended 31st Asadh 2072 (16th July 2015)	Figures in ₹ For the year ended 31st Asadh 2072 (16th July 2015)
15. GROSS REVENUE FROM SALE OF PRODUCTS*				
Cigarette	25,296,395,796	15,810,247,373	21,809,688,884	13,631,055,553
Apparel	89,987,833	56,242,396	77,947,741	48,717,338
Safety Matches	151,882,377	94,926,486	113,419,106	70,886,941
Agarbatti	142,881,124	89,300,703	92,936,487	58,085,304
	<u>25,681,147,130</u>	<u>16,050,716,958</u>	<u>22,093,992,218</u>	<u>13,808,745,136</u>
* Net of Sales return.				
16. DUTIES				
Excise Duty	6,598,916,059	4,124,322,537	5,702,819,990	3,564,262,494
Sticker Charges	124,290,126	77,681,329	115,867,794	72,417,371
	<u>6,723,206,185</u>	<u>4,202,003,866</u>	<u>5,818,687,784</u>	<u>3,636,679,865</u>
17. OTHER OPERATING INCOME				
Provision for doubtful advance/debts written back	159,702	99,814	-	-
Miscellaneous Income *	11,948,875	7,468,047	185,897,652	116,186,033
	<u>12,108,577</u>	<u>7,567,861</u>	<u>185,897,652</u>	<u>116,186,033</u>
* Includes insurance claim amount of NRs. Nil (₹ Nil) {2071-72 - NRs. 172,685,181 (₹ 107,928,238)} towards finished goods damaged / destroyed in fire incident at company's leased warehouse.				
18. RAW MATERIALS CONSUMED ETC.				
Leaf and Casing Materials	2,723,553,202	1,702,220,751	2,311,073,732	1,444,421,083
Wrapping Materials	2,226,549,530	1,391,593,456	2,113,141,108	1,320,713,193
Fabrics, Trims etc. *	17,667,050	11,041,906	16,534,520	10,334,075
Purchase and Contract Manufacturing Charges	269,232,896	168,270,560	197,445,787	123,403,617
	<u>5,237,002,678</u>	<u>3,273,126,673</u>	<u>4,638,195,147</u>	<u>2,898,871,968</u>
Allocation of overheads etc. on Finished Goods				
Opening	106,179,403	66,362,127	150,940,373	94,337,733
Closing	(140,154,459)	(87,596,537)	(106,179,403)	(66,362,127)
	<u>5,203,027,622</u>	<u>3,251,892,263</u>	<u>4,682,956,117</u>	<u>2,926,847,574</u>
* Includes write back of provision amounting to NRs. 64,058 (₹ 40,036) {2071-72 - NRs. 7,783,868 (₹ 4,864,918)}.				
19. MANUFACTURING, ADMIN, SELLING EXPENSES ETC.				
Salaries, Wages & Allowances	399,745,262	249,840,789	452,815,053	283,009,408
Contribution to Provident Fund	14,047,101	8,779,438	13,261,820	8,288,638
Provision for Retirement and Other Employee Benefits	77,044,324	48,152,703	59,868,090	37,417,556
Labour & Staff Welfare	33,868,531	21,167,832	50,402,605	31,501,628
Hired Machine Expenses	72,717,902	45,448,689	114,262,309	71,413,943
Rent	71,777,840	44,861,150	73,981,387	46,238,367
Electricity, Fuel & Water	143,035,291	89,397,057	161,418,630	100,886,644
Rates & Taxes	5,889,483	3,680,927	25,244,922	15,778,076
Insurance Premium	91,239,742	57,024,839	83,264,420	52,040,263
Repairs & Improvements - Depreciable Assets	152,760,611	95,475,382	183,570,731	114,731,707
Maintenance - Owned Properties	7,903,407	4,939,629	10,366,716	6,479,198
Maintenance - Other Properties	9,634,769	6,021,731	19,809,681	12,381,051
Safety & Pollution Control Cost	16,316,949	10,198,093	26,251,856	16,407,410
Consumption of Stores & Spare Parts *	45,199,183	28,249,489	44,447,647	27,779,779
Freight	78,659,958	49,162,474	67,292,753	42,057,971
Product & Packaging Development - Tools / Accessories	15,178,479	9,486,549	71,181,243	44,488,277
Product Development & License Fees	475,056,407	296,910,254	407,595,123	254,746,952
Advertising	4,033,385	2,520,866	3,414,800	2,134,250
Market Research	17,781,540	11,113,463	8,246,766	5,154,229
Retail Accessories	21,140,702	13,212,939	9,684,586	6,052,866
Trade Distribution Expenses	115,640,162	72,275,101	112,155,043	70,096,902
Information Technology Services	137,422,847	85,889,279	164,509,944	102,818,715
Travel & Conveyance	68,551,458	42,844,661	76,290,987	47,681,867
Training & Recruitment Expenses	3,505,871	2,191,169	17,208,631	10,755,394
Postage, Telephone, Telex, Fax etc.	6,192,249	3,870,156	7,181,724	4,488,578
Bank Charges and Commission	4,084,520	2,552,825	4,175,857	2,609,911
Premium on Forward Contracts	5,707,481	3,567,176	14,080,655	8,800,409
Audit Fees	845,000	528,125	845,000	528,125
Legal Fees	506,000	316,250	838,000	523,750
Printing & Stationery	6,334,203	3,958,877	4,838,496	3,024,060
Consultancy Charges	280,778,059	175,486,287	244,036,082	152,522,551
Professional Service Charges & Other Fees	93,495,838	58,434,899	100,372,508	62,732,818
Business Entertainment Expenses	4,124,837	2,578,023	5,326,288	3,328,930
Promotion & Sponsorship	11,575,719	7,234,824	9,195,860	5,747,413
Board Meeting Fees	70,588	44,118	61,765	38,603
Donations **	2,686,637	1,679,148	102,286,051	63,928,782
Books & Periodicals	355,638	222,274	570,524	356,578
Membership Fee	977,948	611,218	1,261,656	788,535
Loss / (Gain) on Fixed Assets Sold / Discarded (Net)	4,120,706	2,575,441	(17,535)	(10,959)
Provision for Doubtful Debts and Advances	-	-	339,012	211,883
Net Loss / (Gain) on Foreign Currency Transactions and Translations	(450,811)	(281,757)	(420,426)	(262,766)
Miscellaneous Expenses (Refer 2F of Note 23) ***	9,533,775	5,958,609	11,278,680	7,049,175
	<u>2,509,089,591</u>	<u>1,568,180,996</u>	<u>2,762,795,940</u>	<u>1,726,747,467</u>

