# UNILEVER NEPAL LIMITED

## TWENTY-FIFTH ANNUAL REPORT & ACCOUNTS
(16th July 2017 – 16th July 2018)

SWASTHA NEPAL
SAKSHYAM NEPAL
HAMRO NEPAL

# BOARD OF DIRECTORS

1. **PRADEEP BANERJEE**
   Chairman

2. **RAVI BHAKTA SHRESTHA**
   Promoter Director
   (Nominee, M/S SIBKRIM Holdings Private Limited (previously known as Sibkrim Land and Industrial Company (Pvt) Limited)

3. **BHARAT BAHADUR THAPA**
   Independent Director

4. **DEV BAJPAI**
   Director
   (Nominee, Hindustan Unilever Limited)

5. **PRIYA NAIR**
   Director
   (Nominee, Hindustan Unilever Limited)

6. **ASHISH RAI**
   Managing Director

7. **DINESH THAPAR**
   Director
   (Nominee, Hindustan Unilever Limited)

8. **SHANKAR LALL AGRAWAL**
   Director
   (General shareholders' representative)

# PROFILE OF DIRECTORS

## Profile of **Mr. Pradeep Banerjee**

Mr. Pradeep Banerjee was appointed as Executive Director – Supply Chain in Hindustan Unilever Limited (HUL) since April 2010. He has done a series of assignments in Supply Chain, Research & Development and Categories. Mr. Banerjee became the Vice President - Technical (Home & Personal Care) in 2003 and later moved to UK in 2005 as Vice President – Global Supply Chain for Personal Care Category. He has served as the Vice President for Global Procurement in Singapore. Mr. Banerjee was Managing Director of this Company from 1st April 1997 to 31st October 1998. He holds a bachelor's degree in engineering (Chemical) from IIT Delhi. He is the Chairman of Board of Directors of Unilever Nepal Limited (UNL) since 20th March 2011.

## Profile of **Mr. Ravi Bhakta Shrestha**

Mr. Ravi Bhakta Shrestha is a promoter Director of UNL as representative of local Joint Venture Company – M/S SIBKRIM Holdings Private Limited (previously known as SIBKRIM Land and Industrial Company (Pvt.) Limited) and Chairman & Managing Director of N. E. GROUP (Hotels, Industries, Investment & Trading) which is one of the leading business houses in Nepal. He is also the Founder and Vice President of I. J. Charitable Trust that contributes to the health and education sector under CSR. Previously, Mr. Shrestha was President of Federation of Nepalese Chamber of Commerce & Industry (FNCCI). He is a Director of M/S Soaltee Hotel Limited. Mr. Shrestha is also a Promoter Director of Soaltee SIBKRIM Hotels & Resorts Pvt. Ltd. and Chairman of Summit Hotel Pvt. Ltd. Mr. Shrestha is a Graduate in Business Administration. He has been decorated with Prasiddha Prabal Gorkha Dakchhin Bahu 'Second' and Knight Officer of the Order of Merit of the Republic of Italy.

## Profile of **Mr. Bharat Bahadur Thapa,** Independent Director

Mr. Bharat Bahadur Thapa is a former Secretary, Ministry of Industry, Commerce and Supplies. He has nearly four decades of working experience with the government of Nepal in various positions. He has visited more than 33 countries. He has done MA and Bachelor of Law. He has led the Nepal delegation several times on several Bilateral and Multilateral Trade negotiations.

## Profile of **Mr. Dev Bajpai**

Mr. Dev Bajpai was appointed Executive Director (Legal & Corporate Affairs) in HUL in May, 2010. He has in January 2017 been appointed as a Director on the Board of HUL looking after Legal & Corporate Affairs function. He is a Fellow Member of the Institute of Company Secretaries of India and has a Law degree from University of Delhi. He has nearly three decades of corporate experience in diverse industries that include Automobiles, FMCG, Hospitality and Private Equity, in the areas of Legal, Governance, Tax and Corporate Affairs. He has worked in Organizations like Maruti Udyog Limited, Marico Limited, Indian Hotels Company Limited and ICICI Venture Funds Management Company Limited. He has been part of Committees of Apex Industry Organizations like Confederation of Indian Industries (CII) & Federation of Indian Chambers of Commerce & Industry (FICCI). He has also represented Industry before Parliamentary Committees. Mr. Bajpai completed an Executive Program for Corporate Counsels at Harvard conducted by Harvard Law School. Before joining HUL, he was Senior Director, Legal & Compliance, ICICI Venture Funds Management Company Limited.

## Profile of
## Ms. Priya Nair

Ms. Priya Nair is the Executive Director & VP – Home Care which consists of Fabric cleaning & care, Household Cleaning and Water Purification business. Priya is successfully leading and delivering competitive and profitable growth for HUL's Homecare business which is an over INR 10,000 Cr. business. She brings with her a diverse and rich experience including Consumer Insights, Customer Development and Marketing. She has spearheaded some leading-edge Marketing programs that are widely acclaimed both in India and globally, especially in the new age media of Digital: the most notable recent example is creating of Kan Khajura Tesan: A mobile radio service that has over 30 million consumers and winner of three Cannes Gold Lions. She has developed and built HUL's Perfect Village and Rural Marketing program and has led HUL's mobile strategy. In her earlier roles, she has worked with various brands such as Dove, Axe, Rexona, Close-up and Pepsodent.

Priya has led Mobile and Rural Marketing capability building for HUL and is also responsible for the HUL corporate brand including Project Sunlight (Unilever Sustainable Living Plan).

## Profile of
## Mr. Ashish Rai

Mr. Ashish Rai is Managing Director of UNL. He has 16 years of industry experience spanning sales and marketing roles working in different capacities in global teams, in South Asia and in South East Asia. His educational qualification is bachelor's in engineering (chemical) from IIT Roorkee followed by master's in business administration (marketing) from Faculty of Management Studies, Delhi University. He has worked for Colgate Palmolive (India) Limited, HUL and Unilever for assignments in India and Singapore (managing markets of Indonesia, Vietnam, Philippines, Thailand, Cambodia, Laos and Myanmar). In marketing, he has worked on brands in Oral Care category like Pepsodent, Signal and Close Up. In general management & customer development, he has worked in the last few years with assignments of Head – Rural Business & Alliances handling entire product portfolio nationally from the customer development function for HUL including the Shakti Program and a distribution joint venture with Tata Docomo; and in his last role as General Manager - Sales & Customer Development, South India for HUL business with € 1.5 Bn annual turnover he managed the largest branch (sales unit) comprising of the states of Tamil Nadu, Karnataka, Seemandhara, Telangana, Kerala & Union Territory of Puducherry. In addition to his current role as Managing Director for UNL, he leads the technology initiatives for Unilever's customer development function and is part of Unilever's South Asia Leadership team.

## Profile of
## Mr. Dinesh Thapar

Mr. Dinesh Thapar is Vice President – Finance at HUL. He is the Finance leader for the Company's largest Division, the INR 160 bn (US$ 2.5 bn) Personal Care business and the Head of the Business Finance team in India. In this role, he also partners and drives category strategy and performance management for Unilever's US$ 3.4 bn Personal Care business in the South Asia cluster. He was General Manager & Head of Treasury, Mergers & Acquisitions and Investor Relations prior to taking over his current position.

In a career spanning almost two decades with Unilever in India and a stint in the United States, Dinesh has held a variety of leadership roles covering the areas of Corporate Finance, Business Finance and Supply Chain Operations.

## Profile of
## Mr. Shankar Lall Agrawal

Mr. Shankar Lall Agrawal completed his B. Com from Mahendra Morang Aadarsh Multiple Campus, Biratnagar and M.Com from Tribhuvan University, Kathmandu. He started his career 60 years back where he initially supported his father. He started his own business of Import & Export in the year 1966 and started the distributorship of Gillette, UK for 15 years. He used to import textile, machineries, auto parts, spices form various countries like Japan, Singapore, Australia, UK and export medicinal herbs, ginger, cinnamon, etc.

He once held the position of Chairman in Pashupati Soap Industries Private Limited. He also represented Public Shareholders on the Board of Standard Chartered Bank, Nepal.

# OUR PURPOSE

UNILEVER NEPAL LIMITED HAS A CLEAR PURPOSE – TO MAKE SUSTAINABLE LIVING COMMONPLACE. WE BELIEVE THIS IS THE BEST WAY TO CREATE LONG-TERM VALUE FOR ALL OUR STAKEHOLDERS, ESPECIALLY IN A VOLATILE AND UNCERTAIN WORLD.

Our Purpose inspires our Vision – to accelerate growth in our business, while reducing our environmental footprint and increasing our positive social impact. We want our business to grow, but we recognise that growth, at the expense of people or the environment, is both unacceptable and commercially unsustainable. Sustainable growth is the only acceptable model for our business. As the pace of change accelerates, we are creating a stronger, simpler and more agile business.

Our Purpose and Vision combine a commercial imperative to succeed against competition, with the changing attitudes and expectations of consumers. This Annual Report and Accounts explains how, in 2017-18, we have continued to pursue our Purpose and work towards making our Vision a reality. During the year, we continued to deliver growth that is consistent, competitive, profitable and responsible. This track record of long-term success is underpinned by the Unilever Sustainable Living Plan (USLP), which helps us manage risk, inspires brand purpose and innovation, drives down costs to improve returns and builds trust among consumers across our categories and operations.

Our success depends on the expertise and talent of our people. They are constantly challenged by an environment that remains Volatile, Uncertain, Complex and Ambiguous (VUCA). The market is fragmenting because of changes in consumer habits, sales channels and the media. Therefore, the Company is also changing through the business transformation programme. It is creating a business which is more consumer and customer-centric, faster, more efficient and empowered so that our people can meet these challenges with the necessary resources.

As part of this change, we are adopting new ways of working to be more entrepreneurial to complement our existing category strategies. In turn, these clearly-defined strategies across our four categories ensure that the Company has a well-balanced and resilient portfolio relevant to meeting our Purpose and Vision.

# OUR CATEGORIES AND BRANDS

Each of our categories - Home Care, Personal Care, Foods and Refreshments, includes a portfolio of brands that aim to deliver consistent, competitive, profitable and responsible growth. Our endeavour is supported by consistent investment in product innovation and marketing activities. With over 35 brands spanning 20 distinct categories including soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, frozen desserts and water purifiers, the Company is a part of the everyday life of millions of consumers across Nepal. Our portfolio includes leading household brands such as Lux, Lifebuoy, Surf excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, BRU, Knorr, Kissan, Kwality Wall's and Pureit.

Your Company has a clear and compelling strategy that focuses on Winning with Brands and Innovation, Winning in the Marketplace, Winning through Continuous Improvement and Winning with People. This is underpinned by the Unilever Sustainable Living Plan (USLP) that sets our vision to increase the size of the business, whilst decoupling it with our environmental footprint and increasing our positive social impact.

Over the years, UNL has been driving the virtuous cycle of growth, which has been resulting in consistent, competitive, profitable and responsible growth for us. Our continuous effort to re-invent the organisation and stay ahead of the curve by constantly innovating helps us drive scale. Meeting consumer needs enables us to increase our footprint and drive higher volume growth. With higher volume growth, we get benefits from scale, efficiencies and we invest the savings behind our products and brands which thereby results in the virtuous cycle.

# WHERE WE OPERATE

UNL operates across the length and breadth of Nepal. We have 241 employees working across our factory and offices. Conducting our operations with integrity and respect for the many people, organisations and the environment that our business touches, has always been at the heart of our corporate responsibility.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

It gives me great pleasure to share with you an update on the overall performance of your Company for the year 2017-18. In a challenging external environment, your Company performed well and delivered another year of consistent, competitive, profitable and responsible growth. With a deep understanding of consumer insights, your Company continued to drive innovation across brands and operations and adapted the go-to-market strategies and the evolving channels of distribution. Simultaneously, we recognised the need for responsible growth and focused on creating greener and more efficient manufacturing with cleaner fuels, more efficient energy consumption and lesser generation of waste. We remained committed to our purpose of making sustainable living commonplace across the value chain.

In the year under review, we saw considerable changes in the external business environment. In this challenging business environment, your Company delivered a decent performance in 2017-18. This was enabled by our 4G model of growth - consistent, competitive, profitable and responsible growth. We believe that this model, particularly in times of uncertainty, is in the best long-term interest of all our stakeholders and a good indication of a robust strategy.

For the year under review, our Domestic Consumer business grew 9.6% with 8.1% underlying volume growth. Net Profit at NR 99.94 Crores was up by 3.5% only primarily because of higher tax expense. Reported growth was impacted by introduction of excise duty. This is a significant improvement and your company is confident of sustaining this profitability.

Our sales and distribution system, with an unrivalled national presence across traditional and modern trade channels, remains a key competitive advantage. We continued to expand our direct coverage and leveraged technology and intelligent analytics to significantly enhance our customer service and on-shelf availability. The Company also continued to make significant investments in building capabilities to win in channels of the future.

The company has focused heavily on distributor infrastructure by leveraging on world class technology. Unilever Nepal brands continue to be market leaders in all the categories it operates in. The strength of our brands and focus on investment behind these brands has enabled us to maintain leadership across categories despite the competitive pressures in the market and the difficult market situation. Your company has also invested significantly behind our powerful brands. All these actions are supposed to drive sustainable growth.

In all the Categories your Company operates, it continues to be market leader this year as well. Despite the competitive pressures in the market and the difficult market situation the image that our brands have created over years and invested focus behind these brands has aided us to maintain leadership across categories.

Presence of our brands across the country strongly reflects the competitive growth of our brands. The marketing campaigns, partnership, initiatives and livelihood development programmes are aimed at bringing about a positive change in the society.

Even as we expand our operations, we remain equally committed to the USLP and driving our environmental and social agenda through our brands and corporate actions. Lifebuoy and Pepsodent continued to lead our initiatives in the areas of hygiene and sanitation.

Lifebuoy has always been pioneering for promoting the lifesaving habit of handwashing with soap and helping people adopt daily habits that contribute towards it through the global campaign – "Help a child Reach 5". Since the launch in the year 2014, social mission has impacted more than 25 lakh people. Consistently working on making positive impact on Nepalese lives and equally being thoughtful on making the program sustainable and scalable, the public-private partnership was initiated in a collaborative approach, partnered with various NGO/INGO (UWS, SNV) reaching out to newer geographies. The campaign was structured around addressing the behavioral determinants of disgust, nurture, affiliation, routine and habits.

Your company has made its distribution network more robust and agile to be more responsive to the VUCA environment. We have undertaken a rapid expansion of direct distribution at the start of the year with 117 distributors across the country, we are now poised to leverage increased reach across the country.

We have invested heavily in cutting edge technology to unlock massive efficiencies across the distribution chain. Your company will be one of the first in Nepal to bring analytics into decision making leading to increase accuracy in planning, forecasting and distribution efficiency.

Our continued focus on the Project 'Hamri Didi – a rural direct-to-consumer retail distribution initiative', has empowered women in rural areas with enhanced livelihood opportunities. This year our execution partners have tied up with financial institutions increasing independence of our Hamri Didis. This project has significantly improved our product availability in Hilly districts of Far West region of the country.

We are focusing upon channels of the future, the key being Modern Trade. While Modern Trade is in a nascent stage in Nepal we intend to bring the global best practices to make sure we are well positioned to capture the benefits of evolution of this channel in Nepal.

Our Sales and Marketing initiatives were ably supported by our world-class Supply Chain. The Supply chain function continues its vision of delivering "Outstanding Service with highest consumer perceived Quality at lowest cost" amid severe internal and external VUCA scenarios. This year we sought to achieve this through capacity enhancement, cost optimization, engineering & service excellence, keeping our core values intact with respect to safety, quality & sustainability.

Lot of new products were added to UNL basket and also pack-sizes were optimized basis market needs. We are continuously working to get best of technology and engineering practices in utilization. Best in class processes are being adopted to cater to business and also make business more efficient to deliver to continuous changing market and consumer needs.

Safety, a non-negotiable and basic requirement of working condition, remains our top-priority and the same was resonated through various initiatives undertaken. Safety awareness was further instilled through "2-Wheelers & 4-Wheelers Defensive Driving Training", "Route Risk Assessment", "Beyond Work Safety Campaign", "Machine Safety" "Monsoon Safety Campaign" and various trainings on "First Aid", "Firefighting", and "Earthquake Safety".

We are dedicated to build and institutionalize capability of our people via mentoring, coaching, short term assignments (STA) in other Unilever business and mandatory or self-paced learning through social learning platforms. We are developing our frontline leaders with a robust organizational structure and strength enabling growth for the future. Constant interaction and communication among all employees is encouraged to foster a sense of belonging and to create an empowered system at UNL. We have always put forward our purposeful brands in the Nepalese market and stood by our performance by inculcating employee centered policies and performance plans that are aligned with global operating philosophy of Unilever.

