SURYA NEPAL PRIVATE LIMITED

cigarettes than it has actually produced in a given year, based on an input-output ratio allegedly submitted by your Company in the year 2047-48 (1990-91) and that your Company is liable to pay taxes on such theoretically produced cigarettes. The allegations made by the Department are despite the fact that your Company's cigarette factory has always been under "physical control" procedures of the Revenue authorities and all the cigarettes that are produced are duly accounted for and certified by the said authorities. No fresh demand has been received during the year on this account and the cumulative pending demand on your Company on account of theoretical production stands at NRs. 68.97 (₹ 43.11) crore, as detailed below, and are under appeal before the Hon'ble Supreme Court.

· Demand of Excise Duty - NRs. 27.80 (₹ 17.38) crore.

. Demand of VAT - NRs. 17.49 (₹ 10.93) crore.

. Demand of Income Tax - NRs. 23.68 (₹ 14.80) crore.

Your Company is advised by eminent counsel that the allegations made by the Department have no legal or factual basis and that the Demand Notices served on your Company are not sustainable, particularly in the light of the favorable Order dated 29" October, 2009 of the Hon'ble Supreme Court. The subsequent decisions of the Hon ble Supreme Court and the Inland Revenue Department have further reinforced this position. Accordingly, your Company does not recognise any liability in this behalf. RISK MANAGEMENT

Your Company continues to follow a systems-based approach to risk management. The Corporate Governance Policy of your Company lays down the structure, roles and responsibilities of the key entities in the governance process and also mandates periodic review of key areas of operations. The Corporate Governance Policy is backed by a robust internal control system consisting of the following key elements:

. Organizational Policies for key areas of operations e.g. financial policies and procedures, IT Policy etc.

· Comprehensive standard operating procedures (SOPs) across areas of operations which ensure appropriate segregation of duties, tiered approval mechanisms and maintenance of supporting records.

\* Maintenance of Books of Accounts through use of Organisation wide ERP (SAP) with appropriate transactional controls built in.

\* An independent, periodic risk based internal audit across functions and businesses.

Your Company continues to focus on regular reviews and continuous improvement of the policies and processes across the areas of operations so as to ensure that various risks associated with your Company's Business and operations are adequately addressed and appropriate risk mitigation plans are put in place.

## CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

Your Company, as a responsible corporate citizen, places immense emphasis on contributing towards building the societal, environmental and economic capital of the nation. Towards this end, your Company pursues an integrated CSR strategy spanning areas such as environmental preservation, social empowerment, promoting and improving education in public schools.

As a part of the ongoing interventions in this area, your Company continues to:

. provide assistance to farmers in agro-forestry, agri-infrastructure and vermicomposting in villages situated in the economic vicinity of its operating locations.

. provide training and development to farmers towards improvement in productivity and other income generating activities.

. support the animal husbandry sector by providing extension services covering animal breeding, health and nutrition in order to drive yield improvement and higher returns for underprivileged farmers.

During the year under review, your Company also entered into an agreement with "Teach for Nepal (TFN)", an NGO for providing quality teachers in public schools through the TEN Teaching Fellowship program. More than 2000 students in rural part of Parsa District will benefit from this initiative.

Such initiatives, being consistent with the CSR guidelines enunciated by Nepal Rastra Bank for banks and financial institutions, will continue to be pursued, in the absence of any prescribed guidelines notified by the Government.

In accordance with the provisions of the Industrial Enterprises Act, 2073, your Company has allocated 1% of its annual profit towards discharging CSR activities. The allocated funds will be spent on the basis of annual plan and programs as mandated by law.

## EMPLOYMENT GENERATION

Your Company is one of the largest employers in the private sector and plays a very significant role in providing livelihoods, directly and indirectly, to around 4 lakh people involved in this sector comprising farmers, farm workers and others involved in manufacturing, distribution and sales. Further, your Company's Agarbatti and Matches businesses provide employment opportunities to economically disadvantaged sections of society, especially women. Your Company's strategy of diversifying its business portfolio also complements its role of a responsible corporate citizen by creating enablers for generating employment opportunities as well as sustainable economic surplus for the nation. EMPLOYEES

Employee relations continued to be cordial and the terms and conditions of employment offered by your Company remains one of the best in the country. Post the year under review, Long Term Agreements were concluded successfully with the unionized workforce at both Simara and Seratar factories.

Your Directors place on record their sincere appreciation of the contribution made by the employees during the year under review.

## DIRECTORS

The Holding Company, ITC Limited, nominated Mr. R K Singhi (in place of Mr. B. B Chatterjee) and Mr. Supratim Dutta (in place of Mr. A K Mukerji) as Company's Non-executive directors with effect from 4th February, 2018 and 18h July, 2018 respectively, consequent to their retirement from the services of that company.

Your Directors would like to place on record their sincere appreciation for the services rendered by Mr. B B Chatterjee and Mr. A K Mukerji as Directors of the Company.

There was no other change in the composition of the Board of Directors.

The details of shares held in your Company by your Directors as on 32nd Asadh, 2075 are annexed to this Report (Annexure I). Your 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 your Company. No amounts are due to your Company from any of the Directors, the Managing Director or their close relatives.

The details of payments made during the year to your Directors, the Managing Director and other officials are also annexed to this Report (Annexure II).

Further, details of Management expenses for the year 2074-75 are annexed to this Report (Annexure III).

## AUDITORS

M/s. N Amatya & Company, Chartered Accountants, Kathmandu, Nepal and M/s. T R Upadhya & Co, Chartered Accountants, Kathmandu, Nepal, auditors of your Companys retire at the ensuing Annual General Meeting and being eligible, offer 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 A. K Poddar Managing Director

Date: 24" September, 2018 (a> Ashwin, 2075)

Sanjiv Puri Chairman

B Sumant Director

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| Annexure I |  |  |
| SI. No. | Name of Director | Number of Ordinary Shares of NRs. 100 (₹ 62.50) each held singly and / or jointly as on 32'" Asach 2075 (16" July 2018) |
| 1. | 5 Puri | Nil |
| 2 | A K Mukerji (ceased w.e.f. 18" july, 2018) | NI |
| 3 | R K Singhi | Nil |
| 4 | B Sumant | Nil |
| 5 | S R Pandey | 67,212 |
| 6 | $ SIB Rana | 600 |
| 7. | A K Poddar | Nil |

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