**B.K. AGRAWAL & CO.**
CHARTERED ACCOUNTANTS
**MEMBER CROWE GLOBAL**

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

## Opinion:

We have audited, for the purpose of your audit of the consolidated Ind AS financial statements for the year ended March 31, 2025 of Kansai Nerolac Paints Limited, India ("the Company"), the accompanying Special Purpose Financial Statements (SPFS) of M/s KNP Japan Private Limited (hereinafter referred to as 'the Company') which comprise the Statement of Financial Position as at March 31, 2025, and the Statement of Profit or Loss, Statement of total comprehensive Income, Statement of Changes in Equity and statement of Cash flows attached thereto, for the year then ended and notes to the financial statements, including a summary of Significant Accounting Policies and other Explanatory Notes & information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid SPFS read together with Notes forming part of the SPFS give the information required by the provisions of Nepal Companies Act, 2006, as amended ("the Act") in the manner so required and, give a true and fair view in conformity with the accounting principles generally accepted in Nepal, of the state of affairs of the Company as at March 31, 2025, its profit or loss including other comprehensive income, its cash flows and the changes in equity for the year ended on that date.

## Basis of Opinion:

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

## Key Audit Matters

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

B. K. AGRAWAL & CO. Kathmandu Chartered Accountants

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

**i) Revenue Recognition:**

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| **Revenue recognition:**<br><br>The company recognizes revenue upon transfer of ownership of goods to the customers, provided pervasive evidence of an arrangement exists whereby collectability of revenue is reasonably certain and no performance obligation is pending. Revenue from sales of goods or rendering of services is net of Indirect taxes, returns and discounts. The company recognised revenue of NPR 1,138.62 Million from the paint & colourant sales and during the year ended March 31, 2025.<br><br>The large volume of transactions arising from a combination of different types of product type creates volume risk.<br><br>Some terms of sales arrangements, including the timing of transfer of control, the nature of discount and rebates arrangements, delivery specifications generate complexity and judgment in determining sales revenues and revenue cut-off. The risk is, therefore, that revenue is not recognised in the correct period or that revenue and associated profit is misstated.<br><br>There is no any bundled transactions under contracts with customers, through a number of different systems. | The procedures in addressing the risk around the accuracy of revenue recognized included:<br><br>• Testing the IT environment in which billing, product rate and other relevant support systems reside;<br><br>• We tested controls in the revenue and trade account receivables cycles over the accuracy and timing of revenue accounted in the financial statements. Our work included consideration of the accounting for and presentation of the rebates and discount arrangements.<br><br>• Testing the key controls over the accuracy in calculation and allocation of revenue to separable elements in bundled transactions under contracts with customers;<br><br>• In addition to substantive analytical reviews performed to understand how the revenue has trended over the year, we performed a detailed testing on transactions around the year - end, ensuring revenues were recognised in the correct accounting period. We also tested journal entries to recognised revenue focusing on unusual or irregular transactions.<br><br>• Testing a sample of transaction records in the systems to their respective customer contracts, underlying invoices and cash receipts.<br><br>We validated the appropriateness and completeness of the related disclosures in Note 2.2.12 of Notes forming part of the financial statements. |

**Responsibilities of Management and those charged with Governance for the Financial Statements**

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

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

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

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

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

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

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

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

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

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

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## Report on Other Legal and Regulatory Requirements

a. We have obtained information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of such books;

c. In our opinion, the Statement of Financial Position, Statement of Profit or Loss and Statement of total comprehensive Income and Statement of Changes in Equity and statement of Cash flows attached thereto, for the year then ended and notes to the financial statements, including a summary of Significant Accounting Policies and other Explanatory Notes & information dealt with by this report are in compliance with the provisions of the Company Act, 2006 and are in agreement with the books of account maintained by the company;

d. In our opinion, so far as appeared from our examination of the books, the business of the Company has been conducted satisfactorily; and

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

## Limitation of Use

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

Gaurav

**CA. Gaurav Agrawal**
*Partner*
**For: B.K. Agrawal & Co.**
Chartered Accountants
UDIN: 250428CA01953bJbRR

Kathmandu
Date: 28th April, 2025

B. K. AGRAWAL & CO. ★ Kathmandu ★ Chartered Accountants

# KNP Japan Private Limited
## Statement of Financial Position
## As at March 31, 2025

| Particulars | Notes | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets:** | | | |
| Property, Plant and Equipment | 3 | 150,968,362.97 | 138,132,297.91 |
| Intangible Assets | 4 | 8,746,586.33 | 10,683,491.77 |
| Capital Work in Progress | 5 | 4,547,901.17 | 14,498,213.69 |
| Other Non Current Assets | 6 | 971,789.00 | 549,650.00 |
| **Total Non-Current Assets** | | **165,234,639.47** | **163,863,653.37** |
| **Current Assets:** | | | |
| Inventories | 7 | 200,357,147.14 | 248,493,936.77 |
| **Financial Assets:** | | | |
| Trade Receivables | 8 | 683,172,640.52 | 644,070,654.13 |
| Cash & Cash Equivalents | 9 | 67,361,341.69 | 18,365,864.06 |
| Financial Assets At Amortized Cost | 10 | 325,720,000.00 | 272,300,000.00 |
| Current Tax Assets (Net) | 11 | 39,544,526.33 | 68,145,281.09 |
| Other Current Assets | 12 | 37,570,279.96 | 46,038,838.64 |
| **Total Current Assets** | | **1,353,725,935.64** | **1,297,414,574.69** |
| **Total Assets** | | **1,518,960,575.11** | **1,461,278,228.06** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity:** | | | |
| Equity Share Capital | 13 | 130,000,000.00 | 130,000,000.00 |
| Other Equity | 14 | 923,525,725.46 | 893,388,843.99 |
| | | **1,053,525,725.46** | **1,023,388,843.99** |
| **Liabilities:** | | | |
| **Non-Current Liabilities:** | | | |
| **Financial Liabilities:** | | | |
| Other Financial Liabilities | 15 | 20,052,005.36 | 48,552,005.36 |
| Provisions | 16 | 23,375,032.31 | 23,174,497.47 |
| Deferred Tax Liabilities (Net) | 17 | 7,915,632.00 | 7,131,843.00 |
| **Total Non-Current Liabilities** | | **51,342,669.67** | **78,858,345.83** |
| **Current Liabilities:** | | | |
| **Financial Liabilities:** | | | |
| Trade Payables | 18 | 142,168,185.14 | 159,927,987.32 |
| Other Financial Liabilities | 19 | 262,809,391.04 | 192,508,914.04 |
| Other Current Liabilities | 20 | 9,114,603.80 | 6,594,136.88 |
| **Total Current liabilities** | | **414,092,179.98** | **359,031,038.24** |
| **Total Equity and Liabilities** | | **1,518,960,575.11** | **1,461,278,228.06** |

| | |
|---|---|
| Significant Accounting Policies | 1-2 |
| The notes referred to above form an integral part of Financial Statements | 3-41 |

For and on behalf of the board

As per our attached report of even date

Gaurav

Finance Executive

Director

Director

CA. Gaurav Agrawal
*Partner*
B.K. Agrawal & Co.
Chartered Accountants

B.K. AGRAWAL & CO. Kathmandu Chartered Accountants

Kathmandu
Date: 28th April, 2025

# KNP Japan Private Limited
## Statement of Profit or Loss
## For the Year ended March 31, 2025

| Particulars | Notes | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|---|
| **Income:** | | | |
| Revenue From Operations | 21 | 1,138,621,221.45 | 1,082,782,658.91 |
| Other Income | 22 | 14,838,817.98 | 28,560,727.49 |
| **Total Income** | | **1,153,460,039.43** | **1,111,343,386.40** |
| **Expenses:** | | | |
| Cost of Sales | 23 | 624,329,706.56 | 605,993,446.36 |
| Administrative & Operating Expenses | 24 | 203,594,580.79 | 202,309,222.86 |
| Selling & Distribution Expenses | 25 | 185,390,835.27 | 172,434,321.11 |
| **Total expenses** | | **1,013,315,122.62** | **980,736,990.33** |
| **Profit Before Interest, Depreciation, Exceptional Items & Tax** | | **140,144,916.81** | **130,606,396.07** |
| Finance Cost | 26 | 1,419,225.48 | 4,470,702.48 |
| Depreciation & Amortization Expenses | 27 | 13,959,256.86 | 13,098,334.41 |
| **Profit before Tax** | | **124,766,434.47** | **113,037,359.18** |
| **Tax Expenses:** | | | |
| Current Tax | 17.2 | 28,845,764.00 | 26,721,631.00 |
| Deferred Tax | 17.2 | 783,789.00 | (2,757,852.00) |
| **Profit for the Year** | | **95,136,881.47** | **89,073,580.18** |

| | |
|---|---|
| Significant Accounting Policies | 1-2 |
| The notes referred to above form an integral part of Financial Statements | 3-41 |

