

# **KNP Japan Private Limited**

## **Auditor's Report & Financial Statements for the year ended March 31, 2021**

**B.K. Agrawal & Co.**  
Kathmandu, Nepal

Member Crowe Global

**Audit / Tax / Advisory**



## **Independent Auditors' Report to the Directors of KNP Japan Private Limited**

### **Opinion:**

We have audited, for the purpose of your audit of the consolidated Ind AS financial statements for the year ended March 31, 2021 of Kansai Nerolac Paints Limited, India ("the Company"), the accompanying Special Purpose Financial Statements (SPFS) of M/s KNP Japan Private Limited (hereinafter referred to as 'the Company') which comprise the Statement of Financial Position as at March 31, 2021, and the Statement of Profit or Loss, Statement of total comprehensive Income, Statement of Changes in Equity and statement of Cash flows attached thereto, for the year then ended and notes to the financial statements, including a summary of Significant Accounting Policies and other Explanatory Notes & information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid SPFS read together with Notes forming part of the SPFS give the information required by the provisions of Nepal Companies Act, 2006, as amended ("the Act") in the manner so required and, give a true and fair view in conformity with the accounting principles generally accepted in Nepal, of the state of affairs of the Company as at March 31, 2021, its profit or loss including other comprehensive income, its cash flows and the changes in equity for the period ended on that date.

### **Basis of Opinion:**

We conducted our audit in accordance with the Nepal Standards on Auditing. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Group reporting section of our report. We are independent of the Entity in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of Nepal together with the ethical requirements that are relevant to our audit of the Group reporting under the provisions of the Companies Act, 2006 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.





Key audit matters identified in our audit are summarised as follows:

**i) Revenue Recognition:**

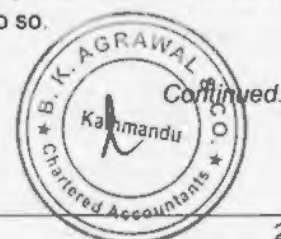
The Key Audit Matter	How the matter was addressed in our audit
<p><b>Revenue recognition:</b></p> <p>The company recognizes revenue upon transfer of ownership of goods to the customers, provided pervasive evidence of an arrangement exists whereby collectability of revenue is reasonably certain and no performance obligation is pending. Revenue from sales of goods or rendering of services is net of Indirect taxes, returns and discounts. The Component recognised revenue of NPR 1,336.98 million from the paint &amp; colourant sales and during the year ended 31 March 2021.</p> <p>The large volume of transactions arising from a combination of different types of product type creates volume risk.</p> <p>Some terms of sales arrangements, including the timing of transfer of control, the nature of discount and rebates arrangements, delivery specifications generate complexity and judgment in determining sales revenues and revenue cut-off. The risk is, therefore, that revenue is not recognised in the correct period or that revenue and associated profit is misstated.</p> <p>There is no any bundled transactions under contracts with customers, through a number of different systems.</p>	<p>The procedures in addressing the risk around the accuracy of revenue recognized included:</p> <ul style="list-style-type: none"> <li>• Testing the IT environment in which billing, product rate and other relevant support systems reside;</li> <li>• We tested controls in the revenue and trade account receivables cycles over the accuracy and timing of revenue accounted in the financial statements. Our work included consideration of the accounting for and presentation of the rebates and discount arrangements.</li> <li>• Testing the key controls over the accuracy in calculation and allocation of revenue to separable elements in bundled transactions under contracts with customers;</li> <li>• In addition to substantive analytical reviews performed to understand how the revenue has trended over the year, we performed a detailed testing on transactions around the year - end, ensuring revenues were recognised in the correct accounting period. We also tested journal entries to recognised revenue focusing on unusual or irregular transactions.</li> <li>• Testing a sample of transaction records in the systems to their respective customer contracts, underlying invoices and cash receipts.</li> </ul> <p>We validated the appropriateness and completeness of the related disclosures in Note 2.2.14 of Notes forming part of the financial statements.</p>

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The company's Management and Board of Directors are responsible for the preparation and fair presentation of these financial statements in accordance with Nepal Financial Reporting Standards.

This responsibility also includes maintenance of adequate accounting records for safeguarding the assets of the Entity and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that are operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statement, the respective management and Board of Directors are responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.



### **Auditors' Responsibility for the Audit of the Financial Statements**

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 (NSAs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Nepal Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial information.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of SPFS, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. We are also responsible for expressing our opinion on whether the Company has adequate internal financial controls in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the SPFS, including the disclosures, and whether the SPFS represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be considered to bear on our independence, and where applicable, related safeguards.

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



*Continued.*

**Report on requirement of Companies Act, 2063 and other regulatory matters**

- a. We have obtained information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes of our audit.
- b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of such books;
- c. In our opinion, the Statement of Financial Position, Statement of Profit or Loss and Statement of total comprehensive Income and Statement of Changes in Equity and statement of Cash flows attached thereto, for the year then ended and notes to the financial statements, including a summary of Significant Accounting Policies and other Explanatory Notes & information dealt with by this report are in compliance with the provisions of the Company Act, 2006 and are in agreement with the books of account maintained by the company;
- d. In our opinion, so far as appeared from our examination of the books, the business of the Company has been conducted satisfactorily; and
- e. To the best of our information and according to the explanations given to us and from our examination of the books of accounts of the Company necessary for the purposes of the audit, we have not come across cases where the Board of Directors or any employees of the Company have acted contrary to legal provisions relating to accounts, or committed any misappropriation or caused loss or damage to the company;

**Limitation of Use**

This report is issued by us, pursuant to specific request made by the Company, in regard to the consolidation of the company's financial statements with the Parent Company M/s Kansai Nerolac Paints Limited, India. Therefore, this report should be used for the above specific purpose only and not for any other purpose without our prior concurrence.

Kathmandu  
Date: 27 April, 2021

  
**B.K. Agrawal, FCA**  
Managing Partner  
For: **B.K. Agrawal & Co.**  
Chartered Accountants  
UDIN 210428CA00018etA11



**KNP Japan Private Limited**  
**Statement of Financial Position**  
**As at March 31, 2021**

<u>Particulars</u>	<u>Notes</u>	<u>As At</u> <u>March 31, 2021</u> <u>(NRS)</u>	<u>As At</u> <u>March 31, 2020</u> <u>(NRS)</u>
<b>ASSETS</b>			
<b>Non-Current Assets:</b>			
Property, Plant and Equipment	3	145,404,635.72	125,315,335.39
Intangible Assets	4	-	-
Capital Work in Progress	5	15,351,441.63	5,631,500.00
Other Non Current Assets	6	329,650.00	329,650.00
<b>Total Non-Current Assets</b>		<b>161,085,727.35</b>	<b>131,276,485.39</b>
<b>Current Assets:</b>			
Inventories	7	323,407,162.00	198,189,955.86
<b>Financial Assets:</b>			
Trade Receivables	8	518,762,011.15	583,576,932.66
Cash & Cash Equivalents	9	350,796,532.27	187,337,944.17
Financial Assets At Amortized Cost	10	120,000,000.00	10,000,000.00
Other Financial Assets	11	312,019.40	24,095.00
Current Tax Assets (Net)	12	4,859,881.19	-
Other Current Assets	13	40,985,300.81	53,503,055.21
<b>Total Current Assets</b>		<b>1,359,122,906.82</b>	<b>1,032,631,982.90</b>
<b>Total Assets</b>		<b>1,520,208,634.17</b>	<b>1,163,908,468.29</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity:</b>			
Equity Share Capital	14	130,000,000.00	130,000,000.00
Other Equity	15	691,450,376.14	581,118,113.06
		<b>821,450,376.14</b>	<b>711,118,113.06</b>
<b>Liabilities:</b>			
<b>Non-Current Liabilities:</b>			
<b>Financial Liabilities:</b>			
Other Financial Liabilities	16	29,965,952.55	29,965,952.55
Provisions	17	23,585,507.16	22,365,352.32
Deferred Tax Liabilities (Net)	18	5,085,970.00	5,584,700.00
<b>Total Non-current liabilities</b>		<b>58,637,429.71</b>	<b>57,916,004.87</b>
<b>Current Liabilities:</b>			
<b>Financial Liabilities:</b>			
Trade Payables	19	223,686,375.69	172,399,284.82
Other Financial Liabilities	20	402,813,852.63	221,512,123.81
Other Current Liabilities	21	13,620,600.00	679,967.63
Current Tax Liabilities	12	-	282,974.10
<b>Total Current liabilities</b>		<b>640,120,828.32</b>	<b>394,874,350.36</b>
<b>Total Equity and Liabilities</b>		<b>1,520,208,634.17</b>	<b>1,163,908,468.29</b>
Significant Accounting Policies	1-2		
The notes referred to above form an integral part of Financial Statements	3-39		

Finance Executive

Kathmandu

Date: 27th April, 2021

For and on behalf of the board

Director

Director

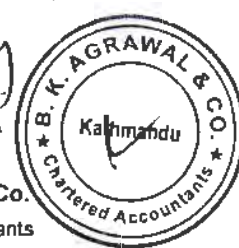
As per our attached report  
of even date

B.K. Agrawal, FCA

Managing Partner

B.K. Agrawal & Co.