I would like to take this opportunity to thank each employee as well as those who work with us across the value chain for their unstinting support and hard work in the service of our Company. I would also like to thank you, our shareholders, for your continued trust in the business.

# CODE OF BUSINESS PRINCIPLE

## Standard of Conduct

We conduct our operations with honesty, integrity, openness, and respect for human rights and interests of our employees.

We shall similarly respect the legitimate interests of those with whom we have relationships.

## Obeying the Law

Unilever companies and employees are required to comply with the laws and regulations of the country in which we operate.

## Employees

Your company is committed to a working environment that promotes diversity and equal opportunity and where there is mutual trust, respect for human rights and no discrimination.

We will recruit, employ and promote employees on the sole basis of the qualifications and ability required for the work to be performed.

We will provide employees with a total remuneration package that meets or exceeds the legal minimum standards and appropriate prevailing industry standards.

We will not use any form of forced, compulsory, trafficked or child labour.

We are committed to working with employees to develop and enhance everyone's skills and capabilities.

We respect the dignity of the individual and the right of employees to freedom of association and collective bargaining.

We will maintain good communication with employees through company-based information and consultation procedures.

We will ensure transparent, fair and confidential procedures for employees to raise concerns.

## Consumers

Your Company is committed to provide branded products and services which consistently offer value in terms of price and quality, and which are safe for their intended use. Products and services will be accurately and properly labeled, advertised and communicated.

## Shareholders

Your Company will conduct its operations in accordance with internationally accepted principles of good corporate governance. We will provide timely, regular and reliable information on our activities, structure, financial situation and performance to all shareholders.

## Business Partners

Your Company is committed to establish mutually beneficial relations with our suppliers, customers and business partners. In our business dealings we expect our partners to adhere to business principles consistent with our own.

## Community Involvement

Your Company strives to be a trusted corporate citizen and, as an integral part of society, to fulfill our responsibilities to the societies and communities in which we operate.

## Public Activities

Unilever companies are encouraged to promote and defend their legitimate business interests.

Your company will co-operate with government and other organizations, both directly and through bodies such as trade associations, in the development of proposed legislation and other regulations which may affect legitimate business interests.

Your company neither supports political parties nor contributes to the funds of groups whose activities are calculated to promote party interests.

## The Environment

Your company is committed to make continuous improvement in reduction of environmental impact and developing a sustainable business in long term.

Your company will work in partnership with other partners to promote environmental care, increase understanding of environmental issues and disseminate good practices.

## Innovation

Our innovations use insights and technologies to deliver brand-led benefits which meet the latest trends. Our innovation is increasingly responsive to local needs, landing results faster into the market

We will innovate based on sound science, applying rigorous standards of product safety.

## Competition

Your Company believes in vigorous yet fair competition and supports the competition laws of the company. Unilever companies and employees conduct their operations in accordance with the principles of fair competition and all applicable regulations.

The Legal function of Unilever continues to be a valued partner in facilitating the business agenda and effectively dealing with unfair competition and ensuring regulatory compliances.

## Business Integrity

Your Company does not give or receive, either directly or indirectly, bribes or other improper advantages for business or financial gain. No employee may offer, give or receive any gift or payment which is, or may be construed as being, a bribe. Any demand for, or offer of, a bribe must be rejected immediately and reported to management.

Your Company's accounting records and supporting documents must accurately describe and reflect the nature of the underlying transactions. No undisclosed or unrecorded account, fund or asset will be established or maintained.

## Conflicts of Interests

All employees and others working for Unilever are expected to avoid personal activities and financial interests which could conflict with their responsibilities to the company.

Employees must not seek gain for themselves or others through misuse of their position.

## Compliance – Monitoring – Reporting

Compliance with these principles is an essential element to our business success. The Unilever Board is responsible for ensuring these principles are applied throughout Unilever.

The Chief Executive Officer is responsible for implementing these principles and is supported by the Global Code and Policy Committee which is chaired by the Chief Legal Officer. Day-to-day responsibility is delegated to all senior management of the geographies, categories, functions and operating companies. They are responsible for implementing these principles, supported by local Code Committees. Assurance of compliance is subject to review by the Board supported by the Corporate Responsibility Committee and for financial and accounting issues, the Audit Committee.

Any breach of the Code must be reported. Provision has been made for employees to be able to report in confidence and no employee will suffer any consequence of doing so.

# **NOTICE** of Annual General Meeting

Notice is hereby given to all the shareholders that the Twenty Fifth Annual General Meeting of Unilever Nepal Limited will be held on 23rd October, 2018 (6 Kartik, 2075) at 4:00 pm at Banquet Hall, Hotel Annapurna, Durbar Marg, Kathmandu, to transact the following business:

## ORDINARY BUSINESS:

1. To receive and adopt the Profit and Loss Accounts 2074-75 (16th July 2017 to 16th July 2018), Balance Sheet, Cash Flow Statement and Reports of the Board of Directors and Auditors for the period ended 16th July 2018 (Ashad 32, 2075).

2. To appoint Auditors and to fix their remuneration for the year beginning 17th July 2018 (Shrawan 1, 2075) (CSC & Co., Chartered Accountants had been recommended for re-appointment by the Audit Committee).

3. To approve the Dividend as per the recommendations of the Board of Directors.

4. To inform about remuneration of Managing Director.

5. To approve for financial contributions to Social and Community projects under UNL's Corporate Social Responsibility.

6. To appoint Director representing the General Public Shareholders.

## SPECIAL BUSINESS:

7. To consider and, if thought fit, to pass the following resolutions as a Special Resolution:

   **"RESOLVED THAT** in accordance with the provision of Section 21 of the Companies Act, 2063 and pursuant to the Article 52 of the Articles of Association of the Company and subject to such consents and permissions, as may be required, approval of the Members of the Company be and is here accorded to amend the Clause 7 of the existing Articles of Association of the Company as under:

   The Company may, by adopting a special resolution at its general meeting, increase or reduce its share capital."

8. To consider and, if thought fit, to pass the following resolutions as a Special Resolution:

   **"RESOLVED THAT** in accordance with the provision of Section 21 of the Companies Act, 2063 and pursuant to the Article 52 of the Articles of Association of the Company and subject to such consents and permissions, as may be required, approval of the Members of the Company be and is here accorded to amend the Clause 61.1 of the existing Articles of Association of the Company as under:

   The Number of Directors in the Board shall be 8 (eight) comprising the following:

   - Up to 5 (five) person form Group 'A' i.e. Hindustan Unilever Limited.
   - 1 (One) person from Group 'B' i.e.' the SIBKRIM Land & Industrial Company Pvt. Ltd.
   - 1 (One) person from Group 'C' i.e. General Public Shareholders.
   - 1 (One) Independent Director appointed pursuant to this Articles on the recommendation of the board of directors."

9. To consider and, if thought fit, to pass the following resolutions as a Special Resolution:

   **"RESOLVED THAT** in accordance with the provision of Section 21 of the Companies Act, 2063 and pursuant to the Article 52 of the Articles of Association of the Company and subject to such consents and permissions, as may be required, approval of the Members of the Company be and is here accorded to amend the Clause 3.13 of the existing Memorandum of Association of the Company as under:

   To import, export, prepare, sell, trade and deal with such goods as required for the aforesaid purposes."

10. To consider and, if thought fit, to pass the following resolutions as a Special Resolution:

    **"RESOLVED THAT** in accordance with the provision of Section 21 of the Companies Act, 2063 and pursuant to the Article 52 of the Articles of Association of the Company and subject to such consents and permissions, as may be required, approval of the Members of the Company be and is here accorded to amend the Clause 2 of the existing Memorandum of Association and Articles of Association of the Company as under:

    The Registered Office (Head Office) of the Company shall be located at Hetauda Sub Metropolitan City, Ward No-3 Basamadi, Makwanpur District, Narayani Zone, Province No -3."

11. To consider and, if thought fit, to pass the following resolutions as a Special Resolution:

    **"RESOLVED THAT** in accordance with the provision of Section 21 of the Companies Act, 2063 and pursuant to the Article 52 of the Articles of Association of the Company and subject to such consents and permissions, as may be required, approval of the Members of the Company be and is here accorded to carry out necessary amendments in the existing Memorandum of Association and Articles of Association of the Company by changing the name of Sibkrim Land and Industrial Company (Pvt.) Ltd. to SIBKRIM Holdings Pvt. Ltd."

**Registered Office:**
Basamadi, V.D.C-5
Makwanpur, Nepal

**By Order of the Board of Directors**
**Company Secretary**

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# REPORT OF THE BOARD OF DIRECTORS

**Revenue from Operations**

**Rs. 4.87 Billion**

**Net Profit**

**Rs. 999 Million**

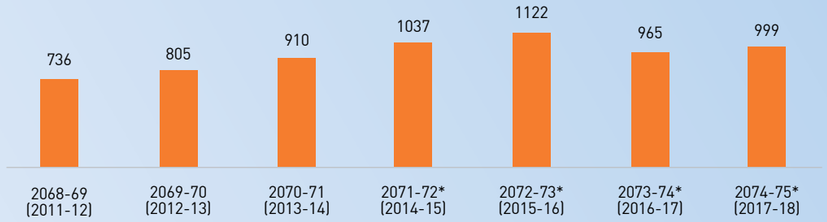
**Operating Cash flow**

**Rs. 981 Million**

**Proposed Dividend per share**

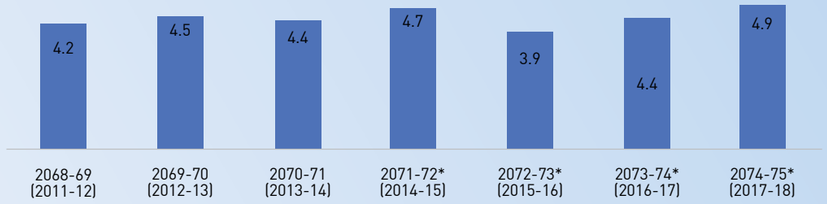
**Rs. 700**

## NET PROFIT (Rs. Million)



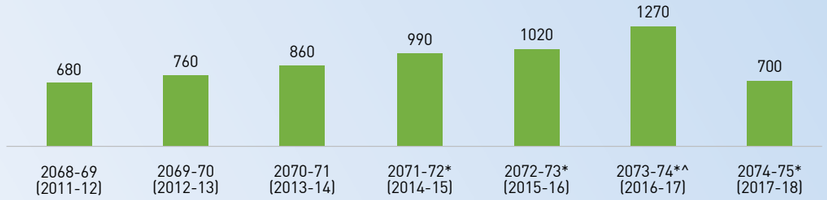

*As per NFRS

## REVENUE FROM OPERATIONS (Rs. Billion)



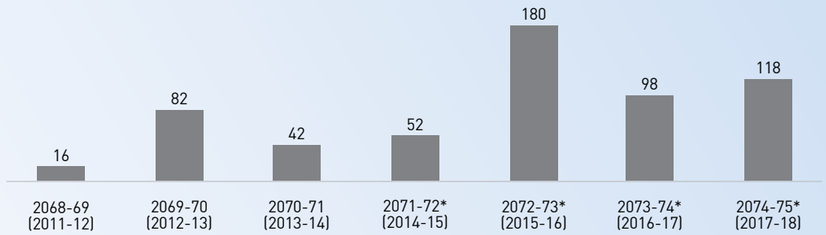

*As per NFRS

## DIVIDEND PER SHARE




*As per NFRS
*^ Includes special dividend of 170 per share

## NET CAPEX (Rs. Million)




Your Company's Directors are pleased to present this Annual Report of the Company, along with Audited Accounts, for the financial year ended 32nd Ashad 2075 (16th July 2018).

## Financial performance Summary

| In Mn. | 2074-75 | 2073-74 |
|---|---|---|
| Revenue from operations | 4868 | 4442 |
| Profit Before Tax | 1330 | 1261 |
| Net Profit for the year | 999 | 965 |
| Dividend | -1169 | -939 |
| Transfer to Employees' Housing reserve | 0 | -71 |
| Retained earnings balance carried forward | 1015 | 1185 |

## Review of Financial year 2074-75

Your Company has once again delivered a consistent growth of 10% during the year. The growth has been broad based with both Personal Care and Home Care segment delivering strong growth with Personal Wash, Oral Care and Hair Care Categories leading the growth.

Your Company has delivered bottom-line growth which is largely driven by personal care categories, judicious price management and leveraging on the current manufacturing capability. Excise duty was levied across the portfolio of your Company for the first time. This led to temporary disruption in operations. However, your Company navigated the disruption through swift actions first to make our IT infrastructure ready for excise invoicing and then judiciously revising the prices of all the products across categories to balance our penetration packs, price point packs and price inelastic packs to manage the profitability of our entire product portfolio.

Bringing world class technology to Nepal and leveraging the same for business has always been the priority of Your Company. Your Company is in the process of overhauling the complete Enterprise Resource Planning(ERP) system and moving on to one of the most cutting-edge ERP systems, SAP. This will significantly improve the financial and operational controls in your Company and automate a lot of manual processes. Also, your Company has continued its focus on building next generation distributor management system by leveraging on world class technology.

There are significant investments which we will be making in the FY 2075-76 across the areas from enhancing production capacities to setting up new product lines to creation of additional space for storage and distribution of goods to bringing in cutting edge technology i.e. SAP to your Company for better financial and operational control. All these investments are in the view of bringing in the best of the products to Nepal and making your Company future ready.

Your Company's brands continue to be market leaders in all the categories it operates in. The strength of our brands and focus on investment behind these brands has enabled us to maintain leadership across categories despite the competitive pressures in the market and the difficult market situation. Your company is also investing behind understanding needs and preferences of Nepali consumers to serve them with the best available products in Unilever's portfolio. All these actions will drive sustainable growth.

# CORPORATE SOCIAL RESPONSIBILITY

Your Company is committed to operate and grow its business in a socially responsible way and has a simple but clear purpose - to make sustainable living common place. This purpose inspires your company's vision to accelerate growth in the business, while reducing its environmental footprint and increasing its positive social impact. Your Company's commitment to sustainable living is not only helping to drive strong business growth but also helping to enhance equity and preference for its brands with consumers. This approach lies at the heart of our business model, driven by sustainable living and the Unilever Sustainable Living Plan (USLP). It guides our approach to how we do business and meet the growing consumer demand for brands that act responsibility in a world of finite resources.

A brief overview of your company's projects under Corporate Social Responsibility (CSR) is as given below:

## Commitment to Local Community

Your Company is engaging with local community and countrymen through different activities. It has continued to reach out to thousands of families and children through its contribution towards community and country. In the year 2074-75, your company has contributed around Rs NPR 1.127 million towards social causes.

## Health: The Ultimate Need

The Health Clinic and Mobile Health Camp initiated by your company has benefited marginalized, indigenous and poor people in the remote villages of Makwanpur District. For this outdoor clinic with specialist doctors are conducted twice in a month. The indoor clinic opens five times a month for the community people of Basamadi where they receive free health consultancy. Free medicines are also provided for the needy, poor or elderly people. Your Company also distributes Hygiene Kit which includes Lifebuoy and tooth paste to the needy people. Your Company also activates several programs of hand washing through health professionals for the awareness of children in the schools and distribute its powerful brand Lifebuoy to them. Your Company has spent a total amount of NR 1.01 million for health clinic this year.

## Education: a step towards the future

Your company has been contributing to empower the local community with vocational education. In this program, students of Makwanpur Districts are provided scholarships to study Technical SEE course of 2.5 years in Balaju Technical Institute, Kathmandu. This will help the younger generation to get technical skills and employment within and outside Nepal. Your Company has contributed NR 0.69 million in such educational programs in 2074-2075.

# WINNING WITH BRANDS AND INNOVATION

## Lifebuoy - "Help a Child Reach 5"

Lifebuoy has always been a pioneer in promoting the lifesaving habit of handwashing with soap and helping people adopt daily habits that contribute towards it. Lifebuoy has been highly committed towards the global campaign – "Help a child Reach 5" and has adopted Lifebuoy Social mission by heart. Since the launch in the year 2014, social mission has impacted more than 25 lakh people. Further expediting the sustainability of the program through the route of public-private partnership in a collaborative approach, Lifebuoy Nepal partnered with various NGO/INGO (UWS, SNV) reaching out to newer geographies.

Consistently working on making a positive impact on Nepalese lives and equally being thoughtful on making the program sustainable and scalable, the public-private partnership was initiated. The campaign was structured around addressing the behavioural determinants of disgust, nurture, affiliation, routine and habits.