* Includes provision for obsolescence of spares, relating to plant & machinery with no residual useful life for NRs. 11,873,275 (₹ 7,420,797) {2071-72 - NRs. 13,982,044 (₹ 8,738,778)}.

** Includes contribution to Prime Minister's Disaster Relief Fund NRs. Nil (Rs. Nil) {2071-72 - NRs. 100,000,000 (₹ 62,500,000)}.

*** Includes provision for sales return / discount, relating to Garments domestic business, for NRs. 4,130,728 (₹ 2,581,705) {2071-72 - NRs. 3,066,149 (₹ 1,916,343)}.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

	Figures in NRs. For the year ended 31st Asadh 2073 (15th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (15th July 2016)	Figures in NRs. For the year ended 31st Asadh 2072 (16th July 2015)	Figures in ₹ For the year ended 31st Asadh 2072 (16th July 2015)
20. OTHER INCOME				
Interest Received	22,048,758	13,780,474	18,035,699	11,272,312
Interest on Short Term/Call Deposit with Bank	15,235,197	9,521,998	410,560	256,600
Interest from Investments	1,470,625	919,141	1,470,625	919,141
	<u>38,754,580</u>	<u>24,221,613</u>	<u>19,916,884</u>	<u>12,448,053</u>
21. FINANCE COST				
Interest on Term Loan (from Holding Company)	912,953	570,596	76,507,780	47,817,363
Interest on Short Term Loans / Overdrafts	27,005,373	16,878,358	151,848,384	94,905,240
Interest on Trading Debts	16,977,526	10,610,954	3,364,127	2,102,579
	<u>44,895,852</u>	<u>28,059,908</u>	<u>231,720,291</u>	<u>144,825,182</u>
22. PROVISION FOR TAXATION				
Current Tax	2,875,998,164	1,797,498,853	2,209,047,354	1,380,654,596
Deferred Tax	(75,894,401)	(47,434,001)	77,262,611	48,289,132
	<u>2,800,103,763</u>	<u>1,750,064,852</u>	<u>2,286,309,965</u>	<u>1,428,943,728</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Note – 23

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 Tangible Fixed Assets is computed in a manner that allocates the cost of the assets after commissioning (or other amount substituted for cost), less its residual value, over their useful lives. Useful lives and residual values are reviewed at each financial year end. The impact of depreciation arising from a change in estimated useful life of assets is adjusted prospectively.