For and on behalf of the board

As per our attached report of even date

Finance Executive

Director

Director

Gaurav

**CA. Gaurav Agrawal**
*Partner*
**B.K. Agrawal & Co.**
Chartered Accountants

Kathmandu
Date: 28th April, 2025

B. K. AGRAWAL & CO. ★ Kathmandu ★ Chartered Accountants

## KNP Japan Private Limited
### Statement of Total Comprehensive Income
### For the Year ended March 31, 2025

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| **Profit for the year** | **95,136,881.47** | **89,073,580.18** |
| **Other Comprehensive Income** | | |
| Items that will not be reclassified to profit or loss | | |
| - Actuarial Gain/(Loss) Remeasurements of the defined benefit plans | - | - |
| Less: Income Tax on Above | - | - |
| Items that will be reclassified to profit or loss | - | - |
| **Other Comprehensive Income** | - | - |
| **Total Comprehensive Income for the Year** | **95,136,881.47** | **89,073,580.18** |

For and on behalf of the board

As per our attached report of even date

Finance Executive

Director

Director

Kathmandu

Date: 28th April, 2025

Gaurav

**CA. Gaurav Agrawal**

*Partner*

**B.K. Agrawal & Co.**

Chartered Accountants

B. K. AGRAWAL & CO. Kathmandu Chartered Accountants

# KNP Japan Private Limited
## Statement of Cash Flows
## For the Year ended March 31, 2025

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| **(A) Cash Flow from Operating Activities:** | | |
| Profit/(Loss) before changes in working capital & Non-recurring Income & Expenditure. | 124,766,434.47 | 113,037,359.18 |
| **Add:** | | |
| Depreciation | 13,959,256.86 | 13,098,334.41 |
| Interest on Short term Loans | 1,419,225.48 | 4,470,702.48 |
| Finance Income | (13,320,057.20) | (26,583,529.90) |
| **Cash from Operating activities before changes in Working Capital** | **126,824,859.61** | **104,022,866.17** |
| **Changes in Working Capital** | | |
| Decrease/(Increase) in Current Assets | 17,503,361.92 | 30,423,237.23 |
| Decrease/(Increase) in Non-Current Assets | (422,139.00) | (20,000.00) |
| Increase/(Decrease) in Current Liabilities | 55,061,141.74 | (33,348,287.31) |
| Increase/(Decrease) in Non-Current Liabilities | (28,299,465.16) | (5,402,070.03) |
| **Cash from Operating activities before tax paid** | **170,667,759.11** | **95,675,746.06** |
| Income Tax Paid | (245,009.24) | (77,125,131.43) |
| **Net cash flow from Operating Activities** | **170,422,749.87** | **18,550,614.63** |
| **(B) Cash Flow from Investing Activities:** | | |
| Purchase of Property, Plant and Equipment | (29,889,155.03) | (6,942,208.66) |
| Decrease/(Increase) in CWIP | 9,950,312.52 | (8,855,769.53) |
| Investment At Amortized Cost (in Term Deposits) | (53,420,000.00) | 14,600,000.00 |
| Fixed Assets Sales | 5,030,738.55 | 324,225.44 |
| **Net Cash Flow from Investing Activities** | **(68,328,103.96)** | **(873,752.75)** |
| **(C) Cash Flow from Financing Activities:** | | |
| Interest Paid | (1,419,225.48) | (4,470,702.48) |
| Dividend Proposed/Appropriated | (65,000,000.00) | (26,000,000.00) |
| Interest Received on term deposits & call account | 13,320,057.20 | 26,583,529.90 |
| **Net Cash Flow from Financing Activities** | **(53,099,168.28)** | **(3,887,172.58)** |
| **Net Cash Flow (A+B+C)** | **48,995,477.63** | **13,789,689.30** |
| Opening Cash and Cash Equivalents | 18,365,864.06 | 4,576,174.76 |
| **Closing Cash and Cash Equivalents** | **67,361,341.69** | **18,365,864.06** |

For and on behalf of the board

As per our attached report of even date

Finance Executive

Director

Director

CA. Gaurav Agrawal
*Partner*
**B.K. Agrawal & Co.**
Chartered Accountants

Kathmandu
Date: 28th April, 2025

B. K. AGRAWAL & CO. Kathmandu Chartered Accountants

## KNP Japan Private Limited
### Statement of Changes in Equity
### For the Year ended March 31, 2025

| Particulars | Share Capital (NRS) | Retained Earnings (NRS) | OCI Reserves (NRS) | Total (NRS) |
|---|---|---|---|---|
| **As At April 1, 2024** | **130,000,000.00** | **893,388,843.99** | **-** | **1,023,388,843.99** |
| Total Comprehensive Income of the year | - | 95,136,881.47 | - | 95,136,881.47 |
| Transferred to General Reserves | - | - | - | - |
| Dividend to shareholders | - | (65,000,000.00) | - | (65,000,000.00) |
| Prior year Adjustments | - | - | - | - |
| Shares Issued | - | - | - | - |
| **As At March 31, 2025** | **130,000,000.00** | **923,525,725.46** | **-** | **1,053,525,725.46** |

For and on behalf of the board

As per our attached report
of even date

Finance Executive

Director

Director

**CA. Gaurav Agrawal**
*Partner*
**B.K. Agrawal & Co.**
**Chartered Accountants**

Kathmandu
Date: 28th April, 2025

B. K. AGRAWAL & CO. Kathmandu Chartered Accountants

## KNP Japan Private Limited
**Notes forming part of the Accounts for the year ended March 31, 2025**

**1) Corporate Information:**

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

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

**2) Significant Accounting Policies:**

**2.1 Basis of Preparation:**

**2.1.1 Statement of Compliance**

The Financial Statements have been prepared on a going concern basis and in accordance with Nepal Financial Reporting Standards (NFRS) as issued by the Institute of Chartered Accountants of Nepal (ICAN). Current Accounting period comprises of April, 2024 to March, 2025.

**Basis of Measurement:**

The financial statements have been prepared on the historical cost basis except in the case of the following material items in the statement of financial position:
- Impairment of assets recognized based on the recoverable value of the assets.

**2.1.2 Critical Accounting Estimates:**

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

**a) Income Taxes**

**Current Income Tax**

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

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

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

**Deferred Tax**

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which they can be used. The existence of unused tax losses is strong evidence that future taxable profit may not be available.
Therefore, in case of a history of recent losses, the Company recognizes a deferred tax asset only to the extent that it has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which such deferred tax asset can be realized. Deferred tax assets – unrecognized or recognized, are reviewed at each reporting date and are recognized/ reduced to the extent that it is probable/ no longer probable respectively that the related tax benefit will be realized.

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

B. K. AGRAWAL & CO. Kathmandu ★ Chartered Accountants ★

**b) Functional and Presentation Currency**

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

**c) Property, Plant & Equipment:**

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

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

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

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

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

**Revaluation:**

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

**Depreciation and Amortization:**

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

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

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

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

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

Computer software are amortized over a 5 years period.

**Capital work-in-progress**

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

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B. K. AGRAWAL & CO. Kathmandu Chartered Accountants

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

**d) Inventories (As taken, valued and certified by the management):**
Inventories are initially recognized at cost net of impairment (if any), and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the variable selling expenses.

The cost is determined on first-in first-out (FIFO) method or weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

Inventories are valued as follows:

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

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

**Financial assets**

***i)* Initial recognition and measurement:**
The Company recognizes a financial asset in its balance sheet when it becomes party to the contractual provisions of the instrument. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss (FVTPL), transaction costs that are attributable to the acquisition of the financial asset.

Where the fair value of a financial asset at initial recognition is different from its transaction price, the difference between the fair value and the transaction price is recognized as a gain or loss in the statement of profit or loss at initial recognition if the fair value is determined through a quoted market price in an active market for an identical asset (i.e. level 1 input) or through a valuation technique that uses data from observable markets (i.e. level 2 input).

In case the fair value is not determined using a level 1 or level 2 input as mentioned above, the difference between the fair value and transaction price is deferred appropriately and recognized as a gain or loss in the statement of profit or loss only to the extent that such gain or loss arises due to a change in factor that market participants take into account when pricing the financial asset.

However, trade receivables that do not contain a significant financing component are measured at transaction price.

**ii) Subsequent measurement:**
For subsequent measurement, the Company classifies a financial asset in accordance with the below criteria:

The Company's business model for managing the financial asset, and

The contractual cash flow characteristics of the financial asset.

Based on the above criteria, the Company classifies its financial assets into the following categories:

<u>**Financial assets measured at amortized cost**</u>
Financial assets measured at fair value through other comprehensive income (FVTOCI)
Financial assets measured at fair value through profit or loss (FVTPL)

<u>**Financial assets measured at amortized cost:**</u>
A financial asset is measured at the amortized cost if both the following conditions are met:

a) The Company's business model objective for managing the financial asset is to hold financial assets in order to collect contractual cash flows, and

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This category applies to cash and bank balances, trade receivables, loans and other financial assets of the Company. Such financial assets are subsequently measured at amortized cost using the effective interest method.