Lifebuoy 'School of 5' is targeted towards primary level students and is committed towards improvement of health and hygiene to save lives by educating primary school children about the importance of hand washing behaviour. The program focused on sanitation and hygiene by educating students on hand washing behaviour on 5 critical occasions under the 'School of 5' program. This year, 'Lifebuoy School of 5' reached out to Sankhwasabha district, 10 towns, 225 new schools with a total of 60 thousand plus contacts in a period of 2 month.

This campaign conducted through various media has the potential to benefit scores of people and is believed to be an initiation which champions the cause of making people adopt this simple life-saving habit of hand washing that will contribute significantly towards helping a child reach 5.

## Pepsodent Oral Hygiene

Pepsodent has been helping improve oral health on a global scale. In Nepal, Pepsodent has been working to constantly promote oral health with various activities like dental camps, school awareness programs, etc.

Every year, 20th March is celebrated as World Oral Heath Day on the initiation by the World Dental Federation (FDI). This year, World Oral Health Day got commemorated in Nepal through a variety of activities. The theme for the event this year was "Say Ahh: Think Mouth, Think Health" which encourages people to make the connection between their oral health and their general health and well-being.

On World Oral Health Day 2018, Nepal Dental Association in cooperation with Pepsodent, organized a mass rally from Khulla Manch along to Ratna Park, Kathmandu to raise awareness on this issue. The rally started from Khulla Manch and went around the surrounding areas. More than 500 people including Doctors, Dental Assistants, Dental Students from various dental colleges in Kathmandu, public and representatives of Your Company participated in this rally. This time Pepsodent and NDA went one step ahead and tied up with Bir Hospital to organize free dental check-ups as well.

## Superstar Dhamaka

The campaign was activated massively for each day of the month created as a calendar event happening in the same location on the same day in each month. Certain locations were identified in the Hilly areas of the nation where the growth prospect is high and consumer awareness is a must. Brands were thus activated in those areas with the key brand messages along with the few core messages like:

- Use the right product for right purpose
- Stay alert on Consumer Law
- Always use branded/labelled products bearing all mandatory information about the product

The campaign received a huge appreciation and accreditation from the locals and created lots of buzz in terms of trade, local media and not to mention the local population. The campaign had various famous artists of the nation advocating

and endorsing various Unilever brands namely Sunita Dulal, Milan Amatya, Dhiraj Rai, Anil Singh, Namrata Sapkota, Sanchita Luitel, Shreya Sotang, Subani Moktan, Mingma Sherpa, Musami Gurung, Sanjeev Singh.

## Closeup Love Fest- Spread the Love

February the month of love - Valentine's Day this year was celebrated with much fanfare and élan with the 2018 edition of the Closeup Love Fest, one of the most awaited festival and celebration of love, and this year it has proved to be a much more! Closeup, a leading toothpaste brand in Nepal, has been holding the popular Closeup Love Fest every year with exciting contests, games and extravaganza to create a special ambience for young couples, usually on the time around Valentine's Day at one of the popular malls in Nepal.

Entire activation was concluded through a main day mega event with various youth activities including live band, DJ zone, movie tickets, dance performances, couple activities, tarot card readings, open your heart - love message, etc. The event was driven on digital media through Facebook, Email and SMS.

This year live performances included famous artists like Laure (Ashish Rana), Swoopna Suman, Sabin Rai with Band, Shreya Sotang, Neetesh Jung Kunwar, Sabin and the Crew, Jyovan Bhuju, Mayavi Suraj, The Loading band etc. which easily won the hearts of the young couples and youth this season. Along with these fabulous artists/ bands, Closeup Love Fest has also become a platform for the aspiring performers from different colleges who are selected from many entries received. Closeup Love Fest, which is already a favorite annual Valentines event, closed its entry of love message contest on 10th February by announcing the top five (5) Samsung Galaxy smartphone winners.

## Closeup Movie Integration

The leading freshness brand in the Nepal, Closeup encourages people to move forward to act on their mutual desire and gives confidence to get closer. The movie Romeo and Muna, a love story of youngsters features popular actor Vinay Shrestha and actress Shristi Shrestha. The movie is conceptualized to win the hearts of the youths.

Closeup associated with the Movie not only in portions of the script but also supported the movie via its own channel and reach to as many audience possible. Closeup to leverage on various mediums to make the integration with Romeo & Muna talk of town. Various slots in the movie for integration showing Product placement of closeup, partial Closeup TVC on screen, scenes where people feel fresh breath.

## Pepsodent Gremicheck-Complete Transformation

Pepsodent Germicheck+, the leading oral care brand in Nepal, was re-launched this year. Objective of the re-launch was to land and build strong differentiating positioning bringing functional expertise back to the brand in Oral Care.

This superior mix was deployed in the market with an exciting 360º communication comprising of TVC, radio, press, POS materials, trade communication and outdoor display. The pack of New Pepsodent Germicheck+ Cavity Protection with Natural Clay – Activated Formula created a buzz with the re-launch.

## Lux Kamana Films Awards

Lux Kamana Film Awards 2074 is one of the prestigious film awards for Kollywood films, held on 3rd December 2017. This film award felicitated several talents of Nepali film industries.

With its exceptional packaging that highlights the superior fragrances through flowers and perfume logo, the Best Ever Lux kick starts your day with a fragrance bath. As a secret to the beauty of various renowned faces, its superior perfume bloom is filled with hundreds of flowers and its unique Floral Fusion™ Oil leaves your skin delicately and irresistibly perfumed. The very new look of the brand was activated in media through thematic television commercial, radio, innovative press ads, POS material trade communication and digital promotion.

## Liril Fresh Face- Fourth Season

Liril, a renowned soap brand in Nepal, has been reaching out to thousands of Nepali audiences through its reality show, Liril Fresh Face. Liril Fresh Face has been consumer engagement platform for many young and aspiring girls. This year was the fourth season and it's getting better and bigger. The show this year was more exciting for the viewers and more challenging for the participants.

Right from the auditions, the participants were put through three different tasks making the whole process more challenging and increasing the competition significantly in the race to win Rs.100,000 cash prize and Hero Duet Scooter while winning the title of winner of the fourth season of "Liril Fresh Face".

## Wheel 2 in 1 Launch

Nepali market has found new laundry soap for the new era with your Company's Wheel 2 in 1. Wheel 2 in 1 has deep cleaning power with the fragrance of thousands of flowers which leaves behind fresh smelling clean clothes. In order to inform the consumers about the brand-new Wheel 2 in 1 soap that gives deeply clean and extremely fresh smelling clothes, Unilever has launched a commercial campaign with popular Nepali Actors Priyanka Karki and Arpan Thapa.

The two talented actors are seen together for the first time on screen in this television commercial and has created a buzz in the country. With this soap, consumers will be able to leave behind old unbranded bar soaps and use Wheel 2 in 1, the new soap for the new era.

# WINNING IN THE MARKET PLACE

Your Company prides itself as having one of the widest distribution networks among FMCG companies in Nepal. Despite challenges of difficult terrain, and road connectivity Unilever Nepal has increased direct distribution over last year. Higher distribution is one of the key pillars in building sustainable growth for your company. With increased focus on technology and data analytics, your Company aims to build a cutting-edge Customer Development sales structure which will be our most important competitive edge in the country.

## Ramping up direct coverage

Your company significantly ramped up the number of customers serviced directly to boost availability of your Company's products across Nepal. By servicing customers in 50+ districts directly from our C&FA, we aim to create a sustainable and robust distribution network which lays a strong foundation for the years to come.

With the advent of Federalism in Nepal, the state governments will now focus on affordable housing, reliable power and improved infrastructure in the provinces. This will drive consumption growth in the provinces and your company's strong nation-wide distribution network will help gain more than fair share of this growth spurt.

## Service efficiency

To enhance the focus of core categories and increase penetration of future core portfolio, your Company has initiated 'split-servicing' in urban areas. In this case our portfolio is split into two groups and both are serviced separately to the retailer. This will maximize Unilever Nepal Limited's product availability across stores.

## Driving business with technology

Your company has invested in cutting edge technology to unlock massive efficiencies across the distribution chain. An advanced distributor billing system has been developed and rolled out in 90%+ business contributing customers. This system allows the salesman to capture orders from retailers using a mobile application. Intelligent analytics will power this application to assist the salesman in selling the right quantity of the right SKU at the right store. The distributor billing system further simplifies multiple processes for our customers and makes several rich reports available at the click of a button. This will aid our customers to improve business efficiency and identify opportunities for growth.

Capturing demand of the retailers at the right time is of paramount importance and your

company is piloting a mobile application through which retailers can directly place orders to their respective distributors. This lowers time to service any retailer and lowers stock out of our products in stores.

Through a network of merchandisers aided by a merchandiser app, we capture our product availability in key retail outlets. This information is critical in planning supply of our SKUs and replenishing them in stores.

This is the century of data analytics and your Company is ensuring we are well ahead of the curve with respect to data driven decision making in this country. This form and will remain one of our biggest competitive advantages in Nepal.

### Building a future ready sales team

Your Company has always invested in employees to equip them with the requisite skills through training exercises, and mentoring programs. Your Company has worked extensively to enhance the skills of employees in the sales function to make them future ready.

### Enhancing livelihoods

Our continued focus on the Project 'Hamri Didi – a rural direct-to-consumer retail distribution initiative', has empowered women in rural areas with enhanced livelihood opportunities. This year our execution partners have tied up with financial institutions increasing independence of our Hamri Didis. This project has significantly improved our product availability in Hills districts of Far West region of the country. Your Company will continue to uplift women across the country by empowering them with entrepreneurial opportunities to proudly distribute your Company's products in their villages.

## WINNING THROUGH CONTINUOUS IMPROVEMENT

The Supply chain function of your Company continues its vision of delivering "Outstanding Service with highest consumer perceived Quality at lowest Cost" amid severe Internal and External VUCA-Volatile, Uncertain, Complex & Ambiguous scenarios. This year, we sought to achieve this through Localization, Capacity enhancement, Cost Optimization, Engineering & Service Excellence, keeping our core values intact with respect to Safety, Quality & Sustainability.

### Safety, health & environment

Safety, a non-negotiable and basic requirement of working condition, remains our top-priority and the same was resonated through various initiatives undertaken this year.

Fire Alarm System upgraded to addressable system to strengthen the emergency preparedness plans. Concept of robust & improved occupational health of people associated with our operation has been extended to Third party operation, under which Dust Extraction system has been installed in one of our Third-party operation site-RMCN to minimize the particulate matter level in the working environment. Fire Hydrant loop upgraded by creating closed loop.

You Company was awarded the "Environment Friendly Industry Award 'twice in consecutive years of 2017 and 2018 by Ministry of Population & Environment, Nepal, for environmental excellence.

### Sustainability

Your Company strives to achieve sustainable growth by continuously reducing carbon footprint through various energy efficient projects. Under carbon footprint reduction and safety risk elimination plan, elimination of Caustic dilution operation and optimization of boiler operation to control Carbon/SOX emission by importing Noodles is under progress. Low Efficient Motors are replaced by High Efficient motors to avoid the energy losses. Focuses are given to reuse the Factory wastages, and hence under this factory wastages have been used for Hut making. Further other uses of factory wastages are being explored.

Rain water harvesting to reduce the underground water consumption, and Solar Power installation to reduce the carbon foot print are under plan.

### Capacity upgradation

Keeping in line with the increased market demand, various activities were taken at UNL and its 3Ps to upgrade our manufacturing capacity. NSD bar manufacturing capacity created at 3P-RMCN to localize & launch Wheel NSD bar. Vim bar Capacity upgraded at 3P-Unique and production of same activated at RMCN to cater increased market demand.

Further, we have robust Shampoo sachet expansion plan in place by setting up inhouse manufacturing capability at UNL Basamadi factory. We have plan to expand our locally manufactured product portfolio to new category-Food & Refreshment by creating inhouse manufacturing capability for tea. We also have plans to localize premium products of Face cream, facewash, conditioner, beauty soaps and lotion to support UNL's business by reducing imports.

### Engineering excellence

As a leader in adopting world class manufacturing technology, we are in continuous watch for the latest technological advances and engineering practices. As a reflection to this, Automatic and Robust Spout Feeding System has been installed in FAL 9G Big nose line to reduce man power requirement. 400 KVA online UPS installation lead to zero Power failure in packing lines and hence ensure smooth operation without any production losses due to power failure. Best Industrial maintenance practices have been implemented to upkeep our machines, it's efficiency and life. Human friendly, automated and high speed "Universal CoBOT" technology to be introduced in the end of packaging line for smoother and efficient operation. Further, we have plan to introduce Auto-batching Technology in Personal Product Batch making operation.

### Quality

Availability of Quality Product in the market has always been fundamental to our business. Our ambition is to grow our business by influencing consumers with our quality product. In pursuit of earning consumers love and for upgradation as per global standards, we have installed vision camera to prevent any defects in relation to PCRO, and barcode mismatch. For maintenance of plant Hygiene, we recently have Taskey inside the plant, and shop floor was coated with epoxy paint. We have introduced the concept of "Operators owned quality" by providing training to all the operators and executives to come up with the ownership in quality. Further, we are installing Check-Weighing Machine at the end of line to strengthen our quality competence and avoid shortage issue. To reduce the sales loss and having space constraint for finished goods, we are planning to install ATP method for microbial analysis.

### Cost optimization

An important aspect of business, Cost optimization enables us to cut the cost and add value for business growth. We considered alternate sourcing, smart negotiations, local vendor development, Product optimization and efficient manufacturing as the key areas to look for cost optimization. We have also successfully commissioned End of line Conveyor Interlocking, which lead to huge cost trimming. Utility cost has been minimized by importing soap noodles and optimizing Boiler operation. Further, we are also planning to optimize cost by setting up factory for Home care product in western part of Nepal. Work is under progress to build additional warehouse in the factory to avoid business loss due to lack material storage space. With localization of new and premium products, plan is in place to optimize manpower productivity by using existing manpower.

### Journey towards excellence in servicing

Availability of Quality Product in market in right quantity at right place at right time with high visibility to consumer is motto of the supply chain team. To abide by this motto, we have developed flexible end to end supply chain system to serve the products as the market demands. Flawless execution has always been the reason for immediate delivery of upgraded product during Launches, re-launches and localization of products. Further, we are in process to strengthen the service excellence by embracing WCM (World Class Manufacturing) System.

# WINNING WITH PEOPLE

We here in your Company are committed to build a robust talent and leadership pipeline which enables organisation to win in the diverse market. While driving our business, we are enabling present talent so that we are always future ready. We make sure that potentials of our people are unlocked, and their crafts are honed via mentoring and coaching. Learning is made accessible to all and a winning environment is created where leaders pass on their valuable expertise to the future leaders. As a positive change maker, we are assessing every opportunity where we can contribute back to the society via purposeful brands. We, at your Company, bring culture of appreciation to life to recognize employee efforts and help them grow professionally by taking charge of their own development to work, achieve and win together.

## Nurturing future leaders through capability building intervention

Capability building is one of the pillars of empowering employees of your Company and it is important for us to have readiness of future leadership of your Company within Nepal. The major focus has been shifted towards advance IT tools and techniques implementation in learnings for example learning portals like Degreed and Learning Hub and at the same sustaining learning philosophy of 70:20:10 which also comprises with short time assignments (STAs) in HUL which will help in bringing more outside expertise in to bring out the best in our employees. Skill Gap Analysis has been instrumental to understand the learning needs and developing the know-how of business operations of our human capital. In-house weekly trainings have been part of significant capability interventions where every learning session contributes towards enhancement of knowledge, skill and aptitude of the employees of your Company.

## Fostering a winning culture

In your Company, we are emphasizing on a winning culture that values strengths-based development. We are driving performance culture in your Company in terms of inculcating FRC's for performance evaluation and identification of high potential employees. To build a winning culture, we have refined on creating a women friendly workplace where every woman can experience secure, flexible and welcoming environment with options like work from home and flexible working policy where they can grow without limiting norms and at the same time deliver high performance. We are proud to adopt global operating philosophy of Unilever to have strength-based organization and employee centered policies to have a winning culture in your Company .

## Transforming Unilever Nepal - a great place to work

Your Company is growing, and we are in the continuous process of generating and retaining the confidence of our existing and future employees by being a great place to work in Nepal. The alignment of global best practices of Unilever are being inculcated in recruitment, performance culture and exit procedures along with other employee engagements. Campus drive is one of the important aspects of employer branding and we have been consistently connecting with premier management and engineering colleges of Nepal in the form of guest lectures, workshops, internship and factory visit programs respectively.

