BHUTAN TELECOM LTD

Always there for you

A dhi Company

Annual Report | 2020

The year in review

2020 was a very challenging year for everyone across the globe, with the restrictions posed by the Covid-19 pandemic causing economic disruptions and loss of millions of lives. As per GSMA, the world's reliance on the internet has never been greater, and the pandemic has underscored the importance of the internet and the critical role of mobile connectivity. Certain segments of the telecom business such as international roaming and sale of devices have been impacted in 2020, but the growth in mobile revenue has outperformed the real GDP in most of the developing countries. With the rise in data traffic, GSMA emphasized the significance of reliable connectivity and the importance of scaled network infrastructures. Likewise, GSMA reported that operators continued to deploy 5G network amid the pandemic and reported that there are now 113 operators across 48 countries with 5G network.

In keeping with the core values and social mandates of the company, Bhutan Telecom continued to enhance its mobile connectivity to far-flung villages, along the national highways and scaled up its network infrastructure to meet the surge in demand for internet in core towns across the country. As part of the company's initiative to drive digitalization and also to stand in solidarity with the nation, mobile internet was made affordable by enhancing the data quota by 15 percent for all packages in June 2020, and the packages were further enhanced by 20 to 23 percent with effect from September 2020. To facilitate work from home and online learning initiatives implemented by the government, 50 percent additional data quota for fixed broadband internet packages were provided with effect from April to December 2020 and special mobile data packages for students were implemented with effect from May 11, 2020.

Despite the challenges faced in 2020, the company performed well and achieved all the financial targets set by the shareholder and the Board. The company recorded a revenue of Nu 4,785.75 Million and a profit after tax of Nu 1,538.24 Million, marking a revenue growth of 18.49% and profit after tax growth of 39.52% respectively, as compared to 2019. In keeping with the good financial returns, the company contributed Nu 733.49 Million as the Corporate Income Tax, marking an increase by 22.61% as compared to 2019. Likewise, the company contributed a dividend of Nu 1,550 Million to DHI, marking an increase of 50.48% as compared to 2019, thus recording a total contribution of Nu 2,283.49 million to the government in the form of tax and dividend. The good financial returns could be attributed to the company's prudent investments guided by the Board and DHI, and also constant improvements made in the daily operations leading to cost efficiency. The company couldn't realize its plan of rolling out 5G technology in at least three core towns in 2020, due to the disruptions in the global supply chain and the travel restrictions imposed by the pandemic, yet the company played a very important role in keeping the society connected, offices, and schools running virtually, without major setbacks. Besides the reduction of tariffs and enhancement of network quality to keep the society connected, the company contributed Nu 258.32 million to the government's covid-19 fund and extended free and adequate internet services to the quarantine centers and offices to strengthen effective communications in the nation's effort to contain the spread of Covid-19 pandemic. As part of digital initiatives and the digital roadmap, the company implemented Virtual Private Servers (VPS) in the cloud, a campaign management system (CRM), B-Krita (a game portal), and revamped its B-Trowa services.

Besides the challenges and disruptions caused by the pandemic, the company continues to face challenges of retaining skilled employees and threats from rapidly advancing technologies. Accordingly, the company would continue to assess and address the shortfalls in 2021, and the company would earnestly pursue implementing 5G network in at least three core towns of Thimphu, Paro, and Phuntsholing. Another recurrent challenge for the company is improving the customer satisfaction score, where the company has recorded a satisfaction score of 3.83 against the target of 3.90 in 2020. Therefore, the company would continue to focus on improving customer satisfaction across all the areas of operations and categorically focus on the weak area concerning service quality attributes. Additionally, the company would continue enhancing internet services across the country, enhance complaint handling systems and stay abreast with technological advancements.

Despite all the challenges, the country didn't face many difficulties and challenges like other countries, all because of His Majesty the Druk Gyalpo's leadership. Therefore, I would like to submit our heartfelt gratitude to His Majesty the Druk Gyalpo for his selfless leadership and guiding the nation throughout such a difficult time. I would like to thank all our valued customers for being with us and providing us with the platform to grow and improve, in this rapidly advancing industry and trying times. I also take this privilege to thank the DHI and the BT Board for all the guidance and support received in 2020. I am also thankful to all the employees of the company for their unwavering support and rising to the occasion and ensuring uninterrupted services. I on behalf of the employees of the company and my behalf would like to rededicate our services to the Tsa-Wa-Sum.

Yours Sincerely,

Karma Jurme

Chief Executive Officer

1 Company Profile

Mission Statement

We are the providers of innovative and reliable ICT services, keeping Bhutan Connected.

Vision Statement

To be the Company of Choice.

1.1 Values

Team Work: We believe and commit to have a platform for employees to work together in the best interest of the company. We help each other succeed.