Chartered Accountants





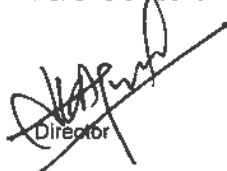
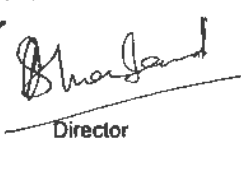
**KNP Japan Private Limited**  
**Statement of Profit or Loss**  
**For the year ended March 31, 2021**

<u>Particulars</u>	<u>Notes</u>	<u>Year ended March 31, 2021 (NRS)</u>	<u>Year ended March 31, 2020 (NRS)</u>
<b>Income:</b>			
Revenue From Operations	22	1,336,983,502.47	1,632,884,666.90
Other Income	23	18,146,041.32	10,018,113.57
<b>Total Income</b>		<b>1,355,129,543.79</b>	<b>1,642,902,780.47</b>
<b>Expenses:</b>			
Cost of Sales	24	590,309,294.29	769,096,766.39
Administrative & Operating Expenses	25	183,602,096.83	199,129,977.56
Selling & Distribution Expenses	26	362,495,667.87	440,088,570.54
<b>Total expenses</b>		<b>1,136,407,058.99</b>	<b>1,408,315,314.49</b>
<b>Profit Before Interest, Depreciation, Exceptional Items &amp; Tax</b>		<b>218,722,484.80</b>	<b>234,587,465.98</b>
<b>Finance Cost</b>	27	<b>15,459.98</b>	<b>782.69</b>
<b>Depreciation &amp; Amortization Expenses</b>	28	<b>8,590,501.74</b>	<b>4,159,226.01</b>
<b>Profit Before Tax</b>		<b>210,116,523.08</b>	<b>230,427,457.28</b>
<b>Tax Expenses:</b>	18		
Current Tax	18.2	46,759,974.00	54,552,508.00
Deferred Tax	18.2	1,024,286.00	1,633,859.00
<b>Profit for the Year</b>		<b>162,332,263.08</b>	<b>174,241,290.28</b>
<b>Significant Accounting Policies</b>	1-2		
<b>The notes referred to above form an integral part of Financial Statements</b>	3-39		

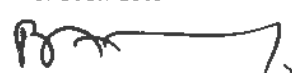
  
Finance Executive

Kathmandu  
Date: 27th April, 2021

For and on behalf of the board

 Director  
 Director

As per our attached report  
of even date

  
B.K. Agrawal, FCA  
Managing Partner  
B.K. Agrawal & Co.  
Chartered Accountants



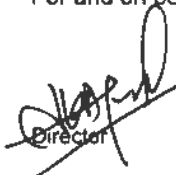
**KNP Japan Private Limited**  
**Statement of Total Comprehensive Income**  
**For the year ended March 31, 2021**

<u>Particulars</u>	<u>Year ended March 31, 2021 (NRS)</u>	<u>Year ended March 31, 2020 (NRS)</u>
Profit for the year	<u>162,332,263.08</u>	<u>174,241,290.28</u>
<b>Other Comprehensive Income</b>		
Items that will not be reclassified to profit or loss		
- Actuarial Gain/(Loss) Remeasurements of the defined benefit plans	-	-
Less: Income Tax on Above	-	-
Items that will be reclassified to profit or loss		
<b>Other Comprehensive Income</b>	<u>-</u>	<u>-</u>
<b>Total Comprehensive Income for the Quarter</b>	<u><u>162,332,263.08</u></u>	<u><u>174,241,290.28</u></u>

  
Finance Executive

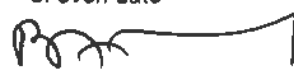
Kathmandu  
Date: 27th April, 2021

For and on behalf of the board

  
Director

  
Director

As per our attached report  
of even date

  
B.K. Agrawal, FCA  
Managing Partner  
B.K. Agrawal & Co.  
Chartered Accountants






**KNP Japan Private Limited**  
**Statement of Cash Flows**  
**For the year ended March 31, 2021**

<u>Particulars</u>	<u>Year ended March 31, 2021</u>	<u>Year ended March 31, 2020</u>
	<u>(NRS)</u>	<u>(NRS)</u>
<b>(A) Cash Flow from Operating Activities:</b>		
Profit/(Loss) before changes in working capital & Non-recurring Income & Expenditure.	210,116,523.08	230,427,457.28
<b>Add:</b>		
Depreciation	8,590,501.74	4,159,226.01
Interest Expenses	15,459.98	782.69
Non Operating Expenses	1,873,899.00	2,247,203.00
Other Comprehensive Income( Expenditure) net of taxes	-	-
Earlier year Adjustments	-	-
Non Operating Income	-	943,528.52
<b>Cash from Operating activities before changes in Working Capital</b>	<b>220,596,383.80</b>	<b>237,778,197.60</b>
<b>Changes in working Capital</b>		
Decrease/(Increase) in Current Assets	(48,172,454.63)	(128,176,512.32)
Increase/(Decrease) in Non Current Liabilities	721,424.84	18,246,452.42
Increase/(Decrease) in Current Liabilities	243,035,325.03	97,987,586.70
Utilization of CSR Fund	(404,057.97)	(549,632.19)
<b>Cash from Operating activities before tax paid</b>	<b>416,776,621.07</b>	<b>225,286,092.11</b>
Income Tax Paid	(51,902,829.29)	(53,351,978.27)
<b>Net cash flow from Operating Activities</b>	<b>363,873,791.78</b>	<b>171,934,113.84</b>
<b>(B) Cash Flow from Investing Activities:</b>		
Purchase of Property, Plant and Equipment	(37,214,760.51)	(26,415,333.18)
Increase in CWIP	(9,719,941.63)	(5,147,015.55)
Investment At Amortized Cost (in Term Deposits)	(110,000,000.00)	(10,000,000.00)
Fixed Assets Sales	8,534,958.44	18,487,861.71
<b>Net Cash Flow from Investing Activities</b>	<b>(148,399,743.70)</b>	<b>(23,074,487.02)</b>
<b>(C) Cash Flow from Financing Activities:</b>		
Interest Paid	(15,459.98)	(782.69)
Dividend Paid	(52,000,000.00)	(52,000,000.00)
Increase/(Decrease) in Medium & Long Term Loan	-	-
<b>Net Cash Flow from Financing Activities</b>	<b>(52,015,459.98)</b>	<b>(52,000,782.69)</b>
<b>Net Cash Flow (A+B+C)</b>	<b>163,458,588.10</b>	<b>96,856,844.13</b>
Opening Cash and Cash Equivalents	187,337,944.17	90,479,100.04
<b>Closing Cash and Cash Equivalents</b>	<b>350,796,532.27</b>	<b>187,337,944.17</b>

For and on behalf of the board



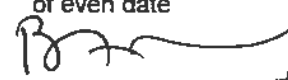
Finance Executive

Director

Director

As per our attached report  
of even date



B.K. Agrawal, FCA

Managing Partner

B.K. Agrawal & Co.

Chartered Accountants

Kathmandu

Date: 27th April, 2021



**KNP Japan Private Limited**  
**Statement of Changes in Equity**  
**For the Years ended March 31, 2021**

<u>Particulars</u>	<u>Share Capital (NRS)</u>	<u>Retained Earnings (NRS)</u>	<u>Total (NRS)</u>
Opening Balance	130,000,000.00	581,118,113.06	711,118,113.06
Changes in Accounting Policy	-	-	-
<b>Restated Balance as at the opening of the year</b>	<b>130,000,000.00</b>	<b>581,118,113.06</b>	<b>711,118,113.06</b>
Total Comprehensive Income of the year	-	162,332,263.08	162,332,263.08
Transferred to General Reserves	-	-	-
Dividend to shareholders	-	(52,000,000.00)	(52,000,000.00)
Prior year Adjustments	-	-	-
Shares Issued	-	-	-
<b>Closing Balance</b>	<b>130,000,000.00</b>	<b>691,450,376.14</b>	<b>821,450,376.14</b>



# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

## 1) Corporate Information:

KNP Japan Private Limited (Formerly: Kansai Paints Nepal Private Limited) ("the Company") is a private limited company incorporated under the Companies Act of Nepal on July 29, 2002 (Shrawan 13, 2059) vide registration no. 20268/059/60. The Company is domiciled and incorporated in Nepal and has its registered Office and principal place of business is at Aadarsha nagar, Birgunj, Nepal and the manufacturing Unit is situated at Lipni Birta V D C , Parsa District, Nepal

The main objectives of the company is to manufacture paints products like ink-colour, ink-blue, oil, adhesive etc. and selling of such products in domestic & foreign market and is subsidiary of Kansai Nerolac Paints Limited.

## 2) Significant Accounting Policies:

### 2.1 Basis of Preparation:

#### 2.1.1 Statement of Compliance

The Financial Statements have been prepared on a going concern basis and in accordance with Nepal Financial Reporting Standards (NFRS) as issued by the Institute of Chartered Accountants of Nepal (ICAN). The company had adopted NFRS First time for the financial Year ended July 16, 2018 Current Accounting period being of between April 2020 to March 2021.

#### Basis of Measurement:

The financial statements have been prepared on the historical cost basis except in the case of the following material items in the statement of financial position:

Impairment of assets recognized based on the recoverable value of the assets.

#### 2.1.2 Critical Accounting Estimates:

The preparation of the financial statements in conformity with Nepal Financial Reporting Standards requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in the process of applying the company's accounting policies. The company makes certain estimates and assumption regarding the future events. Estimates and judgments are continuously evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual result may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year primarily includes:

### a) Income Taxes

#### Current Income Tax

Current Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity. Current tax is the expected tax payable on the taxable income for the year using tax rates at the balance sheet date and any adjustment to tax payable in respect of previous years

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax reflects the best estimate of the tax amount expected to be paid or received after considering the uncertainty, if any, related to income taxes. It is measured using tax rates (and tax laws) enacted or substantively enacted by the reporting date.