Under the effective interest method, the future cash receipts are exactly discounted to the initial recognition value using the effective interest rate. The cumulative amortization using the effective interest method of the difference between the initial recognition amount and the maturity amount is added to the initial recognition value (net of principal repayments, if any) of the financial asset over the relevant period of the financial asset to arrive at the amortized cost at each reporting date. The corresponding effect of the amortization under effective interest method is recognized as interest income over the relevant period of the financial asset. The same is included under other income in the statement of profit or loss.

The amortized cost of a financial asset is also adjusted for loss allowance, if any.

**Financial assets measured at FVTOCI:**

A financial asset is measured at FVTOCI if both of the following conditions are met:

a) The Company's business model objective for managing the financial asset is achieved both by collecting contractual cash flows and selling the financial assets, and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category applies to certain investments in debt instruments. Such financial assets are subsequently measured at fair value at each reporting date. Fair value changes are recognized in the Other Comprehensive Income (OCI). However, the Company recognizes interest income and impairment losses and its reversals in the statement of profit or loss;

On Derecognition of such financial assets, cumulative gain or loss previously recognized in OCI is reclassified from the equity to statement of profit or loss.

Further, the Company, through an irrevocable election at initial recognition, has measured certain investments in equity instruments at FVTOCI. The Company has made such election on an instrument by instrument basis. These equity instruments are neither held for trading nor are contingent consideration recognized under a business combination. Pursuant to such irrevocable election, subsequent changes in the fair value of such equity instruments are recognized in OCI. However, the Company recognizes dividend income from such instruments in the consolidated statement of profit or loss when the right to receive payment is established, it is probable that the economic benefits will flow to the Company and the amount can be measured reliably.

On Derecognition of such financial assets, cumulative gain or loss previously recognized in OCI is not reclassified from the equity to statement of profit or loss. However, the Company may transfer such cumulative gain or loss into retained earnings within equity.

**Financial assets measured at FVTPL:**

A financial asset is measured at FVTPL unless it is measured at amortized cost or at FVTOCI as explained above. This is a residual category applied to all other investments of the Company excluding investments in subsidiary and associate companies. Such financial assets are subsequently measured at fair value at each reporting date. Fair value changes are recognized in the statement of profit or loss.

**Derecognition:**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. removed from the Company's balance sheet) when any of the following occurs:

i) The contractual rights to cash flows from the financial asset expires;

ii) The Company transfers its contractual rights to receive cash flows of the financial asset and has substantially transferred all the risks and rewards of ownership of the financial asset;

iii) The Company retains the contractual rights to receive cash flows but assumes a contractual obligation to pay the cash flows without material delay to one or more recipients under a 'pass through' arrangement (thereby substantially transferring all the risks and rewards of ownership of the financial asset);

iv) The Company neither transfers nor retains, substantially all risk and rewards of ownership, and does not retain control over the financial asset.

In cases where Company has neither transferred nor retained substantially all of the risks and rewards of the financial asset, but retains control of the financial asset, the Company continues to recognize such financial asset to the extent of its continuing involvement in the financial asset. In that case, the Company also recognizes an associated liability. The financial asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

On Derecognition of a financial asset, the difference between the carrying amount and the consideration received is recognized in the statement of profit or loss.

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**Impairment of financial assets:**

The Company applies expected credit losses (ECL) model for measurement and recognition of loss allowance on the following:

i) Trade receivables and lease receivables,

ii) Financial assets measured at amortized cost (other than trade receivables and lease receivables)

iii) Financial assets measured at fair value through other comprehensive income (FVTOCI)

In case of trade receivables and lease receivables, the Company follows a simplified approach wherein an amount equal to lifetime ECL is measured and recognized as loss allowance.

In case of other assets (listed as ii and iii above), the Company determines if there has been a significant increase in credit risk of the financial asset since initial recognition. If the credit risk of such assets has not increased significantly, an amount equal to 12-month ECL is measured and recognized as loss allowance. However, if credit risk has increased significantly, an amount equal to lifetime ECL is measured and recognized as loss allowance.

Subsequently, if the credit quality of the financial asset improves such that there is no longer a significant increase in credit risk since initial recognition, the Company reverts to recognizing impairment loss allowance based on 12-month ECL.

ECL is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate.

Lifetime ECL are the expected credit losses resulting from all possible default events over the expected life of a financial asset. 12-month ECL are a portion of the lifetime ECL which result from default events that are possible within 12 months from the reporting date.

ECL are measured in a manner that they reflect unbiased and probability weighted amounts determined by a range of outcomes, taking into account the time value of money and other reasonable information available as a result of past events, current conditions and forecasts of future economic conditions.

As a practical expedient, the Company uses a provision matrix to measure lifetime ECL on its portfolio of trade receivables. The provision matrix is prepared based on historically observed default rates over the expected life of trade receivables and is adjusted for forward-looking estimates. At each reporting date, the historically observed default rates and changes in the forward-looking estimates are updated.

ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense in the standalone statement of profit or loss.

**Financial Liabilities**

**Initial recognition and measurement:**

The Company recognizes a financial liability in its balance sheet when it becomes party to the contractual provisions of the instrument. All financial liabilities are recognized initially at fair value minus, in the case of financial liabilities not recorded at fair value through profit or loss (FVTPL), transaction costs that are attributable to the acquisition of the financial liability.

Where the fair value of a financial liability at initial recognition is different from its transaction price, the difference between the fair value and the transaction price is recognized as a gain or loss in the statement of profit or loss at initial recognition if the fair value is determined through a quoted market price in an active market for an identical asset (i.e. level 1 input) or through a valuation technique that uses data from observable markets (i.e. level 2 input).

In case the fair value is not determined using a level 1 or level 2 input as mentioned above, the difference between the fair value and transaction price is deferred appropriately and recognized as a gain or loss in the statement of profit or loss only to the extent that such gain or loss arises due to a change in factor that market participants take into account when pricing the financial liability.

**Subsequent measurement:**

All financial liabilities of the Company are subsequently measured at amortized cost using the effective interest method.

Under the effective interest method, the future cash payments are exactly discounted to the initial recognition value using the effective interest rate. The cumulative amortization using the effective interest method of the difference between the initial recognition amount and the maturity amount is added to the initial recognition value (net of principal repayments, if any) of the financial liability over the relevant period of the financial liability to arrive at the amortized cost at each reporting date. The corresponding effect of the amortization under effective interest method is recognized as interest expense over the relevant period of the financial liability. The same is included under finance cost in the statement of profit or loss.

**Derecognition:**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the Derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in the statement of profit or loss.

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**Impairment of financial assets:**

The Company applies expected credit losses (ECL) model for measurement and recognition of loss allowance on the following:

i) Trade receivables and lease receivables,

ii) Financial assets measured at amortized cost (other than trade receivables and lease receivables)

iii) Financial assets measured at fair value through other comprehensive income (FVTOCI)

In case of trade receivables and lease receivables, the Company follows a simplified approach wherein an amount equal to lifetime ECL is measured and recognized as loss allowance.

In case of other assets (listed as ii and iii above), the Company determines if there has been a significant increase in credit risk of the financial asset since initial recognition. If the credit risk of such assets has not increased significantly, an amount equal to 12-month ECL is measured and recognized as loss allowance. However, if credit risk has increased significantly, an amount equal to lifetime ECL is measured and recognized as loss allowance.

Subsequently, if the credit quality of the financial asset improves such that there is no longer a significant increase in credit risk since initial recognition, the Company reverts to recognizing impairment loss allowance based on 12-month ECL.

ECL is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate.

Lifetime ECL are the expected credit losses resulting from all possible default events over the expected life of a financial asset. 12-month ECL are a portion of the lifetime ECL which result from default events that are possible within 12 months from the reporting date.

ECL are measured in a manner that they reflect unbiased and probability weighted amounts determined by a range of outcomes, taking into account the time value of money and other reasonable information available as a result of past events, current conditions and forecasts of future economic conditions.

As a practical expedient, the Company uses a provision matrix to measure lifetime ECL on its portfolio of trade receivables. The provision matrix is prepared based on historically observed default rates over the expected life of trade receivables and is adjusted for forward-looking estimates. At each reporting date, the historically observed default rates and changes in the forward-looking estimates are updated.

ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense in the standalone statement of profit or loss.

**Financial Liabilities**

**Initial recognition and measurement:**

The Company recognizes a financial liability in its balance sheet when it becomes party to the contractual provisions of the instrument. All financial liabilities are recognized initially at fair value minus, in the case of financial liabilities not recorded at fair value through profit or loss (FVTPL), transaction costs that are attributable to the acquisition of the financial liability.

Where the fair value of a financial liability at initial recognition is different from its transaction price, the difference between the fair value and the transaction price is recognized as a gain or loss in the statement of profit or loss at initial recognition if the fair value is determined through a quoted market price in an active market for an identical asset (i.e. level 1 input) or through a valuation technique that uses data from observable markets (i.e. level 2 input).

In case the fair value is not determined using a level 1 or level 2 input as mentioned above, the difference between the fair value and transaction price is deferred appropriately and recognized as a gain or loss in the statement of profit or loss only to the extent that such gain or loss arises due to a change in factor that market participants take into account when pricing the financial liability.