To capitalise software where it is expected to provide future enduring economic benefits. Capitalisation costs include licence fees and cost of implementation / system integration services. The costs are capitalised in the year when the relevant software is implemented for use and are amortised over a period of five years.

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) Revenue from sale of products

To recognise revenue at the time of delivery of goods net of trade discounts to customers and Value Added Tax recovered from customers but including excise duty and sticker charges payable by the Company. Net revenue is stated after deducting such excise duty and sticker charges.

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.

To account for differences between the forward exchange rates and the exchange rates at the inception of forward exchange contracts as income or expense over the life of the contracts. Gain/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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

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

Interim Dividend is distributed to the shareholders after its declaration by the Board of Directors based on the audited financial statements of the Company. Final Dividend is distributed to the shareholders after its approval at the Annual General Meeting.

The dividend per share and the amount of dividend, declared / proposed after the balance sheet date for the period covered by the financial statements are disclosed in the notes to the Financial Statements in accordance with NAS 05 - "Events After Balance Sheet Date" read with NAS 01 - "Presentation of Financial Statements". Interim and Final Dividend, are recognised as appropriation in the financial statements of the period in which they are declared/ approved.

2. Notes to the Accounts

A. For the year ended 31st Asadh 2073 (15th July, 2016), the Board of Directors of the Company at its meeting held on 7th Aswin 2073 (23rd September 2016) have:

- declared interim dividend of NRs. 37.50 (₹ 23.44) per share, amounting to NRs. 75.60 (₹ 47.31) Crores and
- recommended final dividend of NRs. 260.50 (₹ 162.81) per share amounting to NRs. 525.17 (₹ 328.23) Crores.

B. Claims against the Company not acknowledged as debts:

- 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 was under 'physical control' of the 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:

- Value Added Tax - NRs. 190,142,762 (₹ 118,839,226) for the financial years 2058-59 and 2064-65 (2001-02 and 2007-08).
- 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

- 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.

- 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.
- 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

- 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.
- 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.
- VAT demand letter dated 10th July 2009, for NRs. 106,966,056 (₹ 66,853,785) relating to the financial years 2061-62 to 2063-64 (2004-05 to 2006-07). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 9th August 2009 and it has issued Show Cause Notices to the respondents.

Income Tax Demands

- Income Tax demand letter dated 12th August 2007 for NRs. 196,092,971 (₹ 122,558,107) 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.
- Income Tax demand letter dated 15th September 2008 for the financial year 2060-61 (2003-04). Out of total demand of NRs. 22,536,944 (₹ 14,085,590), the basis of the demand for NRs. 19,139,653 (₹ 11,962,238) is on theoretical production. The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 8th December 2008 and it has issued Show Cause Notices to the respondents.
- Income Tax demand letter dated 16th October 2009 for the financial year 2061-62 (2004-05). Out of a total demand of NRs. 22,626,609 (₹ 14,141,631), the basis of the demand for NRs. 21,565,409 (₹ 13,478,381) is on theoretical production. The Company filed an administrative review petition before the Director General, Inland Revenue Department on 18th December 2009. The Director General without dealing with the issues raised by the Company, summarily dismissed the petition by an order dated 2nd March 2010. The Company thereafter filed an appeal before the Revenue Tribunal, on 17th June 2010. The Revenue Tribunal, vide its order dated 9th July, 2012 (received by the Company on 2nd November, 2012), directed Director General, Inland Revenue Department to reassess the case. The Director General appealed to the Supreme Court of Nepal for admission of the case against the decision of the Revenue Tribunal. The Supreme Court has admitted the case on 11th March 2016 and issued notice to the Company for hearing, which is pending.

The Management considers that all the demands and show cause notice listed above have no legal or factual basis. Accordingly, the Management is of the view that there is no liability that is likely to arise, particularly in the light of the decisions in favour of the Company by the Supreme Court of Nepal and the Inland Revenue Department.