Current tax assets and current tax liabilities are offset only if there is a legally enforceable right to set off the recognized amounts, and it is intended to realize the asset and settle the liability on a net basis or simultaneously.

#### Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for taxation purposes. Deferred tax is also recognized in respect of carried forward tax losses and tax credits.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which they can be used. The existence of unused tax losses is strong evidence that future taxable profit may not be available.

Therefore, in case of a history of recent losses, the Company recognizes a deferred tax asset only to the extent that it has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which such deferred tax asset can be realized. Deferred tax assets – unrecognized or recognized, are reviewed at each reporting date and are recognized/ reduced to the extent that it is probable/ no longer probable respectively that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

### b) Functional and Presentation Currency

The financial statements are prepared and presented in Nepalese Rupees, which is the Company's functional currency.



# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

## c) Property, Plant & Equipment:

Land is recorded in the books at the original cost of acquisition with land development expenses.

Items of property, plant and equipment are stated at cost of acquisition or construction or at revalued amounts, net of impairment loss, if any, less depreciation/amortization. Cost includes the purchase price and other directly attributable costs as well as financing costs of borrowed funds attributable to acquisition or construction of fixed assets, up to the date the assets are put to use. Assessment of indication of impairment of an asset is made at the year end and impairment loss, if any, recognized.

Subsequent expenditure relating to property, plant and equipment is capitalised only when it is probable that future economic benefits associated with these will flow to the Company and the cost of the item can be measured reliably.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property,

Plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Statement of Profit and Loss.

### Revaluation:

At the date of revaluation, the accumulated depreciation on the revalued freehold property is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The excess depreciation on revalued freehold buildings, over the amount that would have been charged on a historical cost basis, is transferred from the revaluation reserve to retained earnings when freehold land and buildings are expensed through the statement of comprehensive income (e.g. through depreciation, impairment). On disposal of the asset the balance of the revaluation reserve is transferred to retained earnings.

No any fixed assets have been revalued during the year.

### Depreciation and Amortization:

Depreciation and Amortization is calculated over the estimated useful life of the assets: An item of property, Plant and Equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year and adjusted prospectively, if appropriate.

The company based its assumptions and estimations on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Estimated Useful life and depreciation rates of assets have been taken as under:

Particulars	Useful Life	Rate
Buildings	30 years	3.33%
Furnitures	15 years	6.67%
Computers	6 years	16.67%
Electrification	20 years	5.00%
Networking	15 years	6.67%
Vehicles	10 years	10.00%
Plants & Machinery	20 years	5.00%

No depreciation has been charged on Colorant Machine, capitalized under the head Plant & Machinery, as these machines are not put to use by the company.

Computer software are amortized over a period of 5 years.

### Capital work-in-progress

Capital work-in-progress represents directly attributable costs of construction or Installation/ Fabrication of Plant and Machinery to be capitalized. All other expenses including interest incurred during construction period to be capitalized as part of construction cost to the extent to which these expenditures are especially attributable to the construction.

Capital work-in-progress includes assets under construction/installations for:

- ☐ Contractors / Suppliers Advance for capital expenditure.
- ☐ Inventory of Capital stores.

### Impairment of Assets:

The carrying amounts of the company's assets, other than biological assets, investment property, inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Intangible assets that are not yet available for use, the recoverable amount are estimated at each balance sheet date. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Recoverable amount is the greater of the asset's net selling price and value in use.





# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

**d) Inventories (As taken, valued and certified by the management):**

Inventories are initially recognized at cost net of impairment (if any), and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the variable selling expenses. The cost is determined on first-in first-out (FIFO) method or weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

Inventories are valued as follows:

- |                           |   |
|---------------------------|---|
| i) Raw Materials & Others | - At cost on Weighted Average Basis                   |
| ii) Semi Finished Goods   | - At cost   |
| iii) Finished goods       | - At cost or Net Realisable Value whichever is lower. |
| iv) Stores & Spares       | - At cost   |

**e) Current versus non-current classification:**

The company presents assets and liabilities in the balance sheet based on current/non-current classification.

An asset is treated as current when it is:

- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**Financial Instruments:**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Initial recognition and measurement**

All financial assets are recognised initially at fair value plus, transaction costs that are attributable to the acquisition of the financial asset except in the case of financial assets recorded at fair value through profit or loss.

On initial recognition, a financial asset is classified as measured at

- amortised cost;
- Fair Value through Other Comprehensive Income (FVTOCI) – Debt Investment;
- Fair Value through Other Comprehensive Income (FVTOCI)– Equity Investment; or
- Fair Value through Profit or Loss (FVTPL)

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and deferred payment credit.

**Subsequent measurement**

**i) Financial assets carried at amortised cost**

A financial asset is subsequently measured at amortised cost if it is held within a business model whose objective is to hold the asset in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**ii) Financial assets at fair value through other comprehensive income (FVTOCI)**

A financial asset is subsequently measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Further, in cases where the Company has made an irrevocable election based on its business model, for its investments which are classified as equity instruments, the subsequent changes in fair value are recognised in other comprehensive income.

**iii) Financial assets at fair value through profit or loss (FVTPL)**

A financial asset which is not classified in any of the above categories are subsequently fair valued through profit or loss.





# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

iv) *Equity investments*

All equity investments in scope of NFRS 9 are measured at fair value. Equity instruments which are held for trading and contingent consideration recognised by an acquirer in a business combination to which NFRS 9 applies are classified as at FVTPL. Equity instruments included within the FVTPL category are measured at fair value with all changes recognised in the P&L.

v) *Financial liabilities*

Financial liabilities are subsequently carried at amortised cost using the effective interest method, except for contingent consideration recognised in a business combination which is subsequently measured at fair value through profit and loss. For trade and other payables maturing within one year from the balance sheet date, the carrying amounts approximate the fair value due to the short maturity of these instruments.

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate method. Gains and losses are recognised in statement of profit or loss when the liabilities are derecognised as well as through the Effective Interest Rate (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss.

### Reclassification of financial assets

The Company determines classification of financial assets and liabilities on initial recognition. After initial recognition, no reclassification is made for financial assets which are equity instruments and financial liabilities. For financial assets which are debt instruments, a reclassification is made only if there is a change in the business model for managing those assets. Changes to the business model are expected to be infrequent. The Company's senior management determines change in the business model as a result of external or internal changes which are significant to the Company's operations. A change in the business model occurs when the Company either begins or ceases to perform an activity that is significant to its operations. If the Company reclassifies financial assets, it applies the reclassification prospectively from the reclassification date which is the first day of the immediately next reporting period following the change in business model. The Company does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### De-recognition of financial instrument

A financial asset is primarily derecognised when:

- the rights to receive the cash flows from the asset have expired or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive the cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

f) **Fair value measurement:**

The Company measures financial instruments, such as, derivatives at fair value at each balance sheet date.

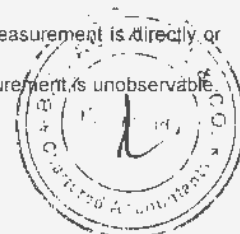
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between marked participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.



## KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

**g) Earnings per share:**

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average number of equity shares outstanding during the year is adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all potentially dilutive securities. The Company uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or antidilutive.

**h) Provisions, Contingent Liabilities & Contingent Assets:**

A provision is recognized when the enterprise has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognized in the financial statements. However, when the inflow of benefits is virtually certain, the asset ceases to be contingent and hence, is recognized in the statement of financial position.

**2.2 Accounting Policies:**

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The preparation of financial statements requires the use of certain accounting estimates. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are to be disclosed.

**2.2.1 Going Concern:**

The Financial Statements are prepared on a going concern basis.

**2.2.2 Foreign currency transactions:**

*Initial Recognition*

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of transaction.

*Conversion*

Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date.

*Exchange differences*

Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

*Income in Foreign Exchange*

- The bills for services rendered are raised in Nepalese Rupees. The payment received in foreign currency against these bills is credited and accounted for at the rate/rates prevalent on the date of receipt of payment. The gains/losses arising out of fluctuation in the exchange rates are accounted for on realization from bank.

**2.2.3 Capital Work-in-progress:**

Capital work-in-progress represents directly attributable costs of construction or Installation/ Fabrication of Plant and Machinery to be capitalized. All other expenses including interest incurred during construction period to be capitalized as part of construction cost to the extent to which these expenditures are especially attributable to the construction.

**2.2.4 Auditors Remuneration:**

Particulars	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Audit Fee	425,000.00	425,000.00
<b>Total</b>	<b>425,000.00</b>	<b>425,000.00</b>

**2.2.5 Leases :**

**Operating lease**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognized as an expense in the statement of profit and loss on a straight-line basis over the lease term. Company has operating lease for tenure of 1 to 10 Years under cancellable terms with prior intimation of 1 months. Generally on expiry of agreement it is renewed with mutual consent. There are no any non-cancellable leases.





# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

## Finance lease

Finance leases, which effectively transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease term at the lower of the fair value of the leased property and present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in the statement of profit and loss. Lease management fees, legal charges and other initial direct costs of lease are capitalized as they are directly attributable to the asset.

A leased asset is depreciated on a straight-line basis over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain the ownership by the end of the lease term, the capitalized asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

## Leased Assets:

When all the risks and rewards incidental to ownership of a leased asset are transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between principal and interest. The interest element is charged to the statement of comprehensive income over the period of the lease so that it represents a constant proportion of the lease liability. The principal element reduces the balance owed to the lesser. When all the risks and rewards incidental to ownership are not transferred to the company (an "operating lease"), the total rentals payable under the lease are charged to the statement of Profit or loss over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term.