## Employee Relations- a new paradigm in industrial relations

Our employees are the foundation of the business who are our real assets and we have always believed in partnership approach in terms of working collaboratively with our employees. Consistent interaction and frequent communication are the key practices that we exercise in motivating and creating a sense of belongingness to the organization. The Labor Relation Committee(LRC) is active in terms of having regular connects with the labor union so that there is a smooth functioning in our Hetauda HPC factory. We have taken care of our employees in terms of providing social security benefits like PF, gratuity, Medical Insurance and life insurance along with relief funds wherever necessary at times of critical and life-threatening illness. We have stood by our employees during their crisis and Unilever ways of working has always motivated us to create a friendly, empowering and enriching experience for our employees.

# GOVERNANCE, COMPLIANCE AND BUSINESS INTEGRITY

The Legal function of the Company continues to be a valued business partner that provides solutions to protect your Company and enable it to win in the VUCA environment. Through its focus on creating 'value with values', the function provides strategic business partnership in the areas including product claims, legislative changes, combatting unfair competition, business integrity and governance.

The focus on litigation management continued during the year as also on combating unfair competition with a series of actions to protect your Company's Brands from counterfeits, look-alike and grey imports. Your Company is of the view that the menace of counterfeits can be effectively addressed if enforcement actions are supplemented with building awareness amongst the consumers of tomorrow. One of the key activities undertaken by your Company in this direction is propagating intellectual property awareness, particularly among school students and regulators. Your Company believes it is important to educate students on intellectual property and build awareness and understanding of the subject so that students start respecting intellectual property rights from a young age.

## Business integrity

Under its pillar of Business Integrity, your Company communicates its Code of Business Principles (Code) and Code Policies internally and externally. All Company employees are required to undertake mandatory annual training on our Code and Code Policies via online/offline training modules as well as take an annual business integrity pledge. Our Code and Code Policies extend through our entire value chain including our employees, contractors and third parties. Your Company also requires its third-party business partners to adhere to business principles consistent with its own. These expectations are set out in our Responsible Sourcing Policy (RSP) and Responsible Business Partner Policy (RBPP), which underpin our third-party compliance programme.

## Nepal Financial Reporting Standard (NFRS)

Your Company believes in the highest standards of corporate behaviour, which are laid out through a written Code of business principles for transparency & all statutory/legal compliance by the Company. In line with the same principle, the company had adopted Nepal Financial Reporting Standard (NFRS) for last 3 years.

## Dividend

The Board of Directors always believe in returning the value created from company's strong operations to its shareholders and have remained committed to high dividend payout policy for the upcoming future. The Board at their meeting held on 28th August 2018 recommended final dividend of Rs. 700/- per share on each equity share for the financial year ended on 16th July, 2018.

## Business risk & future outlook

As your Company march into the future, we remain committed to exceed expectations by delivering sustained, competitive, responsible and profitable growth. We believe it is imperative for us to stay true to what lies at the heart of our business through key building blocks of our success such as strong innovations, greater consumer value, increased market development and world class execution. We have tremendous opportunity to expand the business in Nepal and to capitalize on the economic growth agenda that awaits Nepal as a country. This growth opportunity is expected to attract intense competition and your Company is well poised to defend and expand its market leadership positions in a determined manner.

We not only leverage upon our access to world-class resources and research and development as being a part of your Company but also continuously focus upon the key building blocks of our success. We are therefore, optimistic about our growth prospects.

# APPRECIATIONS AND ACKNOWLEDGMENTS

Your Directors place on record their deep appreciation to employees at all levels for their hard work, dedication and commitment. The enthusiasm and unstinting efforts of the employees have enabled your Company to remain as industry leaders. The Board wishes to thank the Managing Director and his leadership team for their continued leadership excellence and leading the team during the difficult periods.

The Board places on record its appreciation for the support and co-operation your Company has been receiving from its suppliers, redistribution stockists, retailers, business partners and others associated with the company as its trading partners. Your Company looks upon them as partners in its progress and has shared with them the rewards of growth. It will be your Company's endeavour to build and nurture strong links with the trade based on mutuality of benefits, respect for and co-operation with each other, consistent with consumer interest.

Your Directors also take this opportunity to thank all Shareholders, Clients, Vendors, Banks, Government and Regulatory Authorities and Stock Exchanges, for their continued support.

As, Mr. Shankar lall Agrawal has resigned as Director, the Board would like to thank him for his contribution towards the Company and wishes him every success in his future endeavours.

On behalf of the Board

Pradeep Banerjee
Chairman
28th August 2018, Tuesday

## DIRECTORS

Mr. Pradeep Banerjee – Chairman
Mr. Ravi Bhakta Shrestha
Mr. Bharat Bahadur Thapa – Independent Director
Mr. Dev Bajpai
Ms. Priya Nair
Mr. Dinesh Thapar
Mr. Ashish Rai – Managing Director
Mr. Shankar Lall Agrawal

## COMPANY SECRETARY

Ms. Sonam Shrestha

## AUDITORS

CSC & Co., Chartered Accountants
Kathmandu, Nepal

## BANKERS

Standard Chartered Bank Limited
Bank of Kathmandu
Nepal State Bank of India
Rastriya Banijya Bank
Himalayan Bank Limited

## REGISTERED OFFICE & FACTORY

Basamadi, V.D.C - 5
P.O. Box-11, Hetauda
Dist. Makwanpur, Nepal
Tel: 977-57-411047

## CORPORATE OFFICE

Heritage Plaza II
Block C &D, 4th Floor
Kamaladi, Kathmandu
Tel:977-1-4169151
Fax: 977-1-4169153
GPO Box: 7765, Kathmandu, Nepal

## SHARE REGISTERED

Sunrise Capital Limited
Kamalpokhari
P. Box No. 12055
Tel: 977- 01- 4428550 / 4428660
Kathmandu, Nepal

# ADDITIONAL DISCLOSURE AS PER SECTION 109(4) OF THE COMPANIES ACT, 2063

1. Details of Share Forfeiture: -

   No shares have been forfeited till date.

2. Transactions with subsidiaries: -

   The company has no subsidiaries.

3. Information provided to the company by its substantial shareholders in the previous financial year: -

   Hindustan Unilever Limited, which is the majority shareholder, provided the company all information related to new product innovations, marketing mix, information on price movements of commodities, system related information and technology etc. No information was provided to the company by any other substantial shareholder.

4. Share Purchase by Directors and Officials of the company during the year: -

   Nil

5. Information received on the personal interest of Directors and their close relatives in any agreement / contract entered into by the Company: -

   Nil

6. Detail of share buyback during the year: -

   The company did not buy back its own shares during the year.

7. Details of internal control systems: -

   The internal control system of the company conforms to global standards and follows Unilever international guidelines. This includes:

   a. Operation Manuals, procedures and guidelines for systematic conduct of operations.
   b. Financial policy and accounting guidelines.
   c. Independent internal audit carried out by Deloitte Haskins & Sells LLP, India
   d. Periodic review of internal control systems by Management and Audit Committee.

8. Total Management expenses during the year:- NPR in Lakhs

   | | |
   |---|---|
   | Employee expenses during the full year | 1111.14 |
   | Administrative expenses during the fiscal year | 920.38 |

9. List of audit committee members, their remuneration and facilities:

   | Name | | Remuneration |
   |---|---|---|
   | Mr. Bharat Bahadur Thapa | ** | Chairman |
   | Mr. Ravi Bhakta Shrestha | ** | Member |
   | Mr. Dev Bajpai | ** | Member |

   During the year, the Audit Committee reviewed the internal audit report and the actions initiated for resolving the issues. Audit committee also reviewed the Business Risks status and reviewed the actions initiated by Management to mitigate & address such Business Risks. The audit committee reviewed annual accounts, significant accounting policies & notes to accounts, additional disclosure as per section 109(4) of the Companies Act, 2063 and preliminary statutory audit report issued by Statutory Auditors (CSC & CO.) and recommended their adoption by the Board of Directors.

   (**) During the year, a total amount of NPR 108,000 was paid as meeting fees to Mr. Bharat Bahadur Thapa & Mr. Ravi Bhakta Shrestha. Moreover, travel expenses of all Audit Committee members for attending the Audit Committee meetings are borne by the company whenever required.

10. Amount receivable by the company from Directors, Managing Director, substantial shareholders and their close relatives and associated firms, companies etc.: -

    Nil.

11. Remuneration, allowances and facilities given to Directors, Managing Director, Chief Executive Officer and Officials during the year:

NPR/ Lakhs

| S.N. | Particulars | Directors | MD | Managers/Officers/Staff |
|---|---|---|---|---|
| 1. | Meeting Fee | 3.11 | - | - |
| 2. | Salary & Allowances | - | 297.79 | 1533.05 |
| 3 | Car Facility | No | Yes | Yes |
| 4. | Accommodation | No | Yes | Note (b) |
| 5. | Insurance Coverage | No | No | Yes |
| 6. | Number of Persons | 6 | 1 | 230 |

**Notes: -**

a) Office car with driver, fuel and maintenance are provided to the Managing Director, Supply chain Manger, Finance Manager, Sales Manager and Legal Manager.

b) Unfurnished /Furnished rented accommodation or HRA provided to Expatriate Managers as per terms and conditions of employment of the individuals.

c) Travel expenses of the Directors, whenever required for attending the Board meetings, are borne by the company.

12. Unclaimed Dividends: -

    Total unclaimed dividend is NPR 277.91 lakhs as on Ashad 32nd, 2075.

13. Other matters required to be disclosed in the director's report by the Companies Act, 2063 or other laws in force: -

    Nil.

14. Other relevant issues: -

    Nil.

# UNILEVER NEPAL LIMITED
# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Unilever Nepal Limited**

## Report on the financial statements

We have audited the accompanying financial statement of Unilever Nepal Limited ("the Company"), which comprise the statement of financial position as at 16th July 2018, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Nepal Financial Reporting Standards (NFRSs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Nepal Standards on Auditing (NSA). 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company as on 16th July 2018 and its financial performance and cash flows for the year then ended in accordance with Nepal Financial Reporting Standards (NFRSs).

## Report on the requirements of Company Act 2063

We have obtained all information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit. In our opinion, the statement of financial position, profit or loss, other comprehensive income, changes in equity and cash flows have been prepared in accordance with the provisions of Company Act 2063 and conform to the books of accounts of the company and the books of accounts and records are properly maintained in accordance with the prevailing laws.

During the course of our audit, we did not come across the cases where the Board of Directors or the representative or any employee of the company has acted deliberately contrary to the provisions of the law or caused loss or damage to the company or misappropriated funds of the company, nor have we been informed of any such case by the management.

Madan Krishna Sharma
Partner
CSC & Co.
Chartered Accountants

Place: Kathmandu
Date: 28 August, 2018

# STATEMENT OF FINANCIAL POSITION

As at 32 Ashad, 2075 (16th July 2018)

Figures in NPR

| | Note | 2074-75 | 2073-74 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 3 | 636,573,693 | 563,340,715 |
| Intangible assets | 4 | 15,917,174 | 1,930,731 |
| Deferred tax assets | 6 | 1,533,353 | 15,949,220 |
| Other non-current assets | 7 | 4,063,414 | 593,001 |
| **Total Non-Current Assets** | | **658,087,634** | **581,813,667** |
| **Current assets** | | | |
| Inventories | 8 | 751,736,499 | 620,025,639 |
| **Financial assets** | | | |
| Trade and other receivables | 9 | 605,258,341 | 680,278,067 |
| Investments | 5 | 834,437,122 | 1,160,493,610 |
| Cash and cash equivalents | 10 | 303,713,920 | 241,736,744 |
| Bank balance other than CCE | 11 | 47,071,799 | 34,892,484 |
| **Other current assets** | | | |
| Prepayments | | 2,735,882 | 2,588,198 |
| **Total current assets** | | **2,544,953,563** | **2,740,014,742** |
| **Total assets** | | **3,203,041,197** | **3,321,828,409** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 12 | 92,070,000 | 92,070,000 |
| Retained earnings | 13 | 1,811,406,700 | 1,982,201,113 |
| **Total Equity** | | **1,903,476,700** | **2,074,271,113** |
| **Liabilities** | | | |
| **Non-Current Liabilities** | | | |
| Provisions | 14 | 11,144,079 | 12,948,402 |
| **Total Non-Current Liabilities** | | **11,144,079** | **12,948,402** |
| **Current Liabilities** | | | |
| **Financial liabilities** | | | |
| Trade and other payables | 15 | 976,914,723 | 1,019,448,347 |
| Provisions | 14 | 278,918,919 | 160,332,004 |
| Income Tax Liability | 22 | 32,586,776 | 54,828,543 |
| **Total Current Liabilities** | | **1,288,420,418** | **1,234,608,894** |
| **Total Liabilities** | | **1,299,564,497** | **1,247,557,296** |
| **Total Equity and Liabilities** | | **3,203,041,197** | **3,321,828,409** |

This is the same statement of financial position referred to our report of even date attached

**Pradeep Banerjee**
Chairman

**Ravi Bhakta Shrestha**
Director

**Ashish Rai**
Managing Director

**Madan Krishna Sharma**
Senior Partner
CSC & Co.
Chartered Accountants

**Dinesh Thapar**
Director

**Bharat Bahadur Thapa**
Independent Director

**Abhishek Jindal**
Chief Finance officer

**Priya Nair**
Director

**Dev Bajpai**
Director

**Sonam Shrestha**
Company Secretary

# PROFIT OR LOSS STATEMENT

for the year ended 32 Ashad 2075 (16th July 2018)

Figures in NPR

| | Note | For the year 2074-75 | For the year 2073-74 |
|---|---|---|---|
| Revenue from operations | 16 | 4,868,313,101 | 4,442,374,517 |
| Other income | 17 | 487,324,225 | 626,332,010 |
| **TOTAL INCOME** | | **5,355,637,326** | **5,068,706,527** |
| **EXPENSES** | | | |
| Cost of materials consumed | 18 | 2,558,943,560 | 2,391,981,811 |
| Changes in inventories of finished goods (including stock-in-trade) and work-in-progress | 19 | (4,431,722) | (108,979,198) |
| Employee benefits expenses | 20 | 369,269,061 | 347,298,786 |
| Depreciation and amortisation expenses | 3,4 | 45,092,056 | 32,986,701 |
| Other expenses | 21 | 1,056,948,286 | 1,144,723,099 |
| **TOTAL EXPENSES** | | **4,025,821,241** | **3,808,011,199** |
| **Profit before tax** | | **1,329,816,085** | **1,260,695,328** |
| Income Tax Expense | 22 | (330,438,541) | (295,465,022) |
| **Profit from continuing operations** | | **999,377,544** | **965,230,306** |
| **Net Profit for the year** | | **999,377,544** | **965,230,306** |
| Basic and Diluted Earnings per share | 24 | 1,085 | 1,048 |

This is the same statement of financial position referred to our report of even date attached

**Pradeep Banerjee**
Chairman

**Ravi Bhakta Shrestha**
Director

**Ashish Rai**
Managing Director

**Madan Krishna Sharma**
Senior Partner
CSC & Co.
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Chief Finance officer

**Priya Nair**
Director

**Dev Bajpai**
Director

**Sonam Shrestha**
Company Secretary

# STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 32 Ashad 2075 (16th July 2018)

Figures in NPR

| | Note | 2074-75 | 2073-74 |
|---|---|---|---|
| **Net Profit for the year as per Statement of Profit of Loss** | | 999,377,544 | 965,230,306 |
| **Other comprehensive Income not to be reclassified to profit or loss in subsequent periods** | | | |
| Acturial Gain/(Loss) on defined benefit pension schemes | 25 | 123,443 | (833,833) |
| **Other comprehensive gain/(loss) for the year, net of tax** | | 123,443 | (833,833) |
| **Total Comprehensive gain/(loss) for the year, net of tax** | | 999,500,987 | 964,396,473 |

**Pradeep Banerjee**
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Director

**Dev Bajpai**
Director

**Sonam Shrestha**
Company Secretary

# STATEMENT OF CASH FLOWS

for the year ended 32 Ashad 2075 (16th July 2018)

