# Notes To The Financial Statements (Contd.

8 Income Tax demand letter dated 1 Sth September २००८ for the financial year २०६०-६१ (२०O३-०४). Out of total demand of NRs. 22,536,944 (र 14,085,590)

the basis of the demand for NRs. १९, १ ३९,६५३ (२ ११ ,९६२ २८३) is on theoretical production. The Companys writ petition, challenging the demand, ha

been admitted by the Supreme Court of Nepal on 8th December २००८ and it has issued Show Cause Notices to the respondents.

9 Income Tax demand letter dated 1 ६th October २००9 for the financial year २०६१ -६२ (२OO४-O५). Out of a total demand of NRs. २२,626,609 (र 14,141,631)

the basis of the demand for NRs. २१ ,५६५ ४०9 (र 1 ३४७८,३८१ ) is on theoretical production. The Company filed an administrative review petition befor

the Director General, Inland Revenue Department on १8th December २००9. The Director General without dealing with the issues raised by the Company

summarily dismissed the petition by an order dated Znd March २०१०. The Company thereafter filed an appeal before the Revenue Tribunal, on 1७th June

२०१0. The Revenue Tribunal, vide its order dated 9th July २०१2 (received by the Company on Znd November २०१ २), directed Director General, Inlanc

Revenue Department to reassess the case. The Director General appealed to the Supreme Court of Nepal for admission of the case against the decisior

of the Revenue Tribunal. The Supreme Court admitted the case on ११th March २०१ 6 The matter has been heard on १२th February २०१8 and order

reserved

The Management considers that all the demands and show cause notice listed above have no legal or factual basis. Accordingly the Management is

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 Nepa

and the Inland Revenue Department.

b) Other demands raised on account ofः

1 Income Taxes for various assessment years amounting to NRs. 275,972,010 (र 172,482,506) [2073/74 NRs. 305,122,168 190,701,355)] (net

provision made for the above assessment years) including interest on claims, where applicable, estimated to be NRs. 54,789,780 (र 34,243,613) [2073/7

NRs. १५८ ४६६,६०७ (र ९९,0४1 ,6२9)] against which the Company has filed appeals with the appropriate authorities Courts.

२ Value Added Tax matters under dispute, pertaining to various financial years amounting to NRs. 32,752,830 (र 20,470,519) [2073/74 NRs. 28,772,109

(र १७,98२,568)] including interest on claims where applicable, estimated to be NRs. 6,895,973 (र 4,309,983) [2073-74 NRs. 5,551,856 (\* 3,469,910)]

which are under appeal reassessment

(viii) The Company s significant leasing arrangements are in respect of operating leases for building premises (residential, office, godowns, etc. ). These leasing arrange

ments which are not non cancellable range between 1 year and 3 years generally or longer and are usually renewable by mutual consent on mutually agreeable

terms. The aggregate lease rentals payable are charged as Rent under Note २५ - Manufacturing, Selling and Administrative Expenses, etc

(ix Some of the employee(s) of the Company seconded from the Holding Company (ITC Limited), have been granted stock options under the ITC Employees Stocl

Option Scheme (ITC ESOS). These options vest over a period of three years from the date of grant and are exercisable within a period of five years from the date

vesting. Each option entitles the holder thereof to apply for and be allotted ten Ordinary Shares of ITC of Indian Rupee 1 each inter alia upon payment of exercis

price.

These options have been granted at 'market price within the meaning of Securities and Exchange Board of India (Share Based Employee Benefit) Regulations

२०१४. The fair value of the options granted is determined by ITC, using the Black Scholes Option Pricing Model, for all the options covered under the ITC ESOS a

whole

The Company has recognized the cost of options granted, as stated above, under the ITC Employee Stock Option Scheme (ITC ESOS) (equity settled) in

accordance with NFRS 2 Share Based Payment and the Companys share of the cost of fair value of such options has been accounted for based on the advice

on-charge by ITC. Accordingly an amount of NRs. 57,193,032 (र 35,745,645) [2073/74 NRs. 51,838,452 (र 32,399,033)] (Refer Note २४) which represents tha

on-charge from ITC has been recognized as employee benefits expense with a corresponding payable, when such reimbursement is sought by ITC.

The details of such options granted by ITC and status of the outstanding options is as underः

Particulars 2074/75 (2017/18) 2073/74 (2016/17)

No. of Options No. of Options

Outstanding at the beginning of the year 373,733 220,040

Addः Granted during the year 63,490 48,450

Addः Corporate Action: Bonus by ITC 128,429

Add (Less): Movement due to transfer of employees within group (33,290) 36,820

Lessः Exercised during the year 44,830 60,006

Outstanding at the end of the year 359,103 373.733

Options exercisable at the end of the year 242,345 247,303

Figures have been rounded off to the nearest Nepalese Rupee.

Financial Instruments and Related Disclosures

1 Capital Management

The primary objective of the companys capital management is to maximize the shareholder value. The Company aims at maintaining a strong capital base anc

augments its internal generations with a judicious use of borrowing facilities to fund spikes in working capital that arise from time to time as well as requirement

to finance business growth. The Company monitors the return on capital employed based own asset turnover and profitability ratio

The Company is not subject to any capital adequacy norms under regulations presently in force.

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| Particulars | 2074/75 (2017/18) | 2073/74 (2016/17) |
|  | No. of Options | No. of Options |
| Outstanding at the beginning of the year | 373,733 | 220,040 |
| Add: Granted during the year | 63,490 | 48,450 |
| Add: Corporate Action: Bonus by ITC |  | 128,429 |
| Add/(Less): Movement due to transfer of employees within group | (33,290) | 36,820 |
| Less: Exercised during the year | 44,830 | 60,006 |
| Outstanding at the end of the year | 359,103 | 373,733 |
| Options exercisable at the end of the year | 242,345 | 247,303 |