### 2.2.6 Corporate Social responsibility (CSR):

As per Industrial Enterprise Act 2076, 1% of Annual Net Profit is to be provided for Corporate Social Responsibility. Accordingly, NRs.1.87 million (PQQ NRs.2.25 million) being, 1% net profit before tax has been provided.

### 2.2.7 Intangible Assets:

#### Computer Software

Purchased computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the software. These costs are amortized over the estimated useful lives.

### 2.2.8 Trade and other receivables:

Trade and other receivables are stated at their cost less provision for non-recoverability. The amount of the provision is recognized in the income statement.

### 2.2.9 Cash and cash equivalents:

Cash and cash equivalents comprises cash balances, call deposits and other short term highly liquid investments. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included within borrowings in current liabilities on the balance sheet.

### 2.2.10 Share Capital:

Financial instruments issued by the company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The company's equity shares are classified as equity instruments.

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary at the option of the directors. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders and dividends thereon is recognized in the income statement as interest expense.

### 2.2.11 Borrowing costs:

Financing/borrowing costs attributable to the acquisition of the asset is capitalized as part of the cost of the asset. Other Financing/Borrowing costs are charged to the Income Statement.

### 2.2.12 Retirement Benefits:

#### Provision for Employee Benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.



# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

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The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of government bonds due to absence of quality corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation. The mortality rate is based on publicly available mortality tables for the country.

Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on exposed future inflation rates for the country.

## Retirement Benefits:

The Company has schemes of retirement benefits for staffs in the form of provident fund, gratuity and leave encashment. Employee Provident fund is maintained on an equal contributory basis and company has made contribution at the rates prescribed by Provident Fund Act of Nepal. Both employer and employee contribution is maintained in a separate fund account in Bank as per local act of Nepal.

Staff bonus has been made in accordance with the provision of the Bonus Act 2030.

The company has obtained Actuarial Valuation report for Gratuity Liability up to FY 2074/75 of continuing staffs. Accumulated differential Gratuity liability and Leave Encashment Liability compared to Actuarial Valuation of those Fund assets and liability have been recognized in current period / Previous year's Comprehensive Income Statement. From FY 2075/76 the company has policy of providing the gratuity liability @ 8.33% of basic salary as required under labour Act, 2074.

Since statutory provision for Gratuity obligation has changed from defined benefit to defined contribution nature according to recently amended Labour Act of Nepal applicable from Bhadra 19, 2074 (September 04, 2017), Actuarial Valuation liability has been determined till Bhadra 18, 2074 (September 03, 2017) only and Company will be exonerated from any liability on account of Gratuity on the transfer of liability to a designated Fund.

However, the company has provided the gratuity liability @ 8.33% of basic salary as required under New Labour Act, 2074 as the liability is final.

## 2.2.13 Trade and other payables:

Trade and other payables are stated at their cost.

## 2.2.14 Revenue Recognition:

### Sale of goods

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at fair value of the consideration received or receivable net of Value added tax and Excise Duty. Revenue comprises sale of paints, dispensing and mixing Machines (Colourant Machine) and allied services relating to paints business.

Revenue is recognized upon transfer of ownership of goods to the customers, provided pervasive evidence of an arrangement exists whereby collectability of revenue is reasonably certain and no performance obligation is pending. Revenue from sales of goods or rendering of services is net of Indirect taxes, returns and discounts.

### Interest Income

Interest Income is recognized on the time proportion basis.

## 2.2.15 Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses.

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognized in the income statement when the right to receive payment is established.

## 2.2.16 Segment reporting:

A segment is a distinguishable component of the company that is engaged either in providing products or services/business segment, or in providing products or services within a particular economic environment/geographical segment, which is subject to risks and rewards that are different from those of other segments.

The Company is primarily engaged in a single segment (business and geographical) i.e. manufacturing and sales of different type of paints and chemicals including machines used for colour mixing called (Colour Banks) in trade. The Company is managed as one entity and is governed by similar sets of risks and returns. All assets are located at Nepal. Accordingly, disclosures required as per Accounting Standard on Segment Reporting are not made.

## 2.2.17 Discontinued operations:

A discontinued operation is a clearly distinguishable component of the company's business that is discontinued or terminated pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.





# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

## 2.2.18 Related Party Transactions:

All Transactions with related parties are carried out by the company at arm's length prices.

## 2.2.19 Provision for doubtful debt

The summary of provision for doubtful debt and its movement is given below:

Particulars	Opening	Provision	Reversal/ Bad debts recognised	Closing
Sundry Debtors	159,757,000.00	35,000,000.00	-	194,757,000.00
Total	159,757,000.00	35,000,000.00	-	194,757,000.00

## 2.2.20 Financial risk management

The Company's financial assets majorly comprise of trade receivables, security deposits, margin money and cash & cash equivalents. The Company's financial liabilities majorly comprise of deferred payment credit, trade payables, and other commitments.

The Company is exposed to credit risk and liquidity risk arising out of operations and the use of financial instruments. The Board of Directors have overall responsibility for establishment and review of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions affecting business operations and the Company's activities. The company is exposed to market risk, credit risk and liquidity risk for which BOD reviews and agrees policies for managing each risks which is summarized below:-

### i) Credit Risk

Credit risk is the risk that the counterparty will not meet its obligation under a financial instrument or customer contract leading to financial loss. The Company's exposure to credit risk arises from its operating and financing activities. The credit risk arises primarily from trade receivables, and the financing activities including deposits with Bank & Financial institution.

The receivables comprise of receivable from Customers (Mainly Dealers). Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. The company uses the parameters from its past business experience and collection trends and provision is made for doubtful debts based on such parameters & management estimate.

Credit risk from balances with banks and financial institutions are managed by maintaining the balances with highly reputed commercial banks only.

### ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility. The Company has a treasury team which monitors on a daily basis the fund positions/requirements of the Company. The treasury management team plans the cash flows of the Company by planning and identifying future mismatches in funds availability and reports the planned and current liquidity position to the top management and board of directors of the Company. The Company's monitors its risk to a shortage of funds on a regular basis through cash forecast. The Company's objective is to maintain a balance continuity of funding and flexibility through the use of bank overdrafts. Access to source of funding is sufficient.

### iii) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and economic condition. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings and deposits.

#### a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's bank terms loan, overdraft and short term deposits.

The Company does not have any outstanding loan as on reporting date, however it manages its interest rate risk by negotiating with highly reputed commercial banks.

#### b) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency).

The Company manages major currency exposures within prescribed limits, through use of forward exchange contracts.

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## KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

**c) Commodity Price Risk**

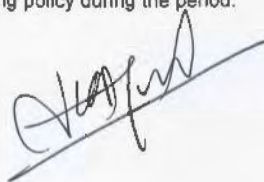
The Company is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase of colourant, Chemicals used in colour base, packing materials, diesel etc. and therefore require a continuous supply of the same. The Company manages this risk by purchasing raw materials, packing materials, diesel etc. from the suppliers identified by the management and the Company has long term relation with the suppliers.

**2.2.21 Cash Flow Statements:**

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the Company are segregated. The Cash flow statement is separately attached with the Financial Statements of the company.

**2.2.22 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies**

- i) The prior period expenses are charged to respective heads of account to the Profit or Loss Statement.
- ii) There is no change in the accounting policy during the period.



# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

## 3. Property, Plant and Equipment

Particulars	Land (NRS)	Building (NRS)	Computer (NRS)	Networking (NRS)	Furniture (NRS)	Vehicles (NRS)	Air Conditioner (NRS)	Electrification (NRS)	Generator (NRS)	Lab Equipment (NRS)	Machinery (NRS)	Others (NRS)	Colourant Machine (NRS)	Total (NRS)
<b>Cost of asset</b>														
As At April 01, 2020	3,693,016.67	95,096,049.80	3,831,569.29	223,788.50	6,716,129.87	25,440,742.06	1,870,492.39	9,573,430.15	4,071,161.80	698,437.04	48,022,536.09	9,094,296.81	6,580,310.80	214,911,939.07
Additions	-	-	2,222,714.00	-	-	-	84,462.00	-	-	-	21,197,685.78	262,303.00	13,447,595.73	37,214,760.51
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	(8,534,958.44)	(8,534,958.44)
As At March 31, 2021	3,693,016.67	95,096,049.80	6,054,283.29	223,788.50	6,716,129.87	25,440,742.06	1,954,954.39	9,573,430.15	4,071,161.80	698,437.04	69,220,221.87	9,356,599.81	11,492,947.89	243,581,741.14
<b>Depreciation and impairment</b>														
As At April 01, 2020	-	30,227,230.74	3,175,206.41	86,468.37	1,899,263.00	18,569,797.29	428,953.99	4,191,042.82	1,348,138.67	199,089.53	28,535,305.73	2,946,087.33	-	89,596,803.68
Depreciation charge for the period	-	3,166,703.72	142,457.74	14,925.22	447,965.82	1,147,932.58	94,612.19	478,671.51	203,558.09	34,921.86	2,403,384.95	455,368.06	-	8,590,501.74
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As At March 31, 2021	-	33,393,934.46	3,317,664.15	101,413.59	2,347,228.82	19,707,729.87	523,566.18	4,669,714.13	1,551,696.76	234,011.39	28,938,690.88	3,401,455.39	-	98,187,105.42
<b>Net book value</b>														
As At March 31, 2021	3,693,016.67	61,702,115.34	2,736,619.14	122,375.91	4,368,901.05	5,733,012.19	1,431,388.21	4,903,716.02	2,519,465.04	464,425.65	40,281,531.19	5,955,144.42	11,492,947.89	145,404,635.72
As At April 01, 2020	3,693,016.67	64,868,819.06	656,362.88	137,278.13	4,816,866.87	6,680,944.77	1,441,538.40	5,382,387.53	2,723,023.13	499,347.51	21,487,230.36	6,148,209.48	6,580,310.60	125,315,335.39

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# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

## 4. Intangible Assets

<u>Particulars</u>	<u>Software (NRS)</u>
Cost of asset	
As At April 01, 2020	1,499,360.40
Additions	-
Impairment	-
Disposals	-
As At March 31, 2021	1,499,360.40
Depreciation and impairment	
As At April 01, 2020	1,499,360.40
Depreciation charge for the period	-
Impairment	-
Disposals/Adjustments	-
As At March 31, 2021	1,499,360.40
Net book value	
As At March 31, 2021	-
As At April 01, 2020	-

## 5. Capital Work in Progress

	<u>Software Under Installation</u>	<u>Plant &amp; Machinery</u>	<u>Total</u>
Cost of asset			
As At April 01, 2020	5,631,500.00	-	5,631,500.00
Additions	9,719,941.63	21,873,524.03	31,593,465.66
Capitalization	-	(21,197,685.78)	(21,197,685.78)
Disposals	-	(675,838.25)	(675,838.25)
As At March 31, 2021	15,351,441.63	-	15,351,441.63

Capital work in progress includes:

- the invoices booked against Server Installation and other services for SAP roll out implementation.
- Various plant & Machinery items under installation.