**Subsequent measurement:**

All financial liabilities of the Company are subsequently measured at amortized cost using the effective interest method.

Under the effective interest method, the future cash payments are exactly discounted to the initial recognition value using the effective interest rate. The cumulative amortization using the effective interest method of the difference between the initial recognition amount and the maturity amount is added to the initial recognition value (net of principal repayments, if any) of the financial liability over the relevant period of the financial liability to arrive at the amortized cost at each reporting date. The corresponding effect of the amortization under effective interest method is recognized as interest expense over the relevant period of the financial liability. The same is included under finance cost in the statement of profit or loss.

**Derecognition:**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the Derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in the statement of profit or loss.

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## KNP Japan Private Limited
### Notes forming part of the Accounts for the year ended March 31, 2025



f) **Fair value measurement:**
The Company measures financial instruments, such as, derivatives at fair value at each balance sheet date.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
• Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
• Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
• Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

h) **Provisions, Contingent Liabilities & Contingent Assets:**
A provision is recognized when the enterprise has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made.

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

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

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

2.2.1 **Going Concern:**
The Financial Statements are prepared on a going concern basis.

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

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

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

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

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

**2.2.4 Leases :**
The Company mainly has lease arrangements for land and building for offices, warehouse spaces and retail stores and vehicles. The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**Company as a lessee**
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**(i) Right-of-use Assets (ROU Assets)**
The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Leasehold buildings - 2 to 10 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in note 19 Impairment of non-financial assets

**(ii) Lease Liabilities:**
At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Lease liability and ROU assets have been separately presented in the Balance Sheet and lease payments have been classified as financing cash flows.

**(iii) Short-term leases and leases of low-value assets**
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Company as a lessor**
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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## KNP Japan Private Limited
**Notes forming part of the Accounts for the year ended March 31, 2025**

***Notes** contd...*

**2.2.5 Intangible Assets:**
***Computer Software***
Purchased computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the software. These costs are amortized over the estimated useful lives.

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

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

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

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

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

**2.2.10 Retirement Benefits:**
*Provision for Employee Benefits*
The cost of the defined benefit pension plan and other post- employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, immortality 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 mortality tables for the country.

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

**Retirement Benefits:**
The Company has schemes of retirement benefits for staffs in the form of SSF which is based on Social security Act 2017 and leave encashment. SSF is Contribution based retirement benefits and company has made contribution at the rates prescribed by Social Security Act of Nepal. Both employer and employee contribution is maintained in a SSF fund account as per local act of Nepal.

**2.2.11 Trade and other payables:**
Trade and other payables are stated at their cost.

**2.2.12 Revenue Recognition:**
Revenue is recognised upon transfer of control of promised goods to customers in an amount that reflects the consideration which the Company expects to receive in exchange for those goods.
Revenue from the sale of goods is recognised at the point in time when control is transferred to the customer which is usually on dispatch / delivery.
Revenue is measured based on the transaction price, which is the consideration, adjusted for volume discounts, rebates, scheme allowances, price concessions, incentives, and returns, if any, as specified in the contracts with the customers. Revenue excludes taxes collected from customers on behalf of the government. Accruals for discounts/incentives and returns are estimated (using the most likely method) based on accumulated experience and underlying schemes and agreements with customers. Due to the short nature of credit period given to customers, there is no financing component in the contract.

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The Company has adopted NFRS 15 Revenue from contracts with customers, with effect from 16th July, 2021. NFRS 15 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenues and cash flows arising from the contracts with its customers and replaces NAS 18 Revenue and NAS 11 Construction Contracts.

The Company has adopted NFRS 15 using the cumulative effect method whereby the effect of applying this standard is recognised at the date of initial application (i.e. 1st April, 2020). Accordingly, the comparative information in the Statement of Profit and Loss is restated. Impact on adoption of NFRS 15 is not material.

**Rendering of services:**
Revenue from rendering services is recognized over time by measuring progress towards satisfaction of performance obligation for the services rendered. The Company uses output method for measurement of revenue from home solution operations/ painting and related services and royalty income as it is based on milestone reached or units delivered. Input method is used for measurement of revenue from processing and other service as it is directly linked to the expense incurred by the Company.

**Other incomes:**
Other incomes have been recognized on accrual basis in financial statements except for cash flow information.

**2.2.13 Interest Income:**
Interest income is recognised using the effective interest method as set out in NFRS 9 – Financial Instruments: Recognition and Measurement, when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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

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

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

**2.2.16 Related Party Transactions:**
All Transactions with related parties are carried out by the company at arm's length prices.

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

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

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

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

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

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

***ii) Liquidity risk***

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

***iii) Market Risk***

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

***a) Interest Rate Risk***

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

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

***b) Foreign Currency Risk***

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

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

***c) Commodity Price Risk***

The Company is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase of colorant, Chemicals used in colour base, packing materials, diesel etc. and therefore require a continuous supply of the same.

The Company manages this risk by purchasing raw materials, packing materials, diesel etc. from the suppliers identified by the management and the Company has long term relation with the suppliers.

**2.2.18 Cash Flow Statements:**

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

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Notes forming Part of the Accounts for the Year Ended March 31, 2025

3. Property, Plant and Equipment

| Particulars | Land (NRS) | Building (NRS) | Computer (NRS) | Networking (NRS) | Furniture (NRS) | Vehicles (NRS) | Air Conditioner (NRS) | Electrification (NRS) | Generator (NRS) | Lab Equipment (NRS) | Machinery (NRS) | Others (NRS) | Colourant Machine (NRS) | Total (NRS) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost of asset** | | | | | | | | | | | | | | |
| As At April 1, 2024 | 3,693,016.67 | 95,977,171.65 | 6,054,283.29 | 223,766.50 | 7,792,435.37 | 26,231,627.02 | 2,107,593.39 | 9,977,866.15 | 4,071,161.80 | 5,910,584.77 | 81,533,199.43 | 10,466,631.03 | 13,240,359.55 | 267,279,696.62 |
| Additions | - | 2,941,930.12 | 579,645.35 | - | 834,239.20 | - | 201,597.00 | 151,061.15 | - | - | 19,341,270.99 | 1,083,732.14 | 3,933,952.64 | 29,067,428.59 |
| Impairment | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - | - | - | - | - | - | - | (5,030,738.55) | (5,030,738.55) |
| As At March 31, 2025 | 3,693,016.67 | 98,919,101.77 | 6,633,928.64 | 223,766.50 | 8,626,674.57 | 26,231,627.02 | 2,309,190.39 | 10,128,927.30 | 4,071,161.80 | 5,910,584.77 | 100,874,470.42 | 11,550,363.17 | 12,143,573.64 | 291,316,386.66 |
| **Depreciation and impairment** | | | | | | | | | | | | | | |
| As At April 1, 2024 | - | 42,933,878.62 | 4,820,071.55 | 146,189.28 | 3,723,725.37 | 22,682,524.22 | 816,830.28 | 6,105,784.09 | 2,162,371.03 | 810,283.50 | 40,113,953.28 | 4,831,787.49 | - | 129,147,398.71 |
| Depreciation charge for the period | - | 3,228,635.83 | 556,682.64 | 14,898.32 | 453,230.07 | 616,078.49 | 111,854.48 | 498,013.94 | 203,190.85 | 294,996.11 | 4,664,828.15 | 558,216.10 | - | 11,200,624.98 |
| Impairment | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Disposals/Adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| As At March 31, 2025 | - | 46,162,514.45 | 5,376,754.19 | 161,087.60 | 4,176,955.44 | 23,298,602.71 | 928,684.76 | 6,603,798.03 | 2,365,561.88 | 1,105,279.61 | 44,778,781.43 | 5,390,003.59 | - | 140,348,023.69 |
| **Net book value** | | | | | | | | | | | | | | |
| As At March 31, 2025 | 3,693,016.67 | 52,756,587.32 | 1,257,174.45 | 62,678.90 | 4,449,719.13 | 2,933,024.31 | 1,380,505.63 | 3,525,129.27 | 1,705,599.92 | 4,805,305.16 | 56,095,688.99 | 6,160,359.58 | 12,143,573.64 | 150,968,362.97 |
| As At March 31, 2024 | 3,693,016.67 | 53,043,293.03 | 1,234,211.74 | 77,577.22 | 4,068,710.00 | 3,549,102.80 | 1,290,763.11 | 3,872,082.06 | 1,908,790.77 | 5,100,301.27 | 41,419,246.15 | 5,634,843.54 | 13,240,359.55 | 138,132,297.91 |

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## Notes forming part of the Accounts for the year ended March 31, 2025