Figures in NPR

| | Note | 2074-75 | 2073-74 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit for the year | | 999,377,544 | 965,230,306 |
| Adjustments for: | | | |
| Income tax during the year | 22 | 330,438,541 | 295,465,022 |
| Depreciation on property, plant and equipment | 3 | 42,586,621 | 32,515,058 |
| Amortization of Intangible Assets | 4 | 2,505,435 | 471,646 |
| Allowance for inventory obsolescence | 8 | 3,482,042 | 12,529,855 |
| Provision for employee benefits | 14 | (2,365,266) | 1,769,509 |
| Other provisions | 14 | 119,271,301 | 116,142,887 |
| Provision for Bonus | 20 | 147,757,343 | 118,945,302 |
| Finance income | 17 | (76,483,790) | (50,646,805) |
| Fixed Assets W/Off | 21 | - | 4,793,911 |
| Loss/ (gain) on sale of Property, plant and equipment | 17 | 59,472 | (361,583) |
| Working capital adjustments: | | | |
| Increase/ (decrease) in Trade & Other receivables | 9 | 75,019,726 | (383,211,779) |
| Increase/ (decrease) in Other non-current assets | 7 | (3,470,413) | (593,001) |
| Increase/ (decrease) in prepayments | | (147,684) | (436,749) |
| Increase/ (decrease) in Inventories | 8 | (135,192,902) | 42,135,197 |
| Increase / (decrease) in trade and other payables | 15 | (65,117,720) | 69,655,664 |
| **Cash generated from operations** | | **1,437,720,250** | **1,224,404,439** |
| Bonus paid | | (118,945,302) | (77,509,835) |
| Income Tax Paid | | (338,264,441) | (289,728,859) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | | **980,510,507** | **857,165,745** |
| **CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES** | | | |
| Proceeds from sale of Property, Plant and Equipment | | - | 361,583 |
| Interest Received | | 74,440,278 | 49,574,829 |
| Acquisition of Property, plant and Equipment | 3 | (115,879,071) | (120,749,174) |
| Purchase of Intangibles | 4 | (16,491,878) | (212,000) |
| Decrease/(increase) in Investment on FD | | 328,100,000 | (122,650,000) |
| Decrease/(increase) in Bank balance other than CCE | | (12,179,315) | (6,542,914) |
| Expenses towards employees' housing reserve | | (1,006,400) | - |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **256,983,614** | **(200,217,676)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividend paid | | (1,175,516,946) | (932,777,491) |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | **(1,175,516,946)** | **(932,777,491)** |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **61,977,176** | **(275,829,421)** |
| **CASH AND CASH EQUIVALENTS, Beginning of Year** | 10 | **241,736,745** | **517,566,166** |
| **CASH AND CASH EQUIVALENTS, End of Period** | 10 | **303,713,920** | **241,736,745** |

This is the same statement of financial position referred to our report of even date attached

**Pradeep Banerjee**
Chairman

**Ravi Bhakta Shrestha**
Director

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Managing Director

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Chief Finance officer

**Priya Nair**
Director

**Dev Bajpai**
Director

**Sonam Shrestha**
Company Secretary

# STATEMENT OF CHANGES IN EQUITY

for the year ended 32 Ashad 2075 (16th July 2018)

Figures in NPR

| | Share capital | Employees' Housing reserve | Retained earnings | Total |
|---|---|---|---|---|
| **Balance at 1 Shrawan 2073** | **92,070,000** | **725,776,497** | **1,231,142,143** | **2,048,988,640** |
| Profit for the year | - | - | 965,230,306 | 965,230,306 |
| Other comprehensive income | - | - | (833,833) | (833,833) |
| **Total comprehensive income** | **-** | **-** | **964,396,473** | **964,396,473** |
| Transfer to Employees' Housing Reserve | | 71,289,228 | (71,289,228) | - |
| Dividends to shareholders | - | - | (939,114,000) | (939,114,000) |
| **Balance at 31st Ashad 2074** | **92,070,000** | **797,065,725** | **1,185,135,388** | **2,074,271,113** |
| Profit for the year | - | - | 999,377,544 | 999,377,544 |
| Other comprehensive income | - | - | 123,443 | 123,443 |
| **Total comprehensive income** | **-** | **-** | **999,500,987** | **999,500,987** |
| Transfer to Employees' Housing Reserve | - | (1,006,400) | - | (1,006,400) |
| Dividends to shareholders | - | - | (1,169,289,000) | (1,169,289,000) |
| **Balance at 32nd Ashad 2075** | **92,070,000** | **796,059,325** | **1,015,347,375** | **1,903,476,700** |

This is the same statement of financial position referred to our report of even date attached

**Pradeep Banerjee**
Chairman

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Director

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Director

**Dev Bajpai**
Director

**Sonam Shrestha**
Company Secretary

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNT

for the year ended 32 Ashad 2075 (16th July 2018)

**1. Corporate information**

Unilever Nepal Limited ("Company") is a public limited company, incorporated under the Company Act, 2063 of Nepal and listed in the Nepal Stock Exchange Ltd. The registered office of the Company and the principal place of business are located at Basamadi VDC-5, Makwanpur, Nepal.

The main objectives of the Company are to manufacture, sell and distribute Detergents, Scourers, Laundry Soaps, Toilet Soaps and Personal and Beauty Care Products.

**2. Significant Accounting Policies**

**2.1 Basis of Preparation**

**2.1.1 Statement of compliance**

The financial statements have been prepared in accordance with applicable Nepal Financial Reporting Standards (NFRS) as issued by the Institute of Chartered Accountants of Nepal (ICAN). The Financial Statements have also been prepared in accordance with the relevant presentational requirements of the Company Act, 2063 of Nepal.

**2.1.2** The Financial Statements are authorized for issue by the Board of Directors on 28th August 2018.

**2.1.3 Going concern**

The financial statements are prepared on the assumption that the Company is a going concern.

**2.1.4 Basis of measurement**

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

- Defined benefit scheme, surpluses and deficits are measured at fair value.

**2.1.5 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 assumptions 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) Provision for employee benefits**

The cost of the defined benefit plans, other long-term employment benefits and the present value of such obligations 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.

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 Nepal Assured Lives Mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country. Further details about Employee benefit obligations are given in note 2.2.15, note 14, note 25 and note 25a.

**b) Recognition of deferred tax assets**

Deferred tax assets are recognized for unused tax losses and taxable temporary difference to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized,

based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Company has based its assumptions and estimates on parameters available when the financial statements are 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. Further details about deferred tax are given in note 2.2.16 and note 6.

**c) Provision for depreciation and amortization**

Depreciation and amortization is calculated over the estimated useful lives 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 end and adjusted prospectively, if appropriate.

The Company has based its assumptions and estimates on parameters available when the financial statements are 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.

**2.1.6 Functional and presentation currency**

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

**2.1.7 Capital Management**

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the company.

The Company manages its capital so as to safeguard its ability to continue as a going concern and to optimize returns to the shareholders. The capital structure of the Company is based on management's judgment of the appropriate balance of key elements in order to meet its strategic and day-to-day needs. We consider the amount of capital in proportion to risk and manage the capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company aims to translate profitable growth to superior cash generation through efficient capital management. The Company's policy is to maintain a stable and strong capital structure with a focus on total equity so as to maintain investor, creditor, and market confidence and to sustain future development and growth of its business. The Company's focus is on keeping strong total equity base to ensure independence, security, as well as a high financial flexibility for potential future borrowings, if required, without impacting the risk profile of the Company. The Company will take appropriate steps in order to maintain, or if necessary adjust, its capital structure.

The management monitors the return on capital as well as the level of dividends to shareholders. The Company's goal is to continue to be able to return excess liquidity to shareholders by continuing to distribute dividends in future periods.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31st Ashad 2075 and 2074.

**2.1.8 Recent Accounting Developments**

There are no recent accounting developments which has impact on the financial statements of the Company.

**2.2 Significant accounting policies and Notes to accounts**

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated. The presentation 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 disclosed.

**2.2.1 Impairment of non- financial assets (excluding inventories and deferred tax assets)**

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash generating units exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is also done for whether there is any indication that an impairment loss recognized for an asset in prior accounting periods may no longer exist or may have been decreased. If any such indication exists the asset's recoverable amount is estimated. The carrying amount of the fixed asset is increased to the revised estimate of its recoverable amount such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

Impairment loss or reversal are included in profit or loss, except to the extent they reverse gains/loss previously recognized in other comprehensive income.

**2.2.2 Foreign Currency Transactions**

Transactions entered into by the Company in a currency other than the currency of primary economic environment in which it operates are recorded at the rates ruling when the transactions occur. Exchange differences arising on foreign currency transactions settled during the year are recognized in the Statement of Profit or Loss. Unsettled foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss statement.

The Company uses forward exchange contracts to hedge against its foreign currency exposures relating to the firm commitments. The Company does not enter into any derivative instruments for trading or speculative purposes. Differences between the forward exchange rates and the exchange rates at the end of the reporting date are recognized as income or expense at the end of the reporting date. Profit/loss arising on cancellation or renewal of forward exchange contracts is recognized as income/expense for the period.

**2.2.3 Property, plant and equipment**

Items of property, plant and equipment are initially measured at cost. Cost includes the purchase price and other directly attributable costs up to the commissioning/ available for use of property, plant and equipment. Cost also includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Subsequently property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Tangible assets not ready for the intended use on the date of Balance Sheet are disclosed as "Capital work-in-progress".

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and recognized immediately in statement of profit or loss

**2.2.4 Depreciation**

Freehold land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write-off their depreciable amount over the expected useful economic lives.

Depreciation is provided on a pro-rata basis on the straight-line method based on the estimated useful life of the assets determined by the management.

The estimate useful lives and corresponding rates at which the assets are depreciated are as follows:

| Particulars | Useful Life (Years) | Depreciation Rate (%) |
|---|---|---|
| Building | 40.00 | 2.50 |
| Plant and Machinery | 14.29 | 7.00 |
| Office Equipment | 14.29 | 7.00 |
| Furniture and Fixtures | 14.29 | 7.00 |
| Motor Vehicles | 6.67 | 15.00 |
| Computer Accessories | 5.00 | 20.00 |

### 2.2.5 Lease

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

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 taken to the profit or loss statement over the lease term.

The Company is both a lessee and a lessor under operating lease arrangements. Payments and receipts under such leases are charged or credited to the Statement of Profit and Loss on a straight-line basis over the primary period of the lease

**Lease rental expense:** The Company leases office premises, residential apartment and godown space under operating leases from various parties. These leases typically run for a period of 1 to 5 year with an option to renew with the mutual consent after the expiry of initial leaser term. Future minimum rentals payable under non-cancellable operating leases as at balance sheet date are, as follows:

Figures in NPR

| Period | As at 16th July 2018 | As at 15th July 2017 |
|---|---|---|
| Less than one year | 33,717,305 | 28,203,563 |
| One year to five years | 55,715,797 | 44,279,322 |
| More than five years | 29,101,875 | 33,484,688 |
| **Total** | **118,534,977** | **105,967,573** |

### 2.2.6 Intangible Assets

Intangible assets are stated at acquisition cost, net of accumulated amortization and accumulated impairment losses, if any.

Purchased computer software licenses are capitalized on the basis of cost incurred to acquire and bring to use the software. These costs are amortized over the estimated useful life of 5 year.

### 2.2.7 Production at Third Party Manufacturing Locations

The Company has made arrangements for manufacturing of its licensed products with other third-party manufacturers against payment of fixed conversion cost only. The purchase value of materials, conversion cost paid to such manufacturers and stock of inventories (material as well as finished goods) related to such activities has been accounted for in the books of the Company.

### 2.2.8 Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. The losses arising from impairment are recognized in the statement of profit or loss.

### 2.2.9 Inventories

Inventories are initially recognized at cost and subsequently at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition is accounted as follows:

| | | |
|---|---|---|
| Raw Material | - | At actual cost on weighted average basis |
| Packing Material | - | At actual cost on weighted average basis |
| Promotional Material | - | At actual cost on weighted average basis |
| Finished goods | - | At the cost of raw materials, packing materials, a proportionate share of fixed and variable production overheads incurred in bringing the inventories to their present location and condition |
| Work in Progress | - | At the cost of raw materials, packing materials, a proportionate share of fixed and variable production overheads incurred in bringing the inventories to their present location and condition |
| Consumables & Spares | - | At actual cost on weighted average basis. |
| Goods in Transit | - | At actual cost |

Full provision is made for an obsolete stock that cannot be used or is damaged or defective or cannot be sold in the market. Provision is adjusted in the income statement to the extent of usage of obsolete inventory in the period of its usage

### 2.2.10 Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statements, cash and cash equivalents consist of cash in hand and balance in banks

### 2.2.11 Impairment of financial assets

The carrying amounts of the Company's financial 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. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the profit or loss statement.

### 2.2.12 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.

### 2.2.13 Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. Based on the nature of products and the time between acquisition of assets for processing and their realization in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current/non-current classification of assets and liabilities.

The Company classifies an asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle,
- Held primarily for the purpose of trading,
- 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.

The Company classifies a liability as current when:

- It is expected to be settled in normal operating cycle,
- It is held primarily for the purpose of trading,
- 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.

### 2.2.14 Employment Benefits

The Company has schemes of employment benefits namely provident fund, employee gratuity, other retirement benefit and accumulate leave payable as per employee service manual.

**Defined contribution schemes**

Contributions to defined contribution schemes (Provident fund) are charged to the profit or loss statement in the year to which they relate as the company has no further defined obligations beyond monthly contributions. Contributions to defined contribution schemes for local employees are deposited with Employees Provident Fund (Karmachari Sanchaya Kosh).

Contributions to provident and pension funds of managers seconded from Hindustan Unilever Limited are paid into the provident/pension fund maintained by Hindustan Unilever Limited. Contributions to defined contribution schemes such as provident fund are charged to the income statement as incurred.

As per the provision of new Labor Act enacted and effective from September 4, 2017, gratuity plan has been converted into contribution plan from defined benefit plan. Contribution of 8.33% of basic salary needs to be

deposited on monthly basis to the separate Social Security Fund. Total gratuity obligation calculated as per previous labor act till the transition date also needs to be deposited to the Social Security Fund. As on date, the procedure for depositing in social security fund has not been finalized by the Government of Nepal, so the Company has set aside net obligation amount (net of fund balance in CIT) as statutory dues payable in current liabilities.

**Defined benefit schemes - Other retirement benefits scheme**

The Company provides for defined benefits in the form other retirement benefits. The Company's liability towards such defined benefit plans is determined based on valuations, as at the Balance Sheet date, made by independent actuaries using the projected unit credit method discounted to its present value using yields available on Government bonds.

Interest is calculated by applying the discount rate to the defined benefit obligation. The Company recognizes the following changes in the defined benefit obligation to the profit or loss statement:

- Service costs comprising current service costs and past-service costs
- Interest expenses

Any changes in the liabilities over the year due to changes in assumptions or experience within the scheme, are recognized in other comprehensive income in the period in which they arise.

The classification of the Company's net obligation into current and non- current is as per the actuarial valuation report.

Other retirement benefit is an unfunded scheme where a fixed amount is paid at the time of the separation. This fixed amount to be paid is determined on basis of years of service and only applicable to the shop floor workmen who has completed at least 5 years of service.

**Other long-term employment benefits**

Employees have a statutory entitlement to payment of 90 days cash equivalent of accumulated un-availed home leave and accumulated leave excess of 90 days will be encashed while in service. Also employee have a statutory entitlement to payment of 45 days cash equivalent of accumulated sick leave and accumulated sick leave excess of 45 days will be encashed while in service. The obligation is calculated using the projected unit credit method and is discounted to its present value using yields available on Government Bond. Service cost, interest cost and actuarial gain/loss are recognized in the profit or loss statement.

**2.2.15 Taxation**

**Income Tax**

Income tax on the profit or loss for the year comprises current taxes and deferred taxes. Income tax is recognized in the profit or loss statement except to the extent that it relates to items recognized directly to equity.

**Current tax**

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.

***Income tax rates applicable to company:***

Income from Manufacturing and sale of goods: 20% (2073/74: 20%)
Income from Service Charges on ELIDA Sales/access fees: 25% (2073/74: 25%)

The Company has availed the rebate of 15% on tax liabilities on Income from Manufacturing and sale of goods under section 11 (3 chha) of Income Tax Act, 2058.

**Deferred tax**

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected realization or settlement of the carrying amount of assets and liabilities using tax rates at the balance sheet date.

The principal temporary difference arises from depreciation of fixed assets, provision for Variable Pay Allowance (VPA), provision for one-time retirement benefit, provision for leave encashment, allowance for inventory obsolescence and other provision.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**2.2.16 Trade and other payables**

Trade and other payables are initially recognized at fair value and subsequently carried at amortized cost. The carrying amount is considered as approximate fair value due to short maturity of these instruments.

**2.2.17 Revenue Recognition**

The following specific criteria are used for the purpose of recognition of revenue.

***Sale of Goods***

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, the Company retains no effective control of the goods transferred to a degree usually associated with ownership and no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of goods.

Significant risk and rewards of ownership is transferred upon the products leaving the carrying and forwarding agent (C&FA) and/or factory and/or establishment from which the products are being sold. However, for ensuring more efficient transportation of products, the company at the request of the customer for economies on freight, has arranged transportation for delivery of the products to the premises of the customer. In such event, it is agreed with the customer that the title to the products shall be deemed to have passed on to the customer upon delivery of the products by the company to the transporter, and this date shall be the date of delivery of the products being sold at ex-depot.