### Net book value

	<u>As At March 31, 2021 (NRS)</u>	<u>As At March 31, 2020 (NRS)</u>
Property, plant and equipment	145,404,635.72	125,315,335.39
Capital work in progress	15,351,441.63	5,631,500.00

## 6. Other Non Current Assets

<u>Particulars</u>	<u>As At March 31, 2021 (NRS)</u>	<u>As At March 31, 2020 (NRS)</u>
Long Term		
Security Deposits	329,650.00	329,650.00
	329,650.00	329,650.00

## 7. Inventories (As taken, valued and certified by management)

<u>Particulars</u>	<u>As At March 31, 2021 (NRS)</u>	<u>As At March 31, 2020 (NRS)</u>
Raw Materials	150,501,811.91	62,067,136.11
Packing Materials	7,346,698.31	4,603,027.93
Work-In- Process (WIP)	219,415.90	219,415.90
Finished Goods	160,128,008.91	126,805,608.13
Auxiliary Raw Materials	650,384.31	633,714.66
Stores & Spare Parts	4,560,842.66	3,861,053.13
	323,407,162.00	198,189,955.86



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# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

## 8. Trade Receivables

Particulars		As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Trade Receivables- Others	8.1	713,519,011.15	743,333,932.66
Provision for doubtful receivables	8.2	(194,757,000.00)	(159,757,000.00)
		<u>518,762,011.15</u>	<u>583,576,932.66</u>

### 8.1. Trade receivables

Trade receivables includes receivables from debtors during ordinary course of business and are non interest bearing.

### 8.2. Impairment

For allowances, assets are tested collectively for impairment, and impaired, if necessary. Estimated irrecoverable amounts are based on the ageing of the receivable balances, taking previous cases of default into consideration and historical experiences.

### Movement in allowances for doubtful debt

Particulars	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Opening Balance	159,757,000.00	114,757,000.00
Impairment losses Recognized during the year	35,000,000.00	45,000,000.00
Closing Balance	<u>194,757,000.00</u>	<u>159,757,000.00</u>

## 9. Cash & Cash Equivalents

Particulars	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Cash on hand	1,518,021.15	2,398,677.38
Cheques, Drafts on hand		
Balances with Banks		
In Current & Call Accounts	169,278,511.12	44,939,266.79
In term Deposits	180,000,000.00	140,000,000.00
	<u>350,796,532.27</u>	<u>187,337,944.17</u>

Balance at Bank in Term Deposits includes amount held by bank as fixed deposits having maturity of three months. Accordingly the same is classified as cash & cash equivalents.

Balances at bank in term & Call deposits earns interest at floating rates based on bank deposit rates. Short-term deposits are made for varying periods of between one month and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

The above balances are considered as the cash & cash equivalents for the purpose of Statement of Cash Flows.

## 10. Financial Assets At Amortized Cost

Particulars	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
In Term Deposits	120,000,000.00	10,000,000.00
	<u>120,000,000.00</u>	<u>10,000,000.00</u>

Investment includes Balance at Bank in Term Deposits held by bank as fixed deposits having maturity above three months. Accordingly the same is classified as investment At Amortized Cost.

## 11. Other Financial Assets

Particulars	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
L/C & L/C Margin	-	-
Bg Margin	300,000.00	-
Insurance Claim Receivable	12,019.40	24,095.00
	<u>312,019.40</u>	<u>24,095.00</u>



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# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

## 12. Current tax Assets/ (Liabilities)

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Advance Income Tax	51,619,855.19	45,765,557.90
Less: Provision for Taxes	(46,759,974.00)	(46,048,532.00)
	<u>4,859,881.19</u>	<u>(282,974.10)</u>

## 13. Other Current Assets

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Staff Advances	1,743,852.43	3,952,926.27
L/C Margin	8,030,972.88	1,541,444.07
Prepaid Expenses	2,560,285.80	1,840,963.02
Advance To Suppliers	7,461,651.12	30,850,997.88
Custom Deposits	8,877,237.00	8,877,237.00
Reverse VAT Receivable	1,934,273.00	389,880.82
Other receivables	10,377,028.58	6,049,606.15
	<u>40,985,300.81</u>	<u>53,503,055.21</u>

### 13.1. Advance to Suppliers

The Company has given advances to suppliers amounting to NRs.7.46 Million (PY NRs.30.85 Million) and others in ordinary course of business, which is considered good and recoverable.

### 13.2. Custom Deposits

The custom duty deposits pertains to the amount deposited for the custom duty & VAT which arises due to the valuation issue raised by Customs Department. As per the company, the raw materials imported under duty rate of 10% was classified by Customs Office as duty rate of 30%. Accordingly, the differential duty of 20% & VAT @ 13% has been deposited and goods were cleared. The company is in the process for appeal against it. Although, the company has made provision of NPR 18,63,170 pertains to deposit up to July 16, 2019 and has booked under purchase cost of materials. The remaining amount has been shown as deposit as the company is in process of appeal against the issue.

### 13.3. Other Receivables

Other receivables includes the advance given for rent and interest income receivables.

## 14. Equity Share Capital

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
<b>Authorized:</b>		
Equity shares of Rs. 100/- each	300,000,000.00	300,000,000.00
3,000,000 Equity Shares		
<b>Issued:</b>	150,000,000.00	150,000,000.00
Equity shares of Rs. 100/- each		
1,500,000 Equity Shares		
<b>Subscribed and fully paid:</b>	130,000,000.00	130,000,000.00
Equity shares of Rs. 100/- each		
1,300,000 Equity Shares		
Of Which:		
68% Shares owned by Kansai Nerolac Paints Ltd., India		
32% Shares are held by Local Parties.		
	<u>130,000,000.00</u>	<u>130,000,000.00</u>

### 14.1 Reconciliation of share Capital:

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Opening Equity Shares	1,300,000	1,300,000
Add: No. of Shares, Share Capital issued/subscribed during		
Closing balance	<u>1,300,000</u>	<u>1,300,000</u>
Value of Shares	<u>130,000,000</u>	<u>130,000,000</u>



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# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

## 14.2 Shares in the company held by shareholder holding more than 1 percent

<u>Name of the Shareholder</u>		As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
- Kansai Nerolac Paints Limited, India	68%	884,000	884,000
- Ashok Baid	12%	156,000	156,000
- Jeevan Kumar Agrawal	12%	156,000	156,000
- Raj Kumar Baid	4%	52,000	52,000
- Vijay Singh Baid	4%	52,000	52,000
		<b>1,300,000</b>	<b>1,300,000</b>

## 15. Other Equity/Reserve & Surplus

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
<b>Income Statement Balance</b>		
Opening Balance	581,118,113.06	458,876,822.78
Add. Profit for the Years	162,332,263.08	174,241,290.28
Prior year adjustments		
Dividend Paid	(52,000,000.00)	(52,000,000.00)
	<b>691,450,376.14</b>	<b>581,118,113.06</b>

## 16. Other Non Current Financial Liabilities

<u>Particulars</u>		As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
<b>Short Term</b>			
Staff Welfare Fund	16.1	29,965,952.55	29,965,952.55
		<b>29,965,952.55</b>	<b>29,965,952.55</b>

### 16.1. Staff Welfare Fund

Staff Welfare Fund consist of 70% amount allocated out of undistributed bonus as required under Bonus Act, 2030.

## 17. Provisions

<u>Particulars</u>		As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
<b>Long Term</b>			
<b>For Employee Benefits</b>			
Leave Encashment	17.1	2,285,555.16	1,065,400.32
Housing Reserve	17.2	21,299,952.00	21,299,952.00
		<b>23,585,507.16</b>	<b>22,365,352.32</b>
<b>Short Term</b>			

### 17.1. Leave Encashment

It is the amount provisioned on accumulated leave provided as per New Labour Act, 2074. The company has not done actuarial valuation for the same.

### 17.2. Housing Reserve

It is the amount allocated as required under old Labour Act, 1992. The allocation is @ 5% of Net Profit. However the provision has been stopped from FY 2017/18 as the same is not required under New Labour Act, 2017.