### 4. Intangible Assets

| Particulars | Software (NRS) | Total (NRS) |
|---|---|---|
| **Cost of asset** | | |
| **As At April 1, 2024** | **17,533,434.40** | **17,533,434.40** |
| Additions | 821,726.44 | 821,726.44 |
| Impairment | - | - |
| Disposals | - | - |
| **As At March 31, 2025** | **18,355,160.84** | **18,355,160.84** |
| | | |
| **Amortization and impairment** | | |
| **As At April 1, 2024** | **6,849,942.63** | **6,849,942.63** |
| Depreciation charge for the period | 2,758,631.88 | 2,758,631.88 |
| Impairment | - | - |
| Disposals/Adjustments | - | - |
| **As At March 31, 2025** | **9,608,574.51** | **9,608,574.51** |
| | | |
| **Net book value** | | |
| **As At March 31, 2025** | **8,746,586.33** | **8,746,586.33** |
| **As At March 31, 2024** | **10,683,491.77** | **10,683,491.77** |

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### Notes forming part of the Accounts for the year ended March 31, 2025

**5. Capital Work in Progress**

| **Particulars** | **Plant & Machinery (NRS)** | **Total (NRS)** |
|---|---|---|
| **Cost of asset** | | |
| **As At April 1, 2024** | **14,498,213.69** | **14,498,213.69** |
| Additions | 14,403,423.29 | 14,403,423.29 |
| Capitalization | (24,353,735.81) | (24,353,735.81) |
| Disposals | - | - |
| **As At March 31, 2025** | **4,547,901.17** | **4,547,901.17** |

**6. Other Non Current Assets**

| **Particulars** | **As At March 31, 2025 (NRS)** | **As At March 31, 2024 (NRS)** |
|---|---|---|
| **Long Term** | | |
| *Unsecured (considered good)* | | |
| Security Deposits | 671,789.00 | 249,650.00 |
| BG Margin | 300,000.00 | 300,000.00 |
| | **971,789.00** | **549,650.00** |

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

| **Particulars** | **As At March 31, 2025 (NRS)** | **As At March 31, 2024 (NRS)** |
|---|---|---|
| Raw Materials | 63,047,080.95 | 75,081,273.88 |
| Packing Materials | 1,937,948.20 | 4,247,823.33 |
| Work-In- Process (WIP) | 122,147.50 | 122,147.50 |
| Finished Goods | 129,272,102.78 | 163,518,609.53 |
| Auxiliary Raw Materials | 598,215.51 | 614,238.50 |
| Stores & Spare Parts | 5,379,652.20 | 4,909,844.03 |
| | **200,357,147.14** | **248,493,936.77** |

**8. Trade Receivables**

| **Particulars** | | **As At March 31, 2025 (NRS)** | **As At March 31, 2024 (NRS)** |
|---|---|---|---|
| Trade Receivables- Related Parties | | | |
| Trade Receivables- Others | 8.1 | 887,388,406.69 | 876,335,013.08 |
| Provision for allowances | 8.2 | (204,215,766.17) | (232,264,358.95) |
| | | **683,172,640.52** | **644,070,654.13** |

**8.1. Trade receivables**

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

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**8.2. Provision for allowances**
For allowances, assets are tested collectively for impairment, and impaired, if necessary. Estimated irrecoverable amounts are based on the ageing of the receivable balances, taking previous cases of default into consideration and historical experiences. The impairment loss as been recognized as per Expected Credit Loss model (ECL) NFRS 9.

**Movement in allowances of trade receivables**

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Opening Balance | 232,264,358.95 | 222,227,874.49 |
| Impairment losses Recognized during the Year as per Expected Credit Loss (ECL) | 8,000,000.00 | 16,332,996.00 |
| Trade receivables written off | (36,048,592.78) | (6,296,511.54) |
| **Closing Balance** | **204,215,766.17** | **232,264,358.95** |

**9. Cash & Cash Equivalents**

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Cash on hand | 3,201,259.64 | 1,775,843.65 |
| **Balances with Banks** | | |
| In Current & Call Accounts | 64,160,082.05 | 16,590,020.41 |
| | **67,361,341.69** | **18,365,864.06** |

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

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

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

**10. Financial Assets At Amortized Cost**

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| In Term Deposits | 325,720,000.00 | 272,300,000.00 |
| | **325,720,000.00** | **272,300,000.00** |

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

**11. Current tax Assets/ (Liabilities)**

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Advance Income Tax | 68,390,290.33 | 94,866,912.09 |
| Less: Provision for Taxes | (28,845,764.00) | (26,721,631.00) |
| | **39,544,526.33** | **68,145,281.09** |

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## Notes forming part of the Accounts for the year ended March 31, 2025

### 12. Other Current Assets

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Staff Advances | - | 21,219.72 |
| L/C Margin | 820,001.79 | 586,565.71 |
| Prepaid Expenses | 2,936,974.21 | 2,024,491.40 |
| Advance To Suppliers | 10,415,642.08 | 18,702,571.95 |
| Custom Deposits | - | 12,060,827.00 |
| Reverse VAT Receivable | 816,211.00 | 1,243,103.00 |
| Other Receivables | 22,581,450.88 | 11,400,059.86 |
| | **37,570,279.96** | **46,038,838.64** |

### 13. Equity Share Capital

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| **Authorized:** | | |
| **Equity shares of Rs. 100/- each** | 500,000,000.00 | 500,000,000.00 |
| 5,000,000 Equity Shares | | |
| **Issued:** | 200,000,000.00 | 200,000,000.00 |
| **Equity shares of Rs. 100/- each** | | |
| 2,000,000 Equity Shares | | |
| **Subscribed and fully paid:** | 130,000,000.00 | 130,000,000.00 |
| **Equity shares of Rs. 100/- each** | | |
| 1,300,000 Equity Shares | | |
| *Of Which:* | | |
| *68% Shares owned by Kansai Nerolac Paints Ltd., India* | | |
| *32% Shares are held by Local Parties.* | | |
| | **130,000,000.00** | **130,000,000.00** |

### 13.1 Reconciliation of Share Capital:

| Particulars | As At March 31, 2025 | As At March 31, 2024 |
|---|---|---|
| Opening Equity Shares | 1,300,000 | 1,300,000 |
| Add: No. of Shares, Share Capital issued/subscribed during the year | - | - |
| **Closing balance (Nos.)** | **1,300,000** | **1,300,000** |
| **Value of Shares (NRS)** | **130,000,000.00** | **130,000,000.00** |

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

| Name of the Shareholder | | As At March 31, 2025 | As At March 31, 2024 |
|---|---|---|---|
| - Kansai Nerolac Paints Limited, India | 68% | 884,000 | 884,000 |
| - Ashok Baid | 12% | 156,000 | 156,000 |
| - Jeevan Kumar Agrawal | 12% | 156,000 | 156,000 |
| - Raj Kumar Baid | 4% | 52,000 | 52,000 |
| - Vijay Singh Baid | 4% | 52,000 | 52,000 |
| | | **1,300,000** | **1,300,000** |

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## Notes forming part of the Accounts for the year ended March 31, 2025

### 14. Other Equity/Reserve & Surplus

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| **Income Statement Balance** | | |
| Opening Balance | 893,388,843.99 | 830,315,263.81 |
| Add: Profit for the Year | 95,136,881.47 | 89,073,580.18 |
| Dividend Paid | (65,000,000.00) | (26,000,000.00) |
| | **923,525,725.46** | **893,388,843.99** |

### 15. Other Non Current Financial Liabilities

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| **Short Term** | | |
| Staff Welfare Fund | 20,052,005.36 | 48,552,005.36 |
| | **20,052,005.36** | **48,552,005.36** |

**15.1. Staff Welfare Fund**

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

### 16. Provisions

| Particulars | | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|---|
| **Long Term** | | | |
| **For Employee Benefits** | | | |
| Leave Encashment | 16.1 | 2,075,080.31 | 1,874,545.47 |
| Housing Reserve | 16.2 | 21,299,952.00 | 21,299,952.00 |
| | | **23,375,032.31** | **23,174,497.47** |

**16.1. Leave Encashment**

It is the amount provisioned on accumulated leave provided as per New Labour Act, 2074. The company has not done actural valuation for the same as the impact was considered immaterial by the management.