Sales are recognized net of trade discounts, price reduction, and indirect coverage subsidy, rebates, Incentives, sales taxes and excise duties (on goods manufactured and outsourced).

***Service Charges on ELIDA Sales***

Income from services rendered is recognized based on agreements/arrangements with the customers as the service is performed using the proportionate completion method when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service and is recognized net of value added tax.

Income earned from rendering Management & Marketing services to a private limited company in Nepal for marketing and selling Unilever products is recognized on rendering of the services and grouped under the Other Income as 'Service Charges on ELIDA Sales'. The company incurs some cost for generating this income but the costs are embedded with regular operating costs of the company.

***Other income- Access fees***

Income from access fees is recognized based on agreements/arrangements with the customers on accrual basis when no significant uncertainty exists regarding the amount of the consideration that will be derived and is recognized net of value added tax.

Access fees is earned from granting right to access to the distribution network of Unilever Nepal Limited to a private limited company for the marketing and distribution of Unilever products imported from other countries as manufactured and/or marketed by holding company of UNL and/or any parent group companies of UNL. This income is recognized based on sales made to UNL distributor by the private limited company.

***Interest Income***

Interest income is recognized on the time proportion basis

**2.2.18 Expenses**

**Operating lease payments**

Payments made under operating leases are recognized in the profit or loss statement on a straight-line basis over the term of the lease.

**Staff quarters**

Staff quarter is accounted in accordance with the provisions of Labor Act, 2048. There is no requirement of allocating fund for staff quarters as per the provision of new Labor Act enacted and effective from September 4, 2017.

**Staff bonus**

Staff bonus is accounted in accordance with the provisions of the Bonus Act, 2030. The Company has calculated and charged the staff bonus as below: -

Figures in NPR

| Particulars | 2074-75 |
|---|---|
| Profit before Tax (PBT) | 1,329,816,086 |
| Add: Bonus allocation included in PBT | 147,757,343 |
| Less: Appropriation to Employees' housing reserves | - |
| **PBT for bonus calculation** | **1,477,573,429** |
| **Bonus @ 10%*** | **147,757,343** |

* Till previous year, bonus was calculated @ 9.09% of PBT.

**Provision for Corporate Social Responsibilities (CSR)**

CSR expenses is accounted as per Industrial Enterprises Act 2016 (2073 BS) (the "Act") introduced with effect from November 22, 2016 repealing the Industrial Enterprises Act 1992 (2049 BS) (the "Previous Act").

Section 48 of Industrial Enterprises Act 2016 (2073 BS) makes it mandatory to allocate 1% of the annual profit to be utilized towards corporate social responsibility (the "CSR Requirement").

The fund created for CSR is to be utilized on the basis of annual plans and programs but in the sectors that are prescribed in the rules framed under the Act however, such sectors are yet to be specified by the rules. The progress report of the utilization of the fund collected for CSR is required to be submitted to the relevant government authorities within three months from expiry of the financial year.

The Company has calculated and allocated CSR as required by Industrial Enterprises Act 2016 (2073 BS) as below: -

Figures in NPR

| Particulars | 2074-75 |
|---|---|
| Profit before Tax (PBT) | 1,329,816,086 |
| Add: Actual CSR expenses excluding CSR allocation as per Industrial Enterprise Act | 1,127,099 |
| Add: CSR allocation as per Industrial Enterprise Act | 13,443,871 |
| **PBT for CSR provision** | **1,344,387,055** |
| **CSR allocation as per Industrial Enterprise Act @ 1%** | **13,443,871** |

**Auditors' remuneration and expenses**

Figures in NPR

| Particulars | 2074-75 |
|---|---|
| Statutory Audit fees | 425,000 |
| Tax audit fees | 210,000 |
| Group reporting audit fees | 190,000 |
| Fees for other audit related services | 439,800 |
| Reimbursement of out-of-pocket expenses | 816,600 |
| | **2,081,400** |

**2.2.19 Related Party Transactions:**

***(a) Relationship***

The company is controlled by Hindustan Unilever Limited which owns 80% of the company's shares. Sibkrim Land and Industrial Pvt. Ltd holds 5% of the company's share and remaining 15% of shares are widely held by general public.

| Relationship | Related Parties |
|---|---|
| Holding Company | Hindustan Unilever Ltd. |
| Ultimate Holding Company | Unilever PLC |
| Fellow and Group Subsidiaries | Unilever India Export Limited<br>PT. Unilever Oleochemical, Indonesia<br>Unilever UKCR limited, UK<br>Unilever N.V, Netherland<br>Unilever Asia Pvt. Ltd. |
| Significant Influence | Sibkrim Land Ind. Co. (Pvt.) Ltd. |
| Company with a common director | National Soaps Industries (Pvt.) Ltd. |
| Key Management Personnel | Suyash Chauhan<br>(Resigned w.e.f November-17)<br>Ashish Rai (Joined w.e.f. November 2017) |

***(b) Transactions with key management personnel***

***Key Management Personnel compensation***

Figures in NPR

| Particulars | Current Year | Previous Year |
|---|---|---|
| Short-term employee benefits | 29,779,035 | 22,257,602 |
| Post-employment benefits | Nil | Nil |
| Other long-term benefits | Nil | Nil |
| Termination benefits | Nil | Nil |
| Share based payment | Nil | Nil |

Note: - The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel. Also, the liabilities for leave encashment are provided on an actuarial basis for the company, so the amounts pertaining to the key management personnel are not included above.

***(c) Other related party transactions***

Figures in NPR

| Particulars | | Transactions | | Outstanding Balance | |
|---|---|---|---|---|---|
| | | Current Year | Previous Year | Current Year | Previous Year |
| Holding company (HUL) | Royalty | 110,918,303 | 96,840,251 | 94,278,699 | 82,314,213 |
| | Dividend | 935,431,200 | 751,291,200 | - | - |
| Ultimate holding company (Unilever PLC) | Royalty | 24,303,474 | 19,196,325 | 20,657,953 | 32,595,122 |
| Fellow and Group Subsidiaries | Purchase of Raw Materials from Unilever India Export Limited | 3,658,849 | 9,077,050 | - | - |
| | Purchase of Raw Materials from PT. Unilever Oleochemical | 16,066,923 | 18,926,512 | - | - |
| | Debit note for Training programme to Marketers from Unilever UKCR limited, UK | - | 165,095 | - | 165,095 |
| | Debit note from Unilever N.V, Netherland for MCIP investment by ex-MD | - | 1,836,005 | - | 1,836,005 |
| Company with a common director | Processing Charges to National Soaps Industries (Pvt.) Ltd | 462,099 | - | - | - |

***Terms and conditions of transactions with related parties***

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 16th July 2018, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

**2.2.20 Provisions and Contingencies**

Provisions are recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and there is a reliable estimate of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the Balance Sheet date and discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability. These are reviewed at each year end date and adjusted to reflect the best current estimate.

Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount cannot be made.

All the contingent liabilities and the guarantees given by the Company to the third parties are disclosed in the notes to the financial statements.

***Contingent Liabilities:***

***a. Unexpired Letters of Credits and acceptance***

Unexpired irrevocable letter of credit NPR 75,559,454 and acceptance outstanding NPR 76,200,158 (2073-74 NPR 100,731,393 and NPR 110,798,111, respectively).

***b. Income tax matters***

The Large Taxpayers Office ("LTO") has opened self-assessment returns filed by the Company for the financial years 2065-66, 2066-67, 2067-68, 2068-69, 2069-70 and 2070-71. Detail of the same is as below:

Figures in NPR

| Fiscal Year | Case lying at | Additional Demand | Recognised as Contingent Liability |
|---|---|---|---|
| 2008-09 (2065/66) | Administrative Review, IRD | 6,240,590 | 5,905,806 |
| 2009-10 (2066/67) | Administrative Review, IRD | 73,890,673 | 71,803,880 |
| 2010-11 (2067/68) | Administrative Review, IRD | 96,945,591 | 74,018,627 |
| 2011-12 (2068/69) | Administrative Review, IRD | 90,444,408 | 69,729,814 |
| 2012-13 (2069/70) | Administrative Review, IRD | 33,320,920 | 6,683,130 |
| 2013-14 (2070/71) | Large Tax Payer Office (LTO) | 64,676,170 | 16,848,096 |
| **Total** | | **365,518,352** | **244,989,353** |

***c. Value Added Tax (VAT) Matters***

The Company has filed appeals with the Administrative Review for additional demand raised by the LTO on account of VAT for the financial years 2065-66, 2066-67, 2067-68, 2069-70 and 2070-71. Detail of the same is as below:

Figures in NPR

| Fiscal Year | Case lying at | Additional Demand | Recognised as Contingent Liability |
|---|---|---|---|
| 2008-09 (2065/66) | Administrative Review, IRD | 3,690,349 | 2,648,951 |
| 2009-10 (2066/67) | Administrative Review, IRD | 6,169,181 | - |
| 2010-11 (2067/68) | Administrative Review, IRD | 5,828,399 | - |
| 2012-13 (2069/70) | Administrative Review, IRD | 14,598,453 | - |
| 2013-14 (2070/71) | Large Tax Payer Office (LTO) | 1,478,210 | - |
| **Total** | | **31,764,592** | **2,648,951** |

***d. Employees Bonus Matters***

The management had filed a writ petition with the Hon Supreme Court against the verdict of Labor Court on a case filed by the workmen union opining that the provisions for employees' bonus is not made in accordance with the law resulting in lower distribution of bonus to employees. The Company had contested that it has been making the provisions for Employees bonus as per the relevant law. This writ petition has been rejected by the Supreme Court, Company is still awaiting final order from the Supreme Court.

***a. Labor dispute case***

There is an ongoing case from left staff against the company where the employee was charged of fraud which is pending in Supreme Court.

***b. Bank guarantee issued on behalf of the Company***

Company has taken Bank guarantee amounting to NPR 300,000 valid till 15th June 2018 and issued to Department of Customs for Exim Code Certificate.

***2.2.21 Commitments***

The capital commitment (net of advances) on account of capital works in expansion of the factory as on 32nd Ashad 2075 (16thJuly 2018) is NPR 44,405,040 (2073-74 NPR 38,726,720).

**2.2.22 Royalty**

Royalty payable to Hindustan Unilever Limited, India and Unilever PLC, London for use of trademark of certain products has been accrued based on approval received from Department of Industry/ Nepal Government

**2.2.23 Cash Flow Statement**

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 of accruals of past or future cash receipts or payments. The cash flows from regular revenue generating & investing activities of the company are segregated.

## 2.3 Financial risk management objectives and policies

The Company's business activities expose it to a variety of financial risks, namely liquidity risk, market risks and credit risk. The Company's Board and senior management has overall responsibility for the establishment and oversight of the Company's risk management. The Company's risk management policies are established to identify and analyze 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 and the Company's activities.

The Risk Management is done by the Company's management that provides assurance that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives.

The Board of Directors reviews and agree policies for managing each of these risks which are summarized below.

**Market risk**

Company's size and operations result in it being exposed to the following market risks that arise from its use of financial instruments:

- Currency risk;
- Commodity price risk; and
- Interest rate risk

The above risks may affect the Company's income and expenses, or the value of its financial instruments. The objective of the Company's management of market risk is to maintain this risk within acceptable parameters, while optimizing returns. The Company's exposure to, and management of, these risks is explained below: -

| POTENTIAL IMPACT OF RISK | MANAGEMENT POLICY |
|---|---|
| **1. CURRENCY RISK** | |
| The Company is subject to the risk that changes in foreign currency values impact the Company's imports of raw material and property, plant and equipment.<br>As at 32nd Ashad, 2075, there is no unhedged exposure to the Company on holding financial assets (trade receivables) and liabilities (trade payables) other than in their functional currency. | The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar and Euro.<br>The aim of the Group's approach to management of currency risk is to leave the Company with no material residual risk. This aim has been achieved in all years presented.<br>The Company manages currency exposures within prescribed limits, through use of forward exchange contracts. Foreign exchange transactions are fully covered with strict limits placed on the amount of uncovered exposure, if any, at any point in time. |
| **2. COMMODITY PRICE RISK** | |
| The Company is exposed to the risk of changes in commodity prices in relation to its purchase of its raw materials especially vegetable oils/Linear Alkyl Benzene Sulphonic Acid. | The objective of the Company is to minimize the impact of commodity price fluctuations. The Company has undertaken various cost savings programmes along with judicious pricing, without compromising on the competitiveness of brand investments, both in terms of technology as well as advertising and promotion. |
| **3. INTEREST RATE RISK** | |
| Investment in fixed deposits at fixed rates expose the Company to fair value interest rate risk. | The Company invests in the term deposits for a period of less than one year and there is no significant fair value interest rate risk pertaining to the said deposits. |

The detail of forward exchange contracts outstanding as at balance sheet date are as under:

| Currency exchange | USD/NPR | | EURO/NPR | |
|---|---|---|---|---|
| | 2074-75 | 2073-74 | 2074-75 | 2073-74 |
| Number of Buy contracts | 4 | 12 | - | - |
| Aggregate "buy" foreign currency | 434,300 | 559,549 | - | - |

**Commodity price risk**

The Company is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase of raw materials and therefore require a continuous supply of the same.

The Company manages this risk by purchasing materials and supplies from the supplier identified by the group and the Company has long term relation with the supplier.

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a monetary loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

**- Trade receivables**

Customer credit risk is managed by the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored and shipments to all customers are covered by bank guarantees.

**- Cash deposits**

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

**- Investment in fixed deposits**

Credit risk for investments in fixed deposits are managed by depositing the amount with highly reputed Commercial banks only.

**Liquidity risk**

Liquidity risk is the risk that the Company will face in meeting its obligations associated with its financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient funds to meet its liabilities when due without incurring unacceptable losses. In doing this, management considers both normal and stressed conditions. A material and sustained shortfall in our cash flow could create potential business continuity risk.

The Company maintained a cautious funding strategy, with a positive cash balance throughout the year ended 32nd Ashad, 2075 and 31st Ashad, 2074. This was the result of cash delivery from the business. Cash flow from operating activities provides the funds to service the financing of financial liabilities on a day-to-day basis.

The Company's Finance department regularly monitors the cash position to ensure it has sufficient cash on-going basis to meet operational needs. Any short-term surplus cash generated by the operating entities, over and above the amount required for working capital management and other operational requirements, are retained as cash and cash equivalents (to the extent required) and any excess is invested in interest bearing term deposits to optimize its cash returns on investments. The said investments are made in instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

## 2.4 Segment reporting

The Company has only one business segment i.e. dealing in Fast-moving consumer goods (FMCG). The FMCG business mainly consists of products like detergents, scourers, laundry soaps, toilet soaps, skin care creams and other personal products. All these products have similar risks and returns because of similar nature of products, common consumer segments, similar production processes and common distribution channel. The chief operating decision maker and all functional managers reviews the operating results of the business as a whole. Further, internal organizational and management structure of the Company is not based on product differentiation.