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## KNP Japan Private Limited

### Notes forming part of the Accounts for the year ended March 31, 2021

#### 18. Tax Expenses

Income tax has been provided in accordance with the Nepal Income Tax Act, 2058. The taxable income has been computed after claiming all the business related deductible expenditure under Income Tax Act, 2058. Provision for tax has been provided for the year as per Income Tax Act, 2058.

#### 18.1 Recognised deferred tax assets and liabilities

Deferred tax is measured based on the tax rates and the laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets are realized.

Deferred tax assets and liabilities are attributable to the following:

<u>Particulars</u>	<u>As At March 31, 2021 (NRS)</u>	<u>As At March 31, 2020 (NRS)</u>
<b>Deferred Tax Liability</b>		
Property, plant and equipment	5,604,709.00	5,680,687.00
Inventories	301,424.00	250,214.00
<b>Sub Total</b>	<b>5,906,133.00</b>	<b>5,930,901.00</b>
<b>Deferred tax Assets</b>		
Unabsorbed Depreciation as per Income Tax		
Short Term Capital Loss as per Income Tax		
Employee benefits	(820,163.00)	(346,201.00)
<b>Sub Total</b>	<b>(820,163.00)</b>	<b>(346,201.00)</b>
<b>Net Deferred Tax Liabilities</b>	<b>5,085,970.00</b>	<b>5,584,700.00</b>

#### 18.2. Tax recognised in Statement of profit and loss

<u>Particulars</u>	<u>As At March 31, 2021 (NRS)</u>	<u>As At March 31, 2020 (NRS)</u>
<b>Current income tax</b>		
Current year	46,759,974.00	54,552,508.00
<b>Sub Total (A)</b>	<b>46,759,974.00</b>	<b>54,552,508.00</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1,024,286.00	1,633,659.00
<b>Sub Total (B)</b>	<b>1,024,286.00</b>	<b>1,633,659.00</b>
<b>Total (A+B)</b>	<b>47,784,260.00</b>	<b>56,186,167.00</b>

#### 19. Trade Payables

<u>Particulars</u>	<u>As At March 31, 2021 (NRS)</u>	<u>As At March 31, 2020 (NRS)</u>
Sundry Creditors (Net)	223,686,375.69	172,399,284.82
	<b>223,686,375.69</b>	<b>172,399,284.82</b>

#### 20. Other Financial Liabilities

<u>Particulars</u>	<u>As At March 31, 2021 (NRS)</u>	<u>As At March 31, 2020 (NRS)</u>
Tax Deduction At Source Payable	4,233,595.56	10,559,029.35
Salary & Wages Payable	2,676,051.51	8,102,550.64
LC Payables	85,570,593.02	-
Excise Duty Payable	14,512,092.97	7,663,820.32
Vat Payable	4,533,641.98	4,654,730.08
Reverse Vat Payable	1,934,273.00	389,880.82
Provision for Expenses	289,353,604.59	190,142,112.60
	<b>402,813,852.63</b>	<b>221,512,123.81</b>



# KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

## 20.1. Provisions

<u>Particulars</u>		As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Provision For Staff Bonus	20 1.1	23,396,276.98	19,139,874.00
Provision For Provident Fund		4,128,384.00	1,403,360.00
Provision for Selling & Distribution and Other Expenses	20 1.2	253,232,334.14	163,621,761.15
Allocation for CSR Fund	20 1.3	6,781,351.28	5,311,510.25
Gratuity (Expected Maturity within 1 Year)	20 1.4	1,815,258.19	665,607.20
		<b>289,353,604.59</b>	<b>190,142,112.60</b>

### 20.1.1 Provision for Staff Bonus

Provision for Staff Bonus has been made at 10% of net profit. The balance as on date amounts to Rs. 23.4 million (PY Rs. 19.14 million)

### 20.1.2 Provision for Selling & distribution Expenses

A provision is recognized when the enterprise has a present obligation as a result of past events and it is probable that an outflow of resources and transfer of economic benefits will be required to settle the obligation in respect of which a reliable estimate can be made.

The amount of provision recognized is the management's best estimate of expenditure required to settle the present obligation as at the reporting date. Management reviews provisions at each balance sheet date and is adjusted to reflect the best current estimate. If it is no longer probable that a an outflow of resource/transfer of economic benefits will be required to settle the obligation, the provision is reversed.

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Provision For Sales Commission	87,736,770.00	63,515,987.85
Provision For Trip Scheme	7,368,860.00	16,455,000.00
Provision For Painter Scheme	16,381,568.00	21,995,618.42
Provision For Advertisement	31,876,838.00	-
Provision For Painter Token	5,856,692.00	4,200,041.33
Provision For Dealers Season Scheme	25,328,197.00	10,139,497.29
Provision For Sales Promotion Others	48,343,478.18	12,000,000.00
	<b>222,892,403.18</b>	<b>128,306,144.89</b>
Provision for Other Expenses	30,339,930.96	35,315,616.26
	<b>253,232,334.14</b>	<b>163,621,761.15</b>

### 20.1.3. CSR Expenses

The company has provided 1% of its Net Profit before tax towards Corporate Social Responsibility (CSR) as required under Section 54(1) of the Industrial Enterprises Act, 2076. The fund created for the CSR is to be utilized in the prescribed sector on the basis of annual plans and programs as per the Industrial Enterprises Act, 2076. Since such sectors are yet to be specified in the Regulations, the amount allocated for CSR remains unutilized.

Accordingly The Company has allocated for CSR Fund @ 1% of Net Profit before Tax during the year for Rs.1.87 million (PY Rs.2.25 million). The total Provision as on reporting date amounts to NRs.6.78 million (PY 5.31 million).

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Opening Balance	5,311,510.25	3,613,939.44
Provided During the year	1,873,899.00	2,247,203.00
Utilized During the year	(404,057.97)	(549,632.19)
Closing Balance	<b>6,781,351.28</b>	<b>5,311,510.25</b>

### 20.1.4. Gratuity

The Company has provided the gratuity liability @ 8.33% of basic salary as required under New Labour Act, 2074.

## 21. Other Current Liabilities

<u>Particulars</u>	As At March 31, 2021 (NRS)	As At March 31, 2020 (NRS)
Advance From Customers	13,620,600.00	679,967.63
	<b>13,620,600.00</b>	<b>679,967.63</b>

Advance from customer are received in the ordinary course of business.



## KNP Japan Private Limited

### Notes forming part of the Accounts for the year ended March 31, 2021

#### 22. Revenue From Operations

<u>Particulars</u>	<u>Year ended March 31, 2021 (NRS)</u>	<u>Year ended March 31, 2020 (NRS)</u>
<u>Sale of Products</u>		
Paint Sales (Net)	1,275,885,638.47	1,562,932,372.60
<u>Raw Material Sales</u>		
Colourant Sales (Net)	58,906,824.00	66,605,180.00
<u>Other Operating Revenue</u>		
Scrape Sales	2,191,040.00	3,347,114.30
	<u>1,336,983,502.47</u>	<u>1,632,884,666.90</u>

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at fair value of the consideration received or receivable net of Value added tax and Excise Duty.

Revenue comprises sale of paints, dispensing and mixing Machines (Colourant Machine) and allied services relating to paints business.

Revenue is recognized upon transfer of ownership of goods to the customers, provided pervasive evidence of an arrangement exists whereby collectability of revenue is reasonably certain and no performance obligation is pending. Revenue from sales of goods or rendering of services is net of Indirect taxes, returns and discounts.



# KNP Japan Private Limited

Notes forming part of the Accounts for the Ended March 31, 2021

## 23. Other Income

### Particulars

		Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Separate for Colorant and Sale of Fixed Assets			
Profit On Sale Of Land		-	-
Profit On Sale Of Depreciable Assets		-	-
Profit/(Loss) On Sale Of Colorant Machine	23.1	1,378,719.32	-
Other Income	23.1	-	2.66
Interest from :-			
- Bank deposits	23.2	16,767,322.00	10,018,110.91
		<u>18,146,041.32</u>	<u>10,018,113.57</u>

### 23.1. Other Income

Other income comprises of miscellaneous income received during course of business.

### 23.2. Interest Income

Interest income from Bank Deposits has been recognised using effective interest method as required by NAS 39. The rate of concerned bank from which interest income is earned is considered as effective rate of interest.

## 24. Cost of Sales

### Particulars

		Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Raw Material Consumed	24.1	508,847,942.62	599,159,632.43
Packing Material Consumed	24.1	82,613,533.51	90,985,796.50
Changes in Inventories of Finished Goods, WIP & Stock in Trade	24.2	(33,322,400.78)	36,133,363.23
Production & Manufacturing Overheads	24.3	32,170,218.94	42,817,974.23
		<u>590,309,294.29</u>	<u>769,096,766.39</u>

### 24.1. Cost of Material Consumed

### Particulars

		Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Raw Material Consumed			
Opening Stock		62,700,850.77	90,886,404.23
Add: Purchase During the Year		597,299,288.07	570,974,078.97
Less : Closing Stock		<u>151,152,196.22</u>	<u>62,700,850.77</u>
		<u>508,847,942.62</u>	<u>599,159,632.43</u>
Packing Material Consumed			
Opening Stock		4,603,027.93	8,910,785.45
Add: Purchase During the Year		85,357,203.89	86,678,038.98
Less : Closing Stock		<u>7,346,698.31</u>	<u>4,603,027.93</u>
		<u>82,613,533.51</u>	<u>90,985,796.50</u>
		<u>591,461,476.13</u>	<u>690,145,428.93</u>

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## KNP Japan Private Limited