**16.2. Housing Reserve**

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

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## Notes forming part of the Accounts for the year ended March 31, 2025

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

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

Deferred tax assets and liabilities are attributable to the following:

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| **Deferred Tax Liability** | | |
| Property, plant and equipment | 8,129,097.00 | 7,151,959.00 |
| Inventories | 232,435.00 | 354,793.00 |
| **Sub Total** | **8,361,532.00** | **7,506,752.00** |
| **Deferred tax Assets** | | |
| Employee benefits | (445,900.00) | (374,909.00) |
| **Sub Total** | **(445,900.00)** | **(374,909.00)** |
| **Net Deferred Tax Liabilities** | **7,915,632.00** | **7,131,843.00** |

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

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| **Current income tax** | | |
| Current Period | 28,845,764.00 | 26,721,631.00 |
| Adjustments for prior Quarter | - | - |
| **Sub Total (A)** | **28,845,764.00** | **26,721,631.00** |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 783,789.00 | (2,757,852.00) |
| Changes in tax rate | - | - |
| Change in accounting policy | - | - |
| **Sub Total (B)** | **783,789.00** | **(2,757,852.00)** |
| **Total (A+B)** | **29,629,553.00** | **23,963,779.00** |

### 18. Trade Payables

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Sundry Creditors (Net) | 142,168,185.14 | 159,927,987.32 |
| | **142,168,185.14** | **159,927,987.32** |

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## Notes forming part of the Accounts for the year ended March 31, 2025

### 19. Other Financial Liabilities

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Tax Deduction At Source Payable | 7,087,164.79 | 17,139,818.17 |
| Salary & Wages Payable | 2,121,849.93 | 3,056,755.22 |
| LC Payables | 17,140,786.16 | 15,710,902.54 |
| Excise Duty Payable | 15,802,844.92 | 14,045,480.15 |
| VAT Payable | 17,445,128.98 | 10,932,431.70 |
| Dividend Payable | 61,750,000.00 | 16,796,000.00 |
| Reverse VAT Payable | 764,162.00 | 1,243,103.00 |
| Provision for Expenses | 140,697,454.26 | 113,584,423.26 |
| | **262,809,391.04** | **192,508,914.04** |

### 19.1. Provisions

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Provision For Staff Bonus | 11,626,304.00 | 9,936,207.00 |
| Provision For Provident Fund | 2,960.00 | - |
| Provision for Selling & Distribution and Other Expenses | 127,603,300.41 | 103,003,412.87 |
| Allocattion for CSR Fund | 1,310,468.39 | 644,803.39 |
| Gratuity | 154,421.46 | - |
| | **140,697,454.26** | **113,584,423.26** |

**19.1.1 Provision for Staff Bonus**

Provision for Staff Bonus has been made at 10% of net profit. The balance as on date amounts to Rs.11.63 million (PY Rs.9.94 million).

**19.1.2 Provision for Selling & distribution Expenses**

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

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

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## Notes forming part of the Accounts for the year ended March 31, 2025

**19.1.3. CSR Expenses**

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

Accordingly The Company has allocated for CSR Fund @ 1% of Net Profit before Tax during the Year for Rs.1.26 million (PY Rs.1.14 million). The total Provision as on reporting date amounts to NRs.0.64 million (PY NRs.7.97 million).

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| **Opening Balance** | 644,803.39 | 7,971,472.05 |
| Provided During the Year | 1,260,267.00 | 1,141,792.00 |
| Utilized During the Year | (594,602.00) | (8,468,460.66) |
| **Closing Balance** | **1,310,468.39** | **644,803.39** |

**20. Other Current Liabilities**

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Contract Liabilities | 9,114,603.80 | 6,594,136.88 |
| | **9,114,603.80** | **6,594,136.88** |

Contract liabilities represent advance from customer received in the ordinary course of business.

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## Notes forming part of the Accounts for the year ended March 31, 2025

### 21. Revenue from Operations

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| **Sale of Products** | | |
| Paint Sales (Net) | 1,449,038,609.38 | 1,349,899,032.59 |
| ***Less: Incentives and Schemes | (314,027,053.50) | (271,913,626.40) |
| Total Sale of Products | **1,135,011,555.88** | **1,077,985,406.19** |
| **Other Operating Revenue** | | |
| Scrap Sales | 3,609,665.57 | 4,797,252.72 |
| | **1,138,621,221.45** | **1,082,782,658.91** |

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

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

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

** Schemes and incentives directly related to sales revenue has been netted against sales revenue as per NFRS 15.

### 21.1 Disaggregation of revenue from contracts with customers

The Company derives revenue from sale of products from following major segments:

| Particulars | Year ended March 31,2025 (NRS) | Year ended March 31,2024 (NRS) |
|---|---|---|
| **1) Revenue from contracts with customers:** | | |
| **Sale of products (Transferred at point in time)** | | |
| Manufacturing Sale | | |
| Nepal | 1,089,621,369.88 | 1,031,699,846.19 |
| Export | - | - |
| Trading Sale | 45,390,186.00 | 46,285,560.00 |
| | **1,135,011,555.88** | **1,077,985,406.19** |
| **2. Other operating revenue:** | | |
| Sale of Scrap | 3,609,665.57 | 4,797,252.72 |
| | **3,609,665.57** | **4,797,252.72** |
| **Major Product lines** | | |
| Paint | 1,089,621,369.88 | 1,031,699,846.19 |
| | **1,089,621,369.88** | **1,031,699,846.19** |
| **Sales by performance obligations** | | |
| Upon delivery | 1,089,621,369.88 | 1,031,699,846.19 |
| | **1,089,621,369.88** | **1,031,699,846.19** |
| **Reconciliation of revenue from contract with customer:** | | |
| Revenue from contracts with customer as per the contract price | 1,449,038,609.38 | 1,349,899,032.59 |
| Adjustments made to contract price on account of | | |
| a) Discounts/Rebates/Incentives | (314,027,053.50) | (271,913,626.40) |
| b) Other Operating Revenue | 3,609,665.57 | 4,797,252.72 |
| **Revenue from contracts with customer as per Profit and Loss** | **1,138,621,221.45** | **1,082,782,658.91** |

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## KNP Japan Private Limited
### Notes forming part of the Accounts for the year ended March 31, 2025

**22. Other Income**

| Particulars | Notes | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|---|
| **Separate for Colorant and Sale of Fixed Assets** | | | |
| Profit/(Loss) On Sale Of Colorant Machine | 22.1 | 1,140,949.31 | 226,430.16 |
| Other Income | 22.1 | 377,811.47 | 1,750,767.43 |
| Interest from: | | | |
| - Bank deposits | 22.2 | 13,320,057.20 | 26,583,529.90 |
| | | **14,838,817.98** | **28,560,727.49** |

**22.1. Other Income**

Other income comprises of miscellaneous income received on sale of colourant machine which is ancilliary to minor operation of the company.

**22.2. Interest Income**

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

**23. Cost of Sales**

| Particulars | | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|---|
| Raw Material Consumed | 23.1 | 482,531,210.03 | 492,293,372.31 |
| Packing Material Consumed | 23.1 | 73,356,444.18 | 84,752,900.83 |
| Changes in Inventories of Finished Goods, WIP & Stock in Trade | 23.2 | 34,246,506.75 | (6,813,383.76) |
| Production & Manufacturing Overheads | 23.3 | 34,195,545.60 | 35,760,556.98 |
| | | **624,329,706.56** | **605,993,446.36** |

**23.1. Cost of Material Consumed**

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| **Raw Material Consumed** | | |
| Opening Stock | 75,695,512.38 | 70,337,662.88 |
| Add: Purchase During the period | 470,480,994.11 | 497,651,221.81 |
| Less : Closing Stock | 63,645,296.46 | 75,695,512.38 |
| | **482,531,210.03** | **492,293,372.31** |
| **Packing Material Consumed** | | |
| Opening Stock | 4,247,823.33 | 5,948,455.63 |
| Add: Purchase During the Period | 71,046,569.05 | 83,052,268.53 |
| Less : Closing Stock | 1,937,948.20 | 4,247,823.33 |
| | **73,356,444.18** | **84,752,900.83** |
| | **555,887,654.21** | **577,046,273.14** |

**23.2. Changes in Inventories of Finished Goods, WIP & Stock in Trade**

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| **Stock at the Beginning of the Period** | | |
| Finished Goods | 163,518,609.53 | 156,705,225.77 |
| Semi Finished Goods | 122,147.50 | 122,147.50 |
| | **163,640,757.03** | **156,827,373.27** |
| **Stock at the end of the Period** | | |
| Finished Goods | 129,272,102.78 | 163,518,609.53 |
| Semi Finished Goods | 122,147.50 | 122,147.50 |
| | **129,394,250.28** | **163,640,757.03** |
| | **34,246,506.75** | **(6,813,383.76)** |

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# KNP Japan Private Limited
## Notes forming part of the Accounts for the year ended March 31, 2025

### 23.3. Production & Manufacturing Overheads

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---:|---:|
| Consumption of Store & Spares | 2,319,515.92 | 1,738,316.99 |
| Labour Wages & Other Benefits | 21,086,360.32 | 22,347,076.93 |
| Electricity Expenses | 1,756,053.37 | 1,881,023.54 |
| Repair & Maintenance: | | |
| - Machinery | 1,172,051.62 | 1,059,111.13 |
| - Building | 30,920.00 | 181,397.91 |
| Insurance Expenses | 2,644,794.24 | 2,614,844.16 |
| Other Production Expenses | 122,926.79 | 350,615.68 |
| Security Expenses Factory | 2,773,016.91 | 2,830,564.50 |
| Cleaning/Housekeeping Expenses | 785,188.75 | 676,932.10 |
| Laboratory Expenses | 204,717.54 | 161,226.55 |
| Generator Running Expenses | 1,300,000.14 | 1,919,447.49 |
| | 34,195,545.60 | 35,760,556.98 |