## 2.5 Additional Information

**2.5.1 Licensed/Installed Annual capacities**

| Particulars | Licensed Capacity | | Installed Capacity | |
|---|---|---|---|---|
| | Current | Previous Year(Mt) | Current Year(Mt) | Previous Year(Mt) |
| Detergents/Scourers/Laundry | 52,950 | 52,950 | 42,500 | 35,500 |
| Toilet Soaps | 10,000 | 10,000 | 10,000 | 10,000 |
| Personal Products | 18,231 | 18,231 | 10,335 | 10,035 |
| Soap Noodles | 11,660 | 11,660 | 11,660 | 11,660 |
| Tea | 5,000 | 5,000 | - | - |
| Vanaspati | 10,000 | 10,000 | - | - |

**2.5.2 Production/Purchases of Finished Goods**

| Particulars | Current Year(Mt) | Previous Year(Mt) |
|---|---|---|
| Detergents/Scourers/Laundry* | 18,174 | 18,466 |
| Toilet Soaps | 5,461 | 5,075 |
| Personal Products | 6,551 | 5,885 |
| **Total** | **30,186** | **29,426** |

*Produced at third Party locations

**2.5.3 Sales**

| Particulars | Current Year | | Previous Year | |
|---|---|---|---|---|
| | M.T. | Rs. | M.T. | Rs. |
| Detergents/Scourers/Laundry | 18,124 | 1,156,356,706 | 18,858 | 1,108,006,908 |
| Toilet Soaps | 5388 | 1,223,445,561 | 4,849 | 1,099,379,145 |
| Personal Products | 6444 | 2,673,162,521 | 5,576 | 2,379,577,460 |
| **Less: incentive, discount and others** | | **(184,561,688)** | | **(144,588,998)** |
| **Total** | **29,957** | **4,868,313,100** | **29,283** | **4,442,374,515** |

**2.5.4 Closing Stock of FG**

| Particulars | Current Year | | Previous Year | |
|---|---|---|---|---|
| | M.T. | NPR | M.T. | NPR |
| *Detergents/Scourers/Laundry | 691 | 32,145,934 | 512 | 34,595,582 |
| Toilet Soaps | 585 | 89,964,669 | 642 | 103,826,355 |
| Personal Products | 579 | 113,034,587 | 472 | 99,290,683 |
| **Total** | **1855** | **235,145,190** | **1626** | **237,712,620** |

*Produced at third party manufacturing locations

**2.5.5 Material Consumed**

| Particulars | Current Year | | Previous Year | |
|---|---|---|---|---|
| | M.T. | NPR | M.T. | NPR |
| Raw, Chemicals, Perfumes etc. | 25,386 | 1,829,460,419 | 25,642 | 1,743,445,813 |
| Packing Materials | - | 725,985,276 | - | 635,265,723 |
| Net Change in WIP | (83) | (6,999,152) | (8) | (2,932,467) |
| Finished Goods Variance | (229) | 2,567,430 | (144) | (106,046,731) |
| **Total** | **25,074** | **2,551,013,973** | **25,490** | **2,269,732,338** |

# NOTES TO FINANCIAL STATEMENT

## 3. Property, plant and equipment:

Figures in NPR

| | Land | Buildings | Plant & Machinery | Office Equipment | Furniture and Fixture | Computers | Under Construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at 1st Shrawan 2073 | 5,615,140 | 151,669,621 | 519,439,408 | 11,794,180 | 4,522,925 | 17,014,377 | 85,146,292 | 795,201,943 |
| Additions | - | 1,852,294 | 7,930,064 | 1,328,709 | 1,779,416 | 888,082 | 106,970,609 | 120,749,174 |
| Transfer to PPE | - | | | | | | - | - |
| Disposals | - | - | (20,850,934) | (402,693) | (256,964) | (1,325,384) | - | (22,835,975) |
| Balance at 31st Ashad 2074 | 5,615,140 | 153,521,915 | 506,518,538 | 12,720,196 | 6,045,377 | 16,577,075 | 192,116,901 | 893,115,142 |
| Additions | - | 711,845 | 71,774,410 | 2,962,251 | 5,451,796 | 2,609,410 | 32,369,359 | 115,879,071 |
| Transfer to PPE | - | - | 177,570,287 | | - | - | (177,570,287) | - |
| Disposals | - | - | - | - | - | (152,000) | - | (152,000) |
| Balance at 32nd Ashad 2075 | 5,615,140 | 154,233,760 | 755,863,235 | 15,682,447 | 11,497,173 | 19,034,485 | 46,915,973 | 1,008,842,213 |
| **Depreciation and impairment losses** | | | | | | | | |
| Balance at 1st Shrawan 2073 | - | 74,999,336 | 216,873,636 | 9,110,858 | 3,116,673 | 11,200,930 | - | 315,301,433 |
| Charge for the year | - | 2,986,839 | 27,314,734 | 327,209 | 173,046 | 1,713,230 | - | 32,515,058 |
| Transfer to PPE | | | | | | | | - |
| Disposals | - | - | (16,163,112) | (356,726) | (202,543) | (1,319,683) | - | (18,042,064) |
| Balance at 32nd Ashad 2074 | - | 77,986,175 | 228,025,258 | 9,081,341 | 3,087,176 | 11,594,477 | - | 329,774,427 |
| Charge for the year | - | 3,037,159 | 36,639,830 | 509,974 | 364,080 | 2,035,578 | - | 42,586,621 |
| Transfer to PPE | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | (92,528) | - | (92,528) |
| Balance at 32nd Ashad 2075 | - | 81,023,334 | 264,665,088 | 9,591,315 | 3,451,256 | 13,537,527 | - | 372,268,520 |
| **Net book value** | | | | | | | | |
| At 1st Shrawan 2073 | 5,615,140 | 76,670,285 | 302,565,772 | 2,683,322 | 1,406,252 | 5,813,447 | 85,146,292 | 479,900,510 |
| At 31st Ashad 2074 | 5,615,140 | 75,535,740 | 278,493,280 | 3,638,855 | 2,958,201 | 4,982,598 | 192,116,901 | 563,340,715 |
| At 32nd Ashad 2075 | 5,615,140 | 73,210,426 | 491,198,147 | 6,091,132 | 8,045,917 | 5,496,958 | 46,915,973 | 636,573,693 |
| Gross carrying amount of any fully depreciated property, plant and equipments that are still in use | | - | 101,622,499 | 6,608,905 | 1,158,122 | 7,816,098 | - | 117,205,624 |

**Property, Plant and Equipment under construction**

The net book value of assets under construction includes amount of NPR 4.69 crore majorly relating detergent powder cascade (NPR 0.97 crore), centrally driven quality initiative (Vision Camera) (NPR 0.60 crore) and Infrastructure for Vim bar formulation (Labsa holding in tank) (NPR 0.58 crore), which is currently under installation. The cost of the assets will be depreciated once the machine is installed and available for use.

# NOTES TO FINANCIAL STATEMENT

## 4. Intangible assets:

Figures in NPR

| | Computer Software | Total |
|---|---|---|
| Balance at 1st Shrawan 2073 | 2,194,132 | 2,194,132 |
| Additions - Externally acquired | 212,000 | 212,000 |
| Other acquisitions internally developed | - | - |
| Balance at 31st Ashad 2074 | 2,406,132 | 2,406,132 |
| Additions - Externally acquired | 16,491,878 | 16,491,878 |
| Disposals | - | - |
| Balance at 32nd Ashad 2075 | 18,898,010 | 18,898,010 |
| **Amortisation and impairment losses** | | |
| Balance at 1st Shrawan 2073 | 3,755 | 3,755 |
| Charge for the year | 471,646 | 471,646 |
| Disposals | - | - |
| Balance at 31st Ashad 2074 | 475,401 | 475,401 |
| Charge for the year | 2,505,435 | 2,505,435 |
| Disposals | - | - |
| Balance at 32nd Ashad 2075 | 2,980,836 | 2,980,836 |
| **Net book value** | | |
| At 1st Shrawan 2073 | 2,190,377 | 2,190,377 |
| At 31st Ashad 2074 | 1,930,731 | 1,930,731 |
| At 32nd Ashad 2075 | 15,917,174 | 15,917,174 |
| Gross carrying amount of any fully amortised intangibles that are still in use | - | - |

## 5. Investments

Figures in NPR

| | "Maturity Period" | Interest rate | 2074-75 | 2073-74 |
|---|---|---|---|---|
| Fixed Deposits in banks | | | | |
| | 1 Year | 10% | 31,050,820 | 39,312,104 |
| | 6 months | 9% to 10.5% | 803,386,302 | 1,121,181,506 |
| **Total** | | | **834,437,122** | **1,160,493,610** |

Of the total investment in fixed deposits, NPR 31,000,000 (2073-74: NPR 39,100,000) has been pledged with a bank for the purpose of extending housing loans to the employees.

# NOTES TO FINANCIAL STATEMENT

## 6. Deferred tax assets:

Deferred tax is calculated on temporary differences using a tax rate of 17% (2074: 17%). Deferred tax assets have been recognized in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the management believe it is probable that these assets will be recovered.

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| **Reconciliation of deferred tax assets** | | |
| Opening Balance as on 1 Sharwan | 15,949,220 | 7,754,405 |
| Tax income/(expense) during the period recognized in profit or loss | (14,415,867) | 8,194,815 |
| Closing balance as on 32 Ashad | **1,533,353** | **15,949,220** |

Details of the deferred tax liability, amounts recognized in profit or loss and amounts recognized in other comprehensive income are as follows:

Figures in NPR

| Particulars | Asset/ (Liability) 2074-75 | Charged/ Credited to Profit or Loss 2074-75 |
|---|---|---|
| Fixed Assets | (21,041,656) | (11,192,778) |
| Intangible assets | (666,095) | (593,988) |
| Allowance for Obsolescence | 15,176,020 | 591,947 |
| Provision for leave encashment | 1,387,217 | (301,686) |
| Provision for other retirement benefits | 673,877 | (121,395) |
| Provision for CSR expenses | 4,655,196 | 2,283,523 |
| Other provisions | 1,348,796 | (5,081,489) |
| **Total** | **1,533,353** | **(14,415,867)** |

Figures in NPR

| Particulars | Asset/ (Liability) 2073-74 | Charged/ Credited to Profit or Loss 2073-74 |
|---|---|---|
| Fixed Assets | (9,848,879) | (1,479,571) |
| Intangible assets | (72,107) | (31,301) |
| Allowance for Obsolete Inventory | 14,584,072 | 2,130,075 |
| Provision for leave encashment | 1,688,903 | 345,629 |
| Provision for other retirement benefits | 795,272 | 96,939 |
| Provision for CSR expenses | 2,371,673 | 2,371,674 |
| Other provisions | 6,430,285 | 4,761,370 |
| **Total** | **15,949,219** | **8,194,815** |

# NOTES TO FINANCIAL STATEMENT

## 7. Other non-current assets:

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| Capital advance | 4,063,414 | 593,001 |
| **Total** | **4,063,414** | **593,001** |

## 8. Inventories:

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| Raw materials | 269,917,639 | 204,473,022 |
| Packing materials | 205,430,021 | 141,198,829 |
| Work-in-process | 19,476,773 | 12,477,621 |
| Finished goods | 235,145,190 | 237,712,620 |
| Goods in transit | 86,054,095 | 82,584,078 |
| Promotional Materials | 1,097,324 | 1,097,324 |
| Stores and Spares | 23,886,160 | 26,270,806 |
| Less: Allowance for Obsolescence | (89,270,703) | (85,788,661) |
| **Total** | **751,736,499** | **620,025,639** |

Inventories and Trade receivables are pledged against outstanding Letter of Credit as detailed in note no. 2.2.21.

The allowance for Obsolescence has been created for stocks which has been expired or damaged or unusable for any reasons and based on the book value of that inventory.

## 9. Trade and other receivables:

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| Trade receivables | 365,458,298 | 604,720,483 |
| Other receivables - Elida Nepal Pvt. Ltd | 199,664,223 | 60,216,871 |
| Loans and Advances to Employee | 1,795,926 | 2,081,648 |
| Advance to suppliers | 18,763,709 | 6,214,808 |
| VAT and Custom Deposits | 10,456,368 | 1,329,659 |
| Other deposit | 192,384 | 192,384 |
| Other Advances Recoverable in cash or kind of value to be received | 8,927,433 | 5,522,214 |
| **Total** | **605,258,341** | **680,278,067** |

a) The fair values of all the above financial assets are equal to their carrying amounts.

b) All the trade receivables are secured against bank guarantees. They are neither past due nor impaired.

c) Inventories and Trade receivables are pledged against outstanding Letter of Credit as detailed in note no. 2.2.21.

d) Trade receivables are non-interest bearing within the credit period ranging from 21 to 35 days. After credit period interest is charged at the rate 15% p.a.

## 10. Cash and Cash Equivalents:

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| Cash at banks | 303,704,205 | 241,652,786 |
| Cash on hand | 9,715 | 83,958 |
| **Total** | **303,713,920** | **241,736,744** |

# NOTES TO FINANCIAL STATEMENT

## 11. Bank balance other than CCE

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| Unpaid dividend account | 37,528,418 | 34,892,484 |
| Housing loan account | 9,543,381 | - |
| **Total** | **47,071,799** | **34,892,484** |

## 12. Share capital:

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| (a) Authorised Shares | | |
| Ordinary shares of Rs. 100 each | 300,000,000 | 300,000,000 |
| (b) Ordinary shares Subscribed and Paid-up Capital | | |
| | Ordinary share | Ordinary share capital |
| **1 Shrawan 2073** | **920,700** | **92,070,000** |
| Share issue | - | - |
| **31 Ashad 2074** | **920,700** | **92,070,000** |
| Share issue | - | - |
| **32 Ashad 2075** | **920,700** | **92,070,000** |

**Of Which:**

**7,36,560 shares held by Hindustan Unilever Limited, Mumbai, India**

**46,035 shares held by Sibkrim Land and Industrial Company Pvt. Ltd.**

**1,38,105 shares held by the general public**

## 13. Retained Earnings and Reserves:

Figures in NPR

| | Employees' housing reserve | Retained earnings | Total |
|---|---|---|---|
| **Balance at 1 Shrawan 2073** | **725,776,497** | **1,231,142,143** | **1,956,918,640** |
| Profit for the year | - | 965,230,306 | 965,230,306 |
| Other comprehensive income | - | (833,833) | (833,833) |
| Transfer to Employees' Housing Reserve | 71,289,228 | (71,289,228) | - |
| Dividends to shareholders | - | (939,114,000) | (939,114,000) |
| **Balance at 31st Ashad 2074** | **797,065,725** | **1,185,135,388** | **1,982,201,113** |
| Profit for the year | - | 999,377,544 | 999,377,544 |
| Other comprehensive income | - | 123,443 | 123,443 |
| Transfer to Employees' Housing Reserve | (1,006,400) | - | (1,006,400) |
| Dividends to shareholders | - | (1,169,289,000) | (1,169,289,000) |
| **Balance at 32nd Ashad 2075** | **796,059,325** | **1,015,347,375** | **1,811,406,700** |

(a) Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) not recognized elsewhere.

(b) Employees' housing reserve

Employees housing reserve were made up to the financial year 2016-17 as per section 41 of the Labor Act 2048. As per new Labor Act, 2074 enacted on September 4, 2017, allocation of employees housing reserve is not required, so the Company has not made such allocation from this financial year.

# NOTES TO FINANCIAL STATEMENT

## 14. Provisions:

Figures in NPR

| | Non-current | |
|---|---|---|
| | **2074-75** | **2073-74** |
| **Provision for employee benefits** | | |
| Provision for Other Retirement Benefits (Refer Note 25) | 3,908,428 | 4,285,070 |
| Provision for Leave Encashment | 7,235,651 | 8,663,332 |
| **Total** | **11,144,079** | **12,948,402** |

| | Current | |
|---|---|---|
| | **2074-75** | **2073-74** |
| **Provision for employee benefits:** | | |
| Provision for Other Retirement Benefits (Refer Note 25) | 55,554 | 392,998 |
| Provision for Leave Encashment | 924,451 | 1,271,393 |
| **Other Provisions:** | | |
| Provision for sales return (Refer Note A below) | - | 11,026,881 |
| Provision for CSR expenses (Refer Note 2.2.19) | 27,383,507 | 13,951,021 |
| Miscellaneous provisions (Refer Note B below) | 250,555,407 | 133,689,711 |
| **Total** | **278,918,919** | **160,332,004** |

**A. Provision for sales return**

Till last financial year, provision for sales return was recognised for expected claims on account of damage or expiry of products sold during the last two years, based on past experience of the level of claims or returns. It is expected that most of these costs will be incurred in the next financial year and all will have been incurred within two years after the reporting date. Assumptions used to calculate the provision for sales returns were based on current sales levels and current information available about returns for all products sold.

During current year , no additional provision for sales return has been made and all old provision has utilised and reversed.

**B. Miscellaneous provisions**

This primarily includes provision for settlement of ongoing cases of Custom, VAT and other matters based on the best estimates of probable liablity against cases that are considered as weak.

The table below gives information about movement in other provisions:

Figures in NPR

| | Provision for sales return | | Miscellaneous provisions | |
|---|---|---|---|---|
| | **2074-75** | **2073-74** | **2074-75** | **2073-74** |
| At the beginning of the year | 11,026,881 | 11,789,236 | 133,689,711 | 30,735,490 |
| Recognized during the year | - | 27,700,000 | 248,652,430 | 123,860,106 |
| Utilized during the year | (7,400,000) | (28,462,355) | (119,541,372) | (8,090,145) |
| Reversed during the year | (3,626,881) | - | (12,245,402) | (12,815,740) |
| At the end of the year | - | 11,026,881 | 250,555,367 | 133,689,711 |
| Current portion | - | 11,026,881 | 250,555,367 | 133,689,711 |
| Non - current portion | - | - | - | - |

# NOTES TO FINANCIAL STATEMENT

## 15. Trade and other payables:

Figures in NPR

| | **2074-75** | **2073-74** |
|---|---|---|
| Creditors for Goods and Services | 270,790,705 | 262,948,329 |
| Creditors for Expenses and Other Liabilities | 226,795,920 | 325,122,047 |
| Advance from Customers | 26,325,604 | 5,209,070 |
| Bonus payable | 147,757,343 | 118,945,301 |
| Employee related accruals | 7,783,700 | 9,272,803 |
| Deposit - Others | 500,000 | 500,000 |
| Royalty Payable | 114,936,651 | 114,909,335 |
| Audit fees payable | 780,643 | 633,698 |
| Others Payable | 98,474,429 | 97,072,579 |
| TDS Payable | 11,286,556 | 18,690,281 |
| Excise duty payable | 21,503,997 | - |
| Gratuity payable | 15,674,804 | - |
| VAT Payable | 6,513,119 | 32,125,706 |
| Unclaimed Dividend | 27,791,252 | 34,019,198 |
| **Total** | **976,914,723** | **1,019,448,347** |

a) The fair values of all the above financial liabilities are equal to their carrying amounts.

b) Trade payables (other than creditors for goods and services) are non-interest bearing and are normally settled on 30 to 60 day terms

c) Gratuity payable is the net balance after deducting NPR 25,083,669 which is balance amount in Gratuity Fund maintained with Citizen Investment Trust (CIT).