- Other demands raised on account of:

- Income Taxes for various assessment years amounting to NRs. 146,655,561 (₹ 91,659,726) (Previous year - NRs. 140,313,243 (₹ 87,695,777)) (net of provision made for the above assessment years) against which the Company has filed appeals with the appropriate authorities/Courts.
- Value Added Tax matters under dispute, pertaining to various financial years amounting to NRs. 21,358,496 (₹ 13,349,060) (Previous year - NRs. 20,524,683 (₹ 12,827,927)), which are under appeal / reassessment.

- Estimated amount of contracts remaining to be executed on capital account NRs. 47,513,340 (₹ 29,695,838) (2071-72 NRs. 96,599,371 (₹ 60,374,607)).

- Commercial advance to Holding Company towards purchase of unmanufactured tobacco is adjusted against invoices received for dispatch of such tobacco by the Holding Company. The timing of such dispatches, based on the Company's indent, cannot be determined with precision. Accordingly, for the advance, it is not possible to segregate amounts that are recoverable within or beyond 12 months and the entire amount, on principle of conservatism, has been classified as long term.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

E. Remuneration to Managing Director:

Particulars	For the year ended 31st Asadh 2073 (15th July 2016)		For the year ended 31st Asadh 2072 (16th July 2015)	
	In NRs.	In ₹	In NRs.	In ₹
Salary & Allowances	11,884,228	7,427,643	11,807,552	7,379,720
Other Benefits *	2,160,269	1,350,168	2,167,054	1,354,409
Post Employment Benefits	**	**	**	**
Total	14,044,497	8,777,811	13,974,606	8,734,129

* Other Benefits includes amounts incurred/reimbursed by the Company towards Residential Rent & Maintenance, Fuel & Driver Salary for Vehicle, Vehicle Repairs & Maintenance etc,

** 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. 146,600 (₹ 91,625){2071-72 – NRs. 130,750 (₹ 81,719)}.

G. Reconciliation between tax expenses and accounting profit:

Particulars	For the Year ended 31st Asadh, 2073 (15th July, 2016)		For the Year ended 31st Asadh, 2072 (16th July, 2015)	
	In NRs.	In ₹	In NRs.	In ₹
Accounting Profit	9,318,804,671	5,824,252,919	7,503,244,443	4,689,527,777
Tax at the applicable tax rate (Cigarette Manufacturing @ 30%, Garments Manufacturing @ 20% and Trading @ 25% with loss setoff between Trading and Cigarette Manufacturing)	2,796,642,657	1,747,901,661	2,252,260,519	1,407,662,824
Factors affecting tax charge for the year Effect of :				
Unused Tax Losses not recognised for Garment Manufacturing	2,002,510	1,251,569	2,574,373	1,608,983
Expenses not deductible for tax purposes	1,458,596	911,623	31,475,073	19,671,921
Total Tax Expense	2,800,103,763	1,750,064,852	2,286,309,965	1,428,943,728

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.

o) King Maker Marketing, Inc., United States of America

p) North East Nutrients Private Limited, India

The above list does not include ITC Global Holdings Pte. Limited, Singapore (in liquidation)

Notes:

Russell Credit Limited acquired the entire equity share capital of BFIL Finance Limited and Wills Corporation Limited from ITC Limited on 18.06.2015 and 07.09.2015 respectively; both companies have amalgamated with Russell Credit Limited w.e.f. 01.04.2015, with the effective date of the amalgamation being 16.05.2016 and 22.03.2016 respectively.

Classic Infrastructure & Development Limited, an associate of the ITC Limited's subsidiary, became a wholly owned subsidiary of Greenacre Holdings Limited, a wholly owned step down subsidiary of ITC Limited, w.e.f. 07.12.2015; the company amalgamated with Greenacre Holdings Limited w.e.f. 01.10.2015, with the effective date of the amalgamation being 05.04.2016.

Pyxis Solutions, LLC. has ceased to be a subsidiary of ITC Infotech (USA), Inc. consequent to merger with merged with ITC Infotech (USA), Inc. w.e.f. 01.04.2016.