### 24. Administrative Expenses

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---:|---:|
| Employee Benefit Expenses | 77,286,286.12 | 75,752,304.02 |
| Insurance Expenses | 2,443,096.88 | 3,049,667.30 |
| Security Expenses | 2,659,730.00 | 2,317,003.50 |
| Telephone and Other Communication Expenses | 3,309,083.64 | 3,446,387.34 |
| Printing and Stationery | 836,890.89 | 1,180,302.85 |
| Rent | 20,488,869.93 | 18,594,333.00 |
| Repair & Maintenance: | | |
| - Vehicle | 2,397,929.63 | 2,697,097.01 |
| - Computer & office Equipment | 319,863.65 | 256,383.19 |
| Travelling and Conveyance | 18,266,724.78 | 20,196,091.06 |
| Auditors' Remuneration | | |
| - Audit Fees | 500,000.00 | 500,000.00 |
| Legal Expenses | 3,144,629.54 | 2,405,332.55 |
| General Consultancy and Professional Charges | 1,497,043.80 | 937,400.00 |
| Bank Commission | 1,587,036.99 | 763,576.45 |
| Rates & Taxes & Renewals | 2,193,287.91 | 1,047,255.00 |
| Miscellaneous Office Expenses | 1,566,305.05 | 2,244,271.68 |
| Donation & Presentation | 4,773.00 | 24,905.00 |
| Sales Support Service Expenses | 9,759,562.44 | 8,257,494.83 |
| Vehicle Fuel | 2,382,128.54 | 1,509,366.91 |
| Software Amc Charges | 3,060,000.00 | 3,060,000.00 |
| Royalty Expenses | 24,595,111.66 | 22,913,327.51 |
| Impairment losses on Receivables | 8,000,000.00 | 16,332,996.00 |
| Exchange Gain & Loss | 224,258.84 | 13,975.07 |
| Fine & Penalty | 2,365,172.00 | 1,281,933.00 |
| Allocation for CSR Fund | 1,260,267.00 | 1,141,792.00 |
| Bonus | 12,602,670.00 | 11,417,915.00 |
| Electricity Expenses | 843,858.50 | 968,112.59 |
| | 203,594,580.79 | 202,309,222.86 |

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# KNP Japan Private Limited
## Notes forming part of the Accounts for the year ended March 31, 2025

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

| Particulars | Year ended March 31. 2025 (NRS) | Year ended March 31. 2024 (NRS) |
|---|---|---|
| Salary & Allowances | 50,529,788.41 | 49,771,333.73 |
| Deputation Expenses | 18,079,834.56 | 17,543,936.04 |
| Contribution to Social Security Fund | 3,253,052.40 | 3,084,745.61 |
| Leave Encashment | 653,501.93 | - |
| Staff Welfare Expenses | 4,770,108.82 | 5,352,288.64 |
| Employee Profit Bonus | 12,602,670.00 | 11,417,915.00 |
| | **89,888,956.12** | **87,170,219.02** |

**24.1.1 Deputation Charges**
The Company has provided the deputation service charges amounting to NRs.18.08 Million for the Year Ended from April 1, 2024 to March 31, 2025 to "M/s Kansai Nerolac Paints Ltd., India, as per the agreement entered into with them. The deputation service charge is paid towards the manpower service provided by the parent company to the subsidiary as per the requirement of the subsidiary and included in salary & allowances in Note 27.

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

**24.1.2 Contribution to Social Security Fund**
The Company has schemes of employment benefits namely Social Security fund as per labour act 2017. Eligible employees receive the retirement benefit plan established with Social Security Fund (SSF) which is a defined contribution plan. Both the employee and company make monthly contributions to the SSF plan equal to 31% percent (20% by Employer & 11% by Employee) of the basic salary/wages.

**24.1.3 Leave Encashment**
The company has provided Leave liability as per accumulated leave provided as per Labour Act, 2074.
The company has not done acturial valuation for leave liability as the impact was considered immaterial by the management.

**24.2. Auditor Remuneration**

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| Statutory Audit Fee | 400,000.00 | 400,000.00 |
| Tax Audit Fee | 100,000.00 | 100,000.00 |
| | **500,000.00** | **500,000.00** |

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

However from Oct 16, 2021 the company has proposed to increase royalty to 2 % i.e. clause 3.1.1. of article III will be changed to 2% from 1%. Accordingly, The Company has booked Royalty amounting to NRs. 24.60 Millions for the period from April 1, 2024 to March, 2025.

**24.4. Provision impairment losses on Receivables**
The Company has made provisions for impairment during the year for Rs.8 million The impairment loss as been recognized as per Expected Credit Loss model (ECL) NFRS 9 which has been disclosed in Notes 36 of Financial Statements

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## KNP Japan Private Limited
### Notes forming part of the Accounts for the year ended March 31, 2025

**25. Selling & Distribution Expenses**

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| Advertisement | 42,413,717.90 | 48,280,963.28 |
| Transportation/Loading-Unloading | 40,599,366.66 | 39,484,468.50 |
| Painter Token | 14,126,264.08 | 7,830,077.42 |
| Painter Scheme Expenses | 59,422,979.40 | 57,964,787.86 |
| Sales Promotion | 28,828,507.23 | 15,484,300.36 |
| Colourant Amc Charges | - | 3,389,723.69 |
| | **185,390,835.27** | **172,434,321.11** |

**26. Finance Cost**

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

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| Interest Expenses | 1,419,225.48 | 4,470,702.48 |
| | **1,419,225.48** | **4,470,702.48** |

**27. Depreciation And Amortization Expenses**

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| Depreciation / Amortisation for the year | | |
| Tangible Assets | 13,959,256.86 | 13,098,334.41 |
| Intagible Assets | - | - |
| | **13,959,256.86** | **13,098,334.41** |

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# KNP Japan Private Limited
## Notes forming part of the Accounts for the year ended March 31, 2025

**28. Earning Per Share**

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

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

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

| Particulars | Year ended March 31, 2025 (NRS) | Year ended March 31, 2024 (NRS) |
|---|---|---|
| Profit for the year (Rs.) after tax | 95,136,881.47 | 89,073,580.18 |
| Weighted average number of shares | 1,300,000 | 1,300,000 |
| Basic Earning per share (Rs.) | 73.18 | 68.52 |
| Diluted Earning per share (Rs.) | 73.18 | 68.52 |

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

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## KNP Japan Private Limited
### Notes forming part of the Accounts for the year ended March 31, 2025

**29. Contingent Liabilities & Capital Commitments:**

**29.1. Contingent Liabilities**

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

**29.1.1 Claims against the Company not Acknowledged as debt:**

**i) Corporate Tax Matters:**

The Income Tax assessment has been completed up to F/Y 2019/20 (i.e. up to July 16, 2020). The company has not accepted the said assessment of the tax liabilities regarding Income Taxes assessed @ 20%. The company has appealed against it and the case is pending at Supreme court, the verdict of which is still awaiting. The detail of demand is given below:

| Fiscal Year | Tax | Letter Reference No. | Letter Reference No. |
|---|---|---|---|
| 2016-17 (2073/74) | 13,776,107.62 | Ch. No.1826 | Ch. No.1826 |
| 2017-18 (2074/75) | 15,577,184.00 | Ch. No.831 | Ch. No.831 |
| 2018-19 (2075/76) | 21,236,675.87 | Ch. No.142 | Ch. No.142 |
| **Total** | **50,589,967.49** | | |

**ii) Indirect Taxes Matters:**

The Customs Office, Parsa has demanded against short duty, Excise & short VAT which arises due to the valuation issue raised by Customs Office. As per the company the item should be classified in the HSN Code of duty rate of 10% but was classified by the Customs Office in HSN code of duty rate of 30%. Accordingly, the differential customs duty of 20%, Excise @ 7% & VAT @ 13% on it has been demanded by the Customs Office. The company has not accepted the said demand as detailed below and is in the process of appeal against it.

| Letter Reference No. | Letter Reference Date | Custom | Excise Duty | VAT | Total |
|---|---|---|---|---|---|
| 076/077 Ch.No.70 | 21/09/2076 | 7,586,494.00 | 3,451,855.21 | 1,434,985.41 | 12,473,334.62 |
| M 2988 & M 6950 | 05/02/2021 & 21/03/2021 | 2,269,824.78 | - | 295,077.22 | 2,564,902.00 |
| **Total** | | **9,856,318.78** | **3,451,855.21** | **1,730,062.63** | **15,038,236.62** |

**iii) Pending Litigations:**

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

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

**b) Suit Filed by Company on Debtors:**

The Company has send the Legal Notice to customers through company lawyer whose outstanding more than 180 days or more to recover the company money.

**iv) Unexpired Letter of Credits:**

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

| Particulars | As At March 31, 2025 (NRS) | As At March 31, 2024 (NRS) |
|---|---|---|
| Letter of Credits | 53,279,316.40 | 45,915,444.93 |

**29.1.2 Bank Guarantee:**

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

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# KNP Japan Private Limited
## Notes forming part of the Accounts for the year ended March 31, 2025

**30. Dividend:**

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

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

| **Particulars** | **As At March 31, 2025 (NRS)** | **As At March 31, 2024 (NRS)** |
|---|---|---|
| Dividend Appropriated/Paid during the year | 65,000,000.00 | 26,000,000.00 |
| Dividend Per shares: | 50.00 | 20.00 |

**31. Capital Management:**

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

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

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

No changes were made in the objectives, policies or processes for managing capital during the Period ended March 31, 2025 and March 31, 2024.