### Notes forming part of the Accounts for the Ended March 31, 2021

#### 24.2. Changes in Inventories of Finished Goods, WIP & Stock in Trade

Particulars	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
<b>Stock at the Beginning of the Year</b>		
Finished Goods	126,805,608.13	162,363,571.36
Semi Finished Goods	219,415.90	219,415.90
	<b>127,025,024.03</b>	<b>162,582,987.26</b>
<b>Stock at the end of the Year</b>		
Finished Goods	160,128,008.91	126,805,608.13
Semi Finished Goods	219,415.90	219,415.90
	<b>160,347,424.81</b>	<b>127,025,024.03</b>
Add: Purchase of Finished Goods	-	575,400.00
	<b>(33,322,400.78)</b>	<b>36,133,363.23</b>

#### 24.3. Production & Manufacturing Overheads

Particulars	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Consumption of Store & Spares	1,202,748.30	731,365.73
Labour Wages & Other Benefits	20,411,382.17	27,334,450.08
Electricity Expenses	1,544,525.30	1,622,455.69
Repair & Maintenance:		
- Machinery	1,245,211.44	738,944.41
- Generators	-	154,873.18
- Building	188,476.50	2,309,751.11
Insurance Expenses	2,950,487.25	3,297,943.13
Other Production Expenses	309,641.14	1,767,323.59
Staff Welfare Production	-	208,393.00
Security Expenses Factory	2,348,579.03	3,392,850.00
Cleaning/Housekeeping Expenses	683,458.28	476,215.00
Laboratory Expenses	123,485.53	3,257.26
Generator Running Expenses	1,162,224.00	780,152.05
	<b>32,170,218.94</b>	<b>42,817,974.23</b>



# KNP Japan Private Limited

Notes forming part of the Accounts for the Ended March 31, 2021

## 25. Administrative Expenses

Particulars		Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Employee Benefit Expenses	25.1	74,516,511.13	73,773,124.63
Insurance Expenses		4,677,999.91	5,550,996.55
Security Expenses		3,123,338.71	2,149,957.76
Telephone and Other Communication Expenses		4,106,013.32	2,268,005.75
Printing and Stationery		973,786.37	840,362.14
Rent		15,129,280.00	13,807,037.63
Repair & Maintenance:			-
- Vehicle		2,114,378.67	2,356,585.75
- Computer & office Equipment		265,673.82	140,723.33
Travelling and Conveyance		8,938,253.07	18,620,335.19
Auditors' Remuneration	25.2		
- Audit Fees		425,000.00	425,000.00
Legal Expenses		1,352,583.33	1,574,119.00
General Consultancy and Professional Charges		2,010,995.44	745,000.00
Bank Commission		1,846,491.50	859,064.15
Rates & Taxes & Renewals		1,521,301.10	840,276.05
Miscellaneous Office Expenses		583,538.74	1,530,280.74
Donation & Presentation		193,458.34	407,123.00
Sales Support Service Expenses		8,738,048.55	6,976,850.83
Vehicle Fuel		975,965.28	2,004,654.23
Miscellaneous Balance Written Off		-	1.99
Software Amc Charges		3,248,400.00	304,341.55
Royalty Expenses	25.3	11,298,989.70	13,754,335.16
Provision for Bad Debts	25.4	35,000,000.00	45,000,000.00
Exchange Gain & Loss		-	485,326.73
Loss On Disposal Of Assets			943,528.52
Fine & Penalty		148,795.00	500.00
Stock (Provision)		-	84,960.00
Allocation for CSR Fund	25.5	1,873,899.00	2,247,203.00
Electricity Expenses		539,395.85	1,440,283.88
		<b>183,602,096.83</b>	<b>199,129,977.56</b>

### 25.1. Employee Benefit Expenses

Employee benefit expenses includes monthly remuneration paid and other benefits like medical expenses, uniforms, training & development, Deputation Charges etc. These are summarized below:

Particulars		Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Salary & Allowances		36,555,150.35	31,319,695.33
Deputation Expenses	25.1.1	11,001,164.36	10,973,463.76
Contribution to Social Security Fund	25.1.2	3,581,607.99	3,580,666.30
Leave Encashment	25.1.3	1,220,154.84	1,065,400.32
Staff Welfare Expenses		3,608,946.59	3,410,247.92
Employee Profit Bonus		18,549,487.00	23,423,651.00
		<b>74,516,511.13</b>	<b>73,773,124.63</b>

*[Handwritten Signature]*



## KNP Japan Private Limited

### Notes forming part of the Accounts for the Ended March 31, 2021

#### 25.1.1 Deputation Charges

The Company has provided the deputation service charges amounting to NRs.11 Million for the period from April 1, 2020 to March 31, 2021 to "M/s Kansai Nerolac Paints Ltd., India, as per the agreement entered into with them. The deputation service charge is paid towards the manpower service provided by the parent company to the subsidiary as per the requirement of the subsidiary and included in salary & allowances in Note 25.

The company has deposited/provided the reverse charge of VAT on deputation service charge paid/payable to the Holding Company, Kansai Nerolac Paints Ltd., India as per the provisions of sec. 8(2) of Value Added Tax Act of Nepal.

#### 25.1.2 Contribution to Social Security Fund

The Company has schemes of employment benefits namely Social Security fund as per labour act 2017. Eligible employees receive the retirement benefit plan established with Social Security Fund (SSF) which is a defined contribution plan. Both the employee and company make monthly contributions to the SSF plan equal to 28.33% percent (18.33% by Employer & 10% by Employee) of the basic salary/wages.

#### 25.1.3 Leave Encashment

The company has provided Leave liability as per accumulated leave provided as per Labour Act, 2074

The company has not done actuarial valuation for leave liability as the impact was considered immaterial by the management.

#### 25.2. Auditor Remuneration

##### Particulars

	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Statutory Audit Fee	350,000.00	350,000.00
Tax Audit Fee	75,000.00	75,000.00
	<b>425,000.00</b>	<b>425,000.00</b>

#### 25.3. Royalty Expenses

The Royalty is paid towards the use of Trademark, Business Systems & Know-how, Software & patents & General Administrative & Management Services @ 1% of Net Sales of Licensed Products (Net of Taxes) as per clause 3.1.1 of Article III of Technical License Agreement

However from July 17, 2019 the company has proposed to increase royalty to 2 % i.e. clause 3.1.1 of article III will be changed to 2% from 1%. Accordingly, The Company has booked Royalty amounting to NRs. 11.298 Millions for the period from April 1, 2020 to March 31, 2021.

#### 25.4. Provision for Bad Debt

The Company has made provisions for Bad Debt during the year for Rs.35 million (PY Rs.45 million). The total Provision as on reporting date amounts to NRs.194.76 millions (PY159.76 millions).

##### Particulars

	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Opening Balance	159,757,000.00	114,757,000.00
Provided During the year	35,000,000.00	45,000,000.00
Closing Balance	<b>194,757,000.00</b>	<b>159,757,000.00</b>





## KNP Japan Private Limited

### Notes forming part of the Accounts for the Ended March 31, 2021

#### 25.5 CSR Expenses

The Company has allocated for CSR Fund @ 1% of Net Profit before Tax (PY Net Profit After Tax) (as required under section 54 of Industrial Enterprise Act, 2076) during the year for Rs.1.87 million (PY Rs 2.25 million). The total Provision as on reporting date amounts to Rs 6.78 millions (PY Rs.5.31 millions).

Particulars	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Opening Balance	5,311,510.25	3,613,939.44
Provided During the year	1,873,899.00	2,247,203.00
Utilized During the year	(404,057.97)	(549,632.19)
Closing Balance	6,781,351.28	5,311,510.25

#### 26. Selling & Distribution Expenses

Particulars	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Advertisement	59,228,567.06	94,104,379.16
Transportation/Loading-Unloading	42,307,354.62	44,805,672.66
Painter Token	10,517,840.67	13,104,865.33
Sales Promotion	26,000,079.44	38,575,295.62
Sales Commission	96,315,083.02	114,019,462.25
Trip/Travel Scheme	19,312,409.90	25,305,343.80
Painter Scheme Expenses	34,846,856.07	33,717,927.17
Dealers Season Scheme	70,273,630.23	72,588,264.55
Colourant Amc Charges	3,693,846.86	3,867,360.00
	362,495,667.87	440,088,570.54

#### 27. Finance Cost

Finance costs comprises of interest on short term borrowings in the form of bank overdrafts. All these cost are carried at amortized cost using effective interest rate as required by NAS 39.

Particulars	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Interest Expenses	15,459.98	782.69
	15,459.98	782.69

#### 28. Depreciation And Amortization Expenses

Particulars	Year ended March 31, 2021 (NRS)	Year ended March 31, 2020 (NRS)
Depreciation / Amortisation for the year		
Tangible Assets	8,590,501.74	4,159,226.01
	8,590,501.74	4,159,226.01

*[Handwritten Signature]*



## KNP Japan Private Limited

### Notes forming part of the Accounts for the year ended March 31, 2021

#### 29. Earning Per Share

Company presents basic and diluted Earnings Per Share (EPS) for its ordinary shares.

Basic EPS amounts are calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the company by the weighted average number of equity shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit or loss attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary equity shares.

<u>Particulars</u>	Year ended March 31, 2021	Year ended March 31, 2020
	(NRS)	(NRS)
Profit for the year (Rs.) after tax	162,332,263	174,241,290
Weighted average number of shares	1,300,000	1,300,000
Basic Earning per share (Rs.)	125	134
Diluted Earning per share (Rs )	125	134

\*The company has not issued any potential equity shares during the year and accordingly, hence, the basic and diluted earnings per share are same.



## KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

### 30. Contingent Liabilities & Capital Commitments:

#### 30.1. Contingent Liabilities

Contingent liabilities are potential future cash out flows, where the likelihood of payment is considered more than remote, but is not considered probable or cannot be measured reliably.