3. Key Management Personnel:

Y C Deveshwar	Chairman & Non-Executive Director
B Sumant	Alternate Director to Mr Y C Deveshwar (w.e.f. 6th December 2015)
S Puri	Non-Executive Director (w.e.f. 6th December 2015)
	Alternate Director to Mr Y C Deveshwar (ceased w.e.f. 6th December 2015)
A K Mukerji	Non-Executive Director
B B Chatterjee	Non-Executive Director
P V Dhobale	Non-Executive Director (ceased w.e.f. 6th December 2015)
S R Pandey	Non-Executive Director
S SJB Rana	Non-Executive Director
Saurya SJB Rana	Alternate Director to Mr. S. SJB Rana
Abhimanyu Kumar Poddar	Managing Director

I. Related Party Disclosures

Nature of relationship and name of the related parties:

- Holding Company
ITC Limited, India
- Fellow Subsidiaries
 - Srinivasa Resorts Limited, India
 - Fortune Park Hotels Limited, India
 - Bay Islands Hotels Limited, India
 - WelcomHotels Lanka (Private) Limited, Sri Lanka
 - Landbase India Limited, India
 - Russell Credit Limited, India and its subsidiary
Greenacre Holdings Limited, India
 - Technico Pty Limited, Australia and its subsidiaries
TechnicoAgri Sciences Limited, India (upto 21.03.2016)
Technico Technologies Inc., Canada
Technico Asia Holdings Pty Limited, Australia and its subsidiary
Technico Horticultural (Kunming) Co. Limited, China
 - TechnicoAgri Sciences Limited, India (w.e.f. 22.03.2016)
 - Wimco Limited, India
 - Pavan Poplar Limited, India
 - PragAgro Farm Limited, India
 - 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 (upto 31.03.2016)
 - Gold Flake Corporation Limited, India
 - ITC Investments & Holdings Limited, India and its subsidiary
MRR Trading & Investment Company Limited, India

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Disclosure of transactions between the Company and related parties during the year and outstanding balances as on 15th July, 2016 / 16th July, 2015:

	For the year ended 31st Asadh, 2073 (15th July, 2016)						For the year ended 31st Asadh, 2072 (16th July, 2015)					
	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 Rs.
Sale of Goods/Services	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Goods/ Services	4,762,852,055	2,976,782,534	78,972,054	49,357,534	-	-	3,683,280,895	2,302,050,559	111,520,559	69,700,349	-	-
Remuneration to Managing Director	-	-	-	-	14,044,497	8,777,811	-	-	-	-	13,974,606	8,734,129
Sitting Fees/ Incidental Expenses to Other Directors	-	-	-	-	97,059	60,662	-	-	-	-	94,118	58,824
Interest Expense	912,953	570,596	-	-	-	-	76,507,780	47,817,363	-	-	-	-
Machine Hire Charges	66,964,402	41,852,751	-	-	-	-	67,025,200	41,890,750	-	-	-	-
Dividend Payments	2,830,867,200	1,769,292,000	-	-	-	-	2,378,880,000	1,486,800,000	-	-	-	-
Expenses recovered	2,769,302	1,730,814	-	-	-	-	2,459,308	1,537,068	-	-	-	-
Expenses reimbursed	3,500,875	2,188,047	-	-	-	-	12,095,160	7,559,475	-	-	-	-
Loan Repayment	-	-	-	-	-	-	1,282,500,000	801,562,500	-	-	-	-
Advances Given	1,922,539,477	1,201,587,173	-	-	-	-	1,733,893,185	1,083,683,241	-	-	-	-
Balances as on 15th July 2016 / 16th July 2015												
- Debtors	-	-	-	-	-	-	-	-	-	-	-	-
- Advances / Other Receivables	1,326,281,948	828,926,218	-	-	-	-	1,878,869,928	1,174,293,705	-	-	-	-
- Creditors / Payables	447,518,759	279,699,224	66,436,764	41,522,978	-	-	423,990,339	264,993,962	81,231,500	50,769,688	-	-
- Loan Outstanding	-	-	-	-	-	-	-	-	-	-	-	-

J. Figures have been rounded off to the nearest rupee.

K. Previous Year's figures have been regrouped and/or rearranged wherever necessary.

Subhaketan Mitra
Head of Finance

Abhimanyu Kumar Poddar
Managing Director

Saurya SJB Rana
Alternate Director

S Puri
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: 7th Aswin 2073 (23rd September 2016)