**32. Lease NFRS 16:**

The Company has not been recognized Right of uses Assets and Lease liability as per NFRS 16, because as per paragraph B34 i.e. 'A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty".

Since, all the lease are cancellable on mutual agreement between both lessor and lessee without significant penalties.

**33. Allowances of Credit Losses:**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes financial statements, credit agency information, industry information and in some cases bank references. Sales limits are established for each customer and reviewed constantly. Any sales exceeding those limits require approval from the management.

The concentration of credit risk is limited due to the fact that the customer base is large. There is no customer representing more than 5% of the total balance of trade receivables. For trade receivables, as a practical expedient, the Company computes credit loss allowance based on a provision matrix. The provision matrix is prepared based on historically observed default amounts over the expected life of trade receivables and is adjusted for forward-looking estimates.

| **Movement in expected credit loss allowance on trade receivable** | **As At March 31, 2025 (NRS)** | **As At March 31, 2024 (NRS)** |
|---|---|---|
| Balance at the beginning of the year | 232,264,358.95 | 222,227,874.49 |
| Loss allowance measured at lifetime expected credit losses | 8,000,000.00 | 16,332,996.00 |
| Trade receivables writtenoff | (36,048,592.78) | (6,296,511.54) |
| **Balance at the end of the year** | **204,215,766.17** | **232,264,358.95** |

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## KNP Japan Private Limited
## Notes forming part of the Accounts for the year ended March 31, 2025

**34. Financial Instruments:**
**Accounting Classifications and Fair Value**
The fair value of the assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

a) Fair Value of cash and short-term deposits, trade and other short term receivables, trade payables, other current liabilities, short term loans from banks and other financial instruments approximate their carrying amounts largely due to the short term maturities of these instruments

b) Financial instruments with fixed and variable interest rates are evaluated by the company based on parameters such as interest rates and individual credit worthiness of the counterparty. Based on this evaluation, allowances are taken to the account for the expected losses of these receivables.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The carrying amounts and fair values of financial instruments by class are as follows:

| | Carrying value | | | Fair value measurement using | | |
|---|---|---|---|---|---|---|
| **Particulars** | **Fair value through profit and loss ('FVTPL')** | **Fair value through other comprehensive income ('FVOCI')** | **Amortised cost** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets** | | | | | | |
| **Non-Current:** | | | | | | |
| Security Deposits | - | - | 671,789.00 | - | - | 671,789.00 |
| BG Margin | - | - | 300,000.00 | - | - | 300,000.00 |
| **Current:** | | | | | | - |
| Trade Receivables | - | - | 683,172,640.52 | - | - | 683,172,640.52 |
| Financial Assets At Amortized Cost | - | - | 325,720,000.00 | - | - | 325,720,000.00 |
| **Total** | **-** | **-** | **1,009,864,429.52** | **-** | **-** | **1,009,864,429.52** |
| **Financial liabilities** | | | | | | |
| **Non-Current:** | | | | | | |
| Other Financial Liabilities | - | - | 20,052,005.36 | - | - | 20,052,005.36 |
| Provisions | - | - | 23,375,032.31 | - | - | 23,375,032.31 |
| **Current:** | | | | | | |
| Trade Payables | - | - | 142,168,185.14 | - | - | 142,168,185.14 |
| Other Financial Liabilities | - | - | 262,809,391.04 | - | - | 262,809,391.04 |
| **Total** | **-** | **-** | **448,404,613.85** | **-** | **-** | **448,404,613.85** |

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## KNP Japan Private Limited
### Notes forming part of the Accounts for the year ended March 31, 2025

**35. Income Tax Assessment:**

The Income Tax assessment has been completed up to F/Y 2076/77 (up to Ashad 31, 2077 equivalent to July 16, 2020). The company has not accepted the said assessment of the tax liabilities regarding Income Taxes assessed @ 20% for FY 2073/74, 2074/75 & 2075/76. The company has appealed against it and the case is pending at Supreme court, the verdict of which is still awaiting. The detail of demand is given below:

| FY | Tax | Letter Ref. No. | Letter Ref. Date |
|---|---|---|---|
| 2073/74 | 13,776,107.62 | Ch. No.1826 | 11/06/2075 |
| 2074/75 | 15,577,184.00 | Ch. No.831 | 08/05/2078 |
| 2075/76 | 21,236,675.87 | Ch. No.142 | 08/03/2080 |
| **Total** | **50,589,967.49** | | |

The IRD has also assessed the VAT & TDS amount of FY 2076/77. The company has accepted the said assessment & the company has paid these tax liabilities. The detail of TDS & VAT paid is given below:

| FY | VAT Fine | TDS Fine | Total | Letter Ref. No. | Letter Ref. Date |
|---|---|---|---|---|---|
| 2073/74 | 3,017,553.00 | 327,156.94 | 3,344,709.94 | Ch.No.1825, 1827 | 11/06/2075 |
| 2075/76 | 640,933.00 | 8,215.00 | 649,148.00 | Ch. No.127, 126 | 16/02/2080 |
| 2076/77 | 2,354,894.26 | - | 2,354,894.26 | Ch. No.196 | 16/03/2081 |
| **Total** | **6,013,380.26** | **335,371.94** | **6,348,752.20** | | |

**36. Related Party Disclosures:**

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

**Holding Company:**
Kansai Nerolac Paints Limited, Mumbai, India

**Subsidiary Company :**
None

**Key Managerial Personnel:**

| | |
|---|---|
| Ashok Kumar Baid | Director |
| Jeevan Kumar Agrawal | Director |
| Manoj Kumar Mishra | Country Head |
| Pradeep Agrawal | Senior Manager(Commercial) |
| Pravin Eknath Jadhav | Factory Head |
| Anil Kr. Singh | Deputy Manager, Accounts & Finance |

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## KNP Japan Private Limited

**Notes forming part of the Accounts for the year ended March 31, 2025**

**ii) Related Party Transactions:**

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

| Party Name | Relation - Nature of Transaction | Opening | (Purchase)/ Sales | Others | (Receipts)/ Payments | Closing Balance |
|---|---|---|---|---|---|---|
| Nepal Shalimar Cement Pvt. Ltd. | Common Director - Sales | 99,745.16 | - | - | (99,745.16) | - |
| Goyal Hardware, Biratnagar | Common Director - Sales | 122,248.77 | 1,178,476.00 | - | 848,449.72 | 452,275.05 |
| Siddhi Vinayak Pvt. Ltd., Birgunj | Related to Director - Sales | 5,205,654.32 | 20,780,432.00 | - | (26,998,109.29) | (1,012,022.97) |
| Siddhi Vinayak Pvt. Ltd., Birgunj | Related to Director - Purchase | (478,837.50) | (7,589,435.95) | - | 7,727,465.45 | (340,808.00) |
| Shalimar Investment Co. Pvt. Ltd. | Common Director - Rent | 197,653.00 | (6,107,491.00) | - | 6,779,514.00 | 869,676.00 |
| Preeti Baid | Director Wife - Rent | 346,504.00 | (3,298,830.00) | - | 3,415,374.00 | 463,048.00 |
| Kansai Nerolac Paints Ltd. Kanpur, Jainpur | Holding - Purchase | (66,158.80) | - | - | - | (66,158.80) |
| Kansai Nerolac Paints Ltd. Mumbai | Holding - Service | (77,300,545.67) | - | (62,896,401.68) | 36,272,886.53 | (103,924,060.82) |
| Mr. Ashok Kumar Baid | Director | - | - | (7,410,000.00) | - | (7,410,000.00) |
| Mr.Jeevan Kumar Agrawal | Director | - | - | (7,410,000.00) | - | (7,410,000.00) |
| Mr. Raj kumar Baid | Shareholder | - | - | (2,470,000.00) | - | (2,470,000.00) |
| Mr. Vijay Singh Baid | Shareholder | - | - | (2,470,000.00) | - | (2,470,000.00) |
| **Total** | | **(71,873,736.72)** | **4,963,151.05** | **(82,656,401.68)** | **27,945,835.25** | **(123,318,051.54)** |

**37. Expenses for Selling & Distribution Expenses:**

The company has made expenses for sales promotion expenses & other sales related expenses like trip schemes, dealer season schemes etc. based on the estimated calculations related to the sales for Year ended March 31, 2025.

**38. Period & Purpose of Financial Statement:**

As per the provisions of Income Tax Act, 2002, the period of financial statements should be from the date of registration to the end of financial year i.e. July 16, 2025. However this financial statement has been prepared for the period from April 01, 2024 to March 31, 2025 for purpose of consolidation with the holding company M/s Kansai Nerolac Paints Limited, India as per regulatory requirement.

**39. Events after Reporting Date:**

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

**40. Regrouping of Figures:**

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

**41. Miscellaneous:**

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

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

B. K. AGRAWAL & Co.
Kathmandu
Chartered Accountants