##### 30.1.1 Claims against the Company not Acknowledged as debt:

###### i) Corporate Tax Matters:

The Income Tax assessment has been completed up to F/Y 2016/17 (i.e. up to July 15, 2017). The company has not accepted the said assessment of the tax liabilities regarding Income Taxes assessed @ 20%. The company has appealed against it and the case is pending at Supreme court, the verdict of which is still awaiting. The detail of demand is given below:

FY	Tax	Letter Reference No.	Letter Reference Date
2016-17 (2073/74)	13,776,107.62	Ch. No.1826	11/06/2075
<b>Total</b>	<b>13,776,107.62</b>		

###### ii) Indirect Taxes Matters:

The Customs Office, Parsa has demanded NPR 12.47 million vide letter No.076/077 Ch.No.70 dated 2076/09/21 against short duty, Excise & short VAT which arises due to the valuation issue raised by Customs Office. As per the company the item should be classified in the HSN Code of duty rate of 10% but was classified by the Customs Office in HSN code of duty rate of 30%. Accordingly, the differential customs duty of 20%, Excise @ 7% & VAT @ 13% on it has been demanded by the Customs Office. The company has not accepted the said demand as detailed below and is in the process of appeal against it.

Custom	Excise Duty	VAT	Total
7,586,494.00	3,451,855.21	1,434,985.41	12,473,334.62

###### iii) Pending Litigations:

###### a) Suit Filed By Employee of Company:

The employee of Company Mr. Surya Narayan Das has filed case against the company regarding the position issue in FY 2070/71. The company has terminated the employee from that date, however the case is still pending at honourable Supreme Court, the verdict of which is still awaited.

###### iv) Unexpired Letter of Credits:

The company has following contingent liability against unexpired letter of credits:

<u>Particulars</u>	<u>As At</u> <u>March 31, 2021</u> <u>(NRS)</u>	<u>As At</u> <u>March 31, 2020</u> <u>(NRS)</u>
Letter of Credits	71,262,798.28	11,991,927

##### 30.1.2 Bank Guarantee:

Bank Guarantee has been provided to the department of Customs for EXIM Code Rs. 3,00,000 against 100% margin.





## KNP Japan Private Limited

### Notes forming part of the Accounts for the year ended March 31, 2021

#### 31. Dividend:

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends proposed by the Board of Directors after the reporting date is not recognised as a liability and is only disclosed as a note to the financial statements

<u>Particulars</u>	As At	As At
	March 31, 2021	March 31, 2020
	(NRS)	(NRS)
Dividend Paid during the year	52,000,000.00	52,000,000.00
(Proposed for approval at the annual general meeting not recognised as a liability as at reporting date of Nepal FY)		
Dividend Per shares:	40.00	40.00

#### 32. Capital Management:

For the purpose of the Company's capital management, capital includes issued equity capital, share premium and all other equity reserves attributable to the equity holders and Redeemable Preference Share capital which is considered as liability under NFRS. The primary objective of the Company's capital management is to maximize the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by equity. The Company includes within net debt, loans and borrowings less cash and cash equivalents.

The company has no any borrowings and has nil debt equity ratio.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 March, 2021 and March 31, 2020.



## KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

### 33 Income Tax Assessment:

The Income Tax assessment has been completed up to F/Y 2073/74 (up to Ashad 31, 2074 equivalent to July 15, 2017). The company has not accepted the said assessment of the tax liabilities regarding Income Taxes assessed @ 20%. The company has appealed against it and the case is pending at Supreme court, the verdict of which is still awaiting. The detail of demand is given below:

FY	Tax	Letter Ref. No.	Letter Ref. Date
2073/74	13,776,107.62	Ch. No.1826	11/06/2075
<b>Total</b>	<b>13,776,107.62</b>		

The IRD has also assessed the VAT & TDS amount of FY 2073/74. The company has accepted the said assessment & the company has paid these tax liabilities. The detail of TDS & VAT paid is given below:

FY	VAT Fine	TDS Fine	Total	Letter Ref. No.	Letter Ref. Date
2073/74	3,017,553.00	327,156.94	3,344,709.94	Ch. No.1825, 1827	11/06/2075
<b>Total</b>	<b>3,017,553.00</b>	<b>327,156.94</b>	<b>3,344,709.94</b>		

### 34 Related Party Disclosures:

- i) The Company identifies the following as the related parties under the requirement of NAS 24.

**Holding Company:**

Kansai Nerolac Paints Limited, Mumbai, India

**Subsidiary Company**

None

**Key Managerial Personnel:**

Ashok Baid	Director
Jeevan Kumar Agrawal	Director
Manoj Kumar Mishra	Country Head
Pravin Eknath Jadhav	Factory Head
Anil Kr. Singh	Deputy Manager, Accounts & Finance

ii) **Related Party Transactions:**

All Transactions with related parties are carried out by the company at arm's length prices.

Party Name	Relation - Nature of Transaction	Opening	(Purchase)/ Sales	Others	(Receipts)/ Payments	Closing Balance
Nepal Shalimar Cement Pvt. Ltd.	Common Director - Customer	270,375.16	-	-	-	270,375.16
Shalimar Homes Pvt. Ltd.	Common Director - Customer	100,094.00	508,637.00	-	(27,200.00)	581,531.00
Goyal Hardware, Biratnagar	Common Director - Customer	(428,175.00)	(2,500,538.00)	-	2,140,875.00	(787,838.00)
Siddhi Vinayak Pvt. Ltd., Birgunj.	Related to Director - Customer	613,948.03	2,550,039.00	-	(584,150.00)	2,579,837.03
Siddhi Vinayak Pvt. Ltd., Birgunj.	Related to Director - Creditor	(5,006,037.97)	(21,342,947.87)	-	25,467,585.84	(881,400.00)
Shalimar Investment Co. Pvt. Ltd.	Common Director - Vendor	(816,750.00)	(2,254,230.00)	-	1,633,500.00	(1,437,480.00)
Preeti Baid	Director Wife - Vendor	(500,000.00)	(1,310,000.00)	-	1,000,000.00	(810,000.00)
Kansai Nerolac Paints Ltd. Kanpur, Jainpur	Investing Company - Vendor	(66,158.80)	-	-	-	(66,158.80)
Kansai Nerolac Paints Ltd. Mumbai	Investing Company - Vendor	(76,959,552.48)	-	(52,734,993.35)	82,262,828.65	(47,431,717.18)
<b>Total</b>		<b>(82,792,257.06)</b>	<b>(24,349,039.87)</b>	<b>(52,734,993.35)</b>	<b>111,893,439.49</b>	<b>(47,982,850.79)</b>

*[Handwritten Signature]*



## KNP Japan Private Limited

Notes forming part of the Accounts for the year ended March 31, 2021

Notes contd...

### 35 Provision for Selling & Distribution Expenses:

The company has made provisions for sales promotion expenses & other sales related expenses like trip schemes, dealer season schemes etc. based on the estimated calculations related to the sales for year ended March 31, 2021. The summary of provisions made during the year are given below.

Particulars	Opening Balance	Closing Balance	Provision created for the period
Provision For Sales Commission	63,515,987.85	87,736,770.00	87,736,770.00
Provision For Trip Scheme	16,455,000.00	7,368,860.00	7,368,860.00
Provision For Painter Scheme	21,995,618.42	16,381,568.00	16,381,568.00
Provision For Advertisement	-	31,876,838.00	31,876,838.00
Provision For Painter Token	4,200,041.33	5,856,692.00	5,856,692.00
Provision For Dealers Season Scheme	10,139,497.29	25,328,197.00	25,328,197.00
Provision For Sales Promotion Others	12,000,000.00	48,343,478.18	11,218,905.00
<b>Total</b>	<b>128,306,144.89</b>	<b>222,892,403.18</b>	<b>185,767,830.00</b>

### 36 Period & Purpose of Financial Statement:

As per the provisions of Income Tax Act, 2002, the period of financial statements should be from the date of registration to the end of financial year i.e. July 16, 2019. However this financial statement has been prepared for the period from April 01, 2020 to March 31, 2021 for purpose of consolidation with the holding company M/s Kansai Nerolac Paints Limited, India.

### 37 Events after Reporting Date:

i) No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the financial statements.

#### ii) Assessment of Impact of COVID 19:

The spread of COVID-19 pandemic has severely impacted many economies around the globe including Nepal where businesses are being forced to cease or limit operations resulting in an economic slowdown. Although, the government and central bank have responded with monetary and fiscal measures to stabilize the economic conditions, there is not much relief available to the company as of the issue of these financial statements.

The Government of Nepal had announced complete lockdown from March 24, 2020 onwards to control the spread of COVID 19 Pandemic which was partially lifted from June 15, 2020. The operation of the company has been completely stopped during the lockdown and slowly started its operation after the lockdown was partially lifted. The management, by using the internal and external information up to the date of approving these financial statements, has assessed the effects of lockdown on the carrying amounts of its fixed and current assets including PPE, trade receivables and inventories, it expects that the carrying amounts of these assets will be recovered. Further, based on the possible impacts of the Pandemic on the operations and future cash flows, the company has assessed its ability to continue as a going concern. However, the impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration and accordingly the impact may be different from what was estimated as at the date of approval of these financial results. The company is continuing to monitor any material changes that may affect its future economic conditions.

### 38 Regrouping of Figures:

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

### 39 Miscellaneous:

(i) All amounts are stated in Nepalese Rupees (NPR).

(ii) All the account confirmation with regards to Bank Balances, sales, purchase, receivables and payables are in process of obtaining from them.