## 16. Revenue from operations:

Figures in NPR

| | **Year ended 2074-75** | **Year ended 2073-74** |
|---|---|---|
| Sale of goods | 5,068,731,150 | 4,597,952,532 |
| Less: Discount and Incentives | (200,418,049) | (127,878,015) |
| Less: Provision for sales return | - | (27,700,000) |
| **Total** | **4,868,313,101** | **4,442,374,517** |

No individual customer accounted for more than 10% of the gross sale of goods during the year except sale of goods to Suyash International Pvt. Ltd. which accounted for 16.98% (2073-74: 20.07%) of total sale of goods.

## 17. Other income

Figures in NPR

| | **Year ended 2074-75** | **Year ended 2073-74** |
|---|---|---|
| Profit/(Loss) on fixed assets sold, scrapped, etc. (net) | (59,472) | 361,583 |
| Sale of Scrap | 18,616,950 | 17,905,386 |
| Elida Service Income | 363,445,989 | 543,056,856 |
| Access fee | 4,128,943 | 4,918,815 |
| Interest Income on bank deposits | 76,483,790 | 50,646,805 |
| Provision write back | 15,872,283 | - |
| Miscellaneous income | 8,835,742 | 9,442,565 |
| **Total** | **487,324,225** | **626,332,010** |

# NOTES TO FINANCIAL STATEMENT

## 18. Cost of materials consumed

Figures in NPR

| | Year ended 2074-75 | Year ended 2073-74 |
|---|---|---|
| Raw materials consumed | 1,829,460,419 | 1,743,445,813 |
| Packing materials consumed | 725,985,276 | 635,265,723 |
| Allowance for Inventory Obsolescence | 3,497,865 | 13,270,275 |
| **Total** | **2,558,943,560** | **2,391,981,811** |

## 19. Changes in inventories of finished goods (Including stock-in-trade) and work-in-progress)

Figures in NPR

| | Year ended 2074-75 | Year ended 2073-74 |
|---|---|---|
| Opening inventories | | |
| Finished goods | 237,712,620 | 131,665,889 |
| Work-in-progress | 12,477,621 | 9,545,154 |
| Closing inventories | | |
| Finished goods | (235,145,190) | (237,712,620) |
| Work-in-progress | (19,476,773) | (12,477,621) |
| **Total** | **(4,431,722)** | **(108,979,198)** |

## 20. Employee benefits expenses

Figures in NPR

| | Year ended 2074-75 | Year ended 2073-74 |
|---|---|---|
| Salaries and wages | 183,084,214 | 203,126,737 |
| Staff Bonus (Refer Note 2.2.19) | 147,757,343 | 118,945,302 |
| Contribution to provident, gratuity and other funds | 26,463,047 | 9,705,813 |
| Defined benefits plan expenses (Refer Note 25) | (415,641) | 3,347,638 |
| Workmen and staff welfare expenses | 12,380,098 | 12,173,296 |
| **Total** | **369,269,061** | **347,298,786** |

# NOTES TO FINANCIAL STATEMENT

## 21. Other expenses

Figures in NPR

| | Year ended 2074-75 | Year ended 2073-74 |
|---|---|---|
| Advertising and sales promotion | 376,854,064 | 411,417,130 |
| AGM Expenses | 1,445,770 | 1,597,117 |
| Audit Fees & Expenses | 2,081,400 | 1,200,866 |
| Board Meeting Exps | 1,757,046 | 1,098,383 |
| Carriage and freight | 139,438,315 | 125,678,158 |
| CSR Expenses (Refer Note 2.2.19) | 14,559,585 | 15,414,908 |
| Electricity, Fuel & Water | 46,364,028 | 47,455,077 |
| Fixed Assets W/Off | - | 4,793,911 |
| Foreign exchange loss/(gain) | (266,445) | 3,117,477 |
| Insurance | 14,035,396 | 12,040,570 |
| Legal Expenses | 4,162,522 | 1,673,656 |
| Processing charges | 159,914,351 | 149,303,336 |
| Professional Services | 26,519,316 | 15,560,529 |
| Quality Control Charges | 492,785 | 921,663 |
| Rent | 32,762,493 | 22,402,460 |
| Repairs others | 260,640 | 695,707 |
| Repairs to building | 1,817,745 | 2,429,345 |
| Repairs to plant and equipment | 21,105,812 | 34,726,180 |
| Royalty | 135,219,591 | 116,036,576 |
| Security Expenses | 8,938,886 | 8,310,112 |
| Telephone Expenses | 4,312,384 | 3,981,582 |
| Travelling, Conveyance and Accommodation Expenses | 49,582,553 | 55,702,968 |
| Other Expenses | 15,590,049 | 109,165,391 |
| **Total** | **1,056,948,286** | **1,144,723,099** |

# NOTES TO FINANCIAL STATEMENT

## 22. Income tax

Figures in NPR

| | Year ended 2074-75 | Year ended 2073-74 |
|---|---|---|
| Current tax expense | | |
| Current tax on profits for the year | 248,054,898 | 264,174,674 |
| Adjustment for under provision in prior periods | 67,968,181 | 39,484,759 |
| **Total current tax** | **316,023,079** | **303,659,433** |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 14,415,462 | (4,638,292) |
| Recognition of previously unrecognized deferred tax assets | - | (3,556,119) |
| **Total tax expense for the year** | **330,438,541** | **295,465,022** |

**Reconciliation of tax expense and the accounting profit multiplied by Company's tax rate for 2073-74 and 2074-75:**

| | Year ended 2074-75 | Year ended 2073-74 |
|---|---|---|
| Accounting profit before income tax excluding Elida service income | 962,241,153 | 712,719,656 |
| Other service income | 367,574,932 | 547,975,671 |
| "At Company's statutory income tax rate of 17% for normal operation and 25% for service income (2073-74: 18% and 21.25%)" | 255,474,729 | 237,607,172 |
| Adjustment in respect of Repair & Maintenance allowed upto 7% of respective depreciation base of the pool of the assets | - | 2,726,250 |
| Adjustment in respect of Depreciation allowed as per the rate prescribed under Income Tax Act | (10,791,542) | (5,221,359) |
| Adjustment in respect of Inventory | 591,947 | 2,130,075 |
| Adjustment in respect of provision for sales return | (1,874,570) | 4,709,000 |
| Adjustment in respect of provision for leave encashment | (301,686) | 345,629 |
| Adjustment in respect of provision for other retirement benefits | (121,395) | 96,939 |
| Adjustment in respect of CSR provisions | 2,283,523 | 2,371,674 |
| Adjustment in respect of other provisions | 2,229,762 | 17,502,218 |
| Adjustment of Donation and CSR expenses | 191,607 | 248,861 |
| Adjustment for Fixed Assets written off | 10,110 | 814,964 |
| Other non-deductible expenses for tax purposes | 362,413 | 843,251 |
| **Total** | **248,054,898** | **264,174,674** |
| Income tax expense reported in the statement of profit or loss | 248,054,898 | 264,174,674 |

| **Income tax liability (net of advance taxes):** | Year ended 2074-75 | Year ended 2073-74 |
|---|---|---|
| Income Tax Liability | 2,257,930,452 | 2,437,838,059 |
| Less: Advance Income Tax | (2,225,343,676) | (2,383,009,516) |
| **Total** | **32,586,776** | **54,828,543** |

# NOTES TO FINANCIAL STATEMENT

## 23. Declared dividends and proposed dividends

Figures in NPR

| | 2074-75 | 2073-74 |
|---|---|---|
| **Declared and approved for during the year:** | | |
| Dividends on ordinary shares: Final dividend for 2073-74: NPR. 1,270 per share (2072-73: NPR. 1,020 per share) | 1,169,289,000 | 939,114,000 |
| **Proposed for approval at the annual general meeting (not recognised as a liability as at balance sheet date):** | | |
| Dividends on ordinary shares: | | |
| Proposed dividend for 2074-75: 700 per share (2073-74: 1,270 per share) | | 1,169,289,000 |

## 24. Earnings per share

'Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS amounts are calculated by dividing the profit attributable to ordinary and potential 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 shares. The following reflects the income and share data used in the basic and diluted EPS computations:

Figures in NPR

| | "Continuing Operations" 2075 | "Continuing Operations" 2074 |
|---|---|---|
| **Numerator** | | |
| Profit for the year and earnings used in basic EPS | 999,377,544 | 965,230,306 |
| Add: Interest on convertible debt | - | - |
| Less: Tax effect of above items | - | - |
| **Earnings used in diluted EPS** | **999,377,544** | **965,230,306** |
| **Denominator** | | |
| Weighted average number of shares used in basic EPS | 920,700 | 920,700 |
| Convertible debt | - | - |
| Employee share options | - | - |
| Contingent share consideration on business combinations | - | - |
| **Weighted average number of shares used in diluted EPS** | **920,700** | **920,700** |
| **Basic and diluted earnings per share** | **1,085.45** | **1,048.37** |

# NOTES TO FINANCIAL STATEMENT

## 25. Post employment benefit plans

As per the provision of new Labor Act enacted and effective from September 4, 2017, gratuity plan has been converted into contribution plan from defined benefit plan. Contribution of 8.33% of basic salary needs to be deposited on monthly basis to the separate Social Security Fund. Total gratuity obligation calculated as per previous labor act till the transition date also needs to be deposited to the Social Security Fund. As on date, the procedure for depositing in social security fund has not been finalised by the Government of Nepal, so the Company has set aside obligation amount (net of fund balance in CIT) as statutory dues payable in current liabilities.

From this year onwards, defined benfit plans only consists of other retirement benefit plan and following tables summarise the components of net benefit expense recognised in the statement of income and amounts recognised in the statement of financial position:

**2074-75 changes in the defined benefit obligation and Fair value of plan assets**

Figures in NPR

| | | Benefit cost charged to income statement | | | | | Re-measurement gain/(losses) in OCI | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance at 1 Sharwan 2074 | Service cost | Past Service cost | Net Interest | Sub-total included in profit or loss | Benefits paid | Experience adjustments | Sub-total included in OCI | Balance at 32 Ashad 2075 |
| Other retirement benefit obligation | 4,678,068 | 284,538 | (1,125,927) | 425,749 | (415,641) | (175,003) | (123,443) | (123,443) | 3,963,982 |
| **Benefit Liability** | **4,678,068** | **284,538** | **(1,125,927)** | **425,749** | **(415,641)** | **(175,003)** | **(123,443)** | **(123,443)** | **3,963,982** |

**2073-74 changes in the defined benefit obligation and Fair value of plan assets**

Figures in NPR

| | | Benefit cost charged to income statement | | | | | Re-measurement gain/(losses) in OCI | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance at 1 Sharwan 2073 | Service cost | Past Service cost | Net Interest | Sub-total included in profit or loss | Benefits paid | Experience adjustments | Sub-total included in OCI | Balance at 31 Ashad 2074 |
| Other retirement benefit obligation | 4,107,837 | 280,624 | - | 377,030 | 657,654 | (65,000) | (22,423) | (22,423) | 4,678,068 |
| **Benefit Liability** | **4,107,837** | **280,624** | **-** | **377,030** | **657,654** | **(65,000)** | **(22,423)** | **(22,423)** | **4,678,068** |

# NOTES TO FINANCIAL STATEMENT

## 25. Post employment benefit plans (Continued...)

**The principal assumptions used in determining post-employment benefit obligations for the Company's plans are shown below:**

| | 2074-75 | 2073-74 |
|---|---|---|
| Discount rate | 9.50% | 9.50% |

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

A quantitative sensitivity analysis for significant assumption at the end of the reporting period is as shown below:

| **Assumptions** | **Discount rate** | |
|---|---|---|
| | **0.5%** | **0.5%** |
| **Sensitivity Level** | **Increase** | **Decrease** |
| Impact on Defined benefit obligation - Other retirement benefits | (173,622) | 184,325 |

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to the defined benefit plan in future years:

| **Defined benefit obligation - other retirement benefit** | **2074-75** | **2073-74** |
|---|---|---|
| Within the next 12 months (next annual reporting period) | 55,554 | 392,998 |
| Between 2 and 5 years | 1,260,556 | 1,821,820 |
| Between 6 and 9 years | 2,248,900 | 3,649,699 |
| Beyond 10 years | 8,771,401 | 5,478,906 |
| Weighted average duration of the above defined benefit obligation | 9.22 years | 7.08 years |

# FINANCIAL PERFORMANCE-
# 5 YEAR RECORD

(NPR Mn )

| Profit or Loss Statement | 2070-71 (2013-14) | 2071-72* (2014-15) | 2072-73* (2015-16) | 2073-74 *(2016-17) | 2074-75* (2017-18) |
|---|---|---|---|---|---|
| Revenue from operations | 4362 | 4728 | 3946 | 4442 | 4868 |
| Other operating income | 508 | 547 | 459 | 576 | 411 |
| Profit from Operations | 1118 | 1268 | 1354 | 1210 | 1255 |
| Profit Before Tax | 1147 | 1311 | 1408 | 1261 | 1330 |
| Net Profit for the year | 910 | 1037 | 1122 | 965 | 999 |

* As per NFRS

| Statement of Financial Position | 2070-71 (2013-14) | 2071-72* (2014-15) | 2072-73* (2015-16) | 2073-74 (2016-17) | 2074-75* (2017-18) |
|---|---|---|---|---|---|
| Property, plant and equipment (Incl Intangibles) | 282 | 325 | 482 | 565 | 652 |
| Deferred tax assets | 13 | 12 | 8 | 16 | 2 |
| Investment in Fixed Deposit | 657 | 977 | 1037 | 1160 | 834 |
| Other Assets (Net of current and non current liabilities) | 555 | 528 | 522 | 333 | 415 |
| | 1506 | 1843 | 2049 | 2074 | 1903 |
| Share capital | 92 | 92 | 92 | 92 | 92 |
| Retained earnings and reserves | 1414 | 1751 | 1957 | 1982 | 1811 |
| | 1506 | 1843 | 2049 | 2074 | 1903 |
| | 0 | 0 | 0 | 0 | 0 |

| Key ratios | 2070-71 (2013-14) | 2071-72* (2014-15) | 2072-73* (2015-16) | 2073-74* (2016-17) | 2074-75* (2017-18) |
|---|---|---|---|---|---|
| PBT (% of Revenue) | 26 | 28 | 36 | 28 | 27 |
| PAT (% of Revenue) | 21 | 22 | 28 | 22 | 21 |
| Fixed Assets Turnover (No . of Times) | 15 | 15 | 8 | 8 | 7 |
| Earning per share of Rs. 100 | 988 | 1126 | 1218 | 1048 | 1085 |
| Dividend proposed per share of Rs. 100 | 860 | 990 | 1020 | 1270 | 700 |

| Others | 2070-71 (2013-14) | 2071-72 (2014-15) | 2072-73 (2015-16) | 2073-74 (2016-17) | 2074-75* (2017-18) |
|---|---|---|---|---|---|
| UNL share price on NEPSE* | 14,301 | 18,303 | 35,021 | 29,204 | 25,000 |
| Market Capitalisation (Rs. Bn) | 13,167 | 16,852 | 32,244 | 26,888 | 23,018 |
| Contribution to Exchequer (Rs. Mn) | | | | | |

* Based on year-end closing prices quoted on NEPSE



**Notes:**

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युनिलिभर नेपाल लिमिटेड
Unilever Nepal Limited

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UNILEVER NEPAL LIMITED

स्वस्थ सक्षम हाम्रो नेपाल

## OUR PURPOSE:

*To earn the love and respect of Nepal by making a real difference to every Nepali*

**UNILEVER NEPAL LIMITED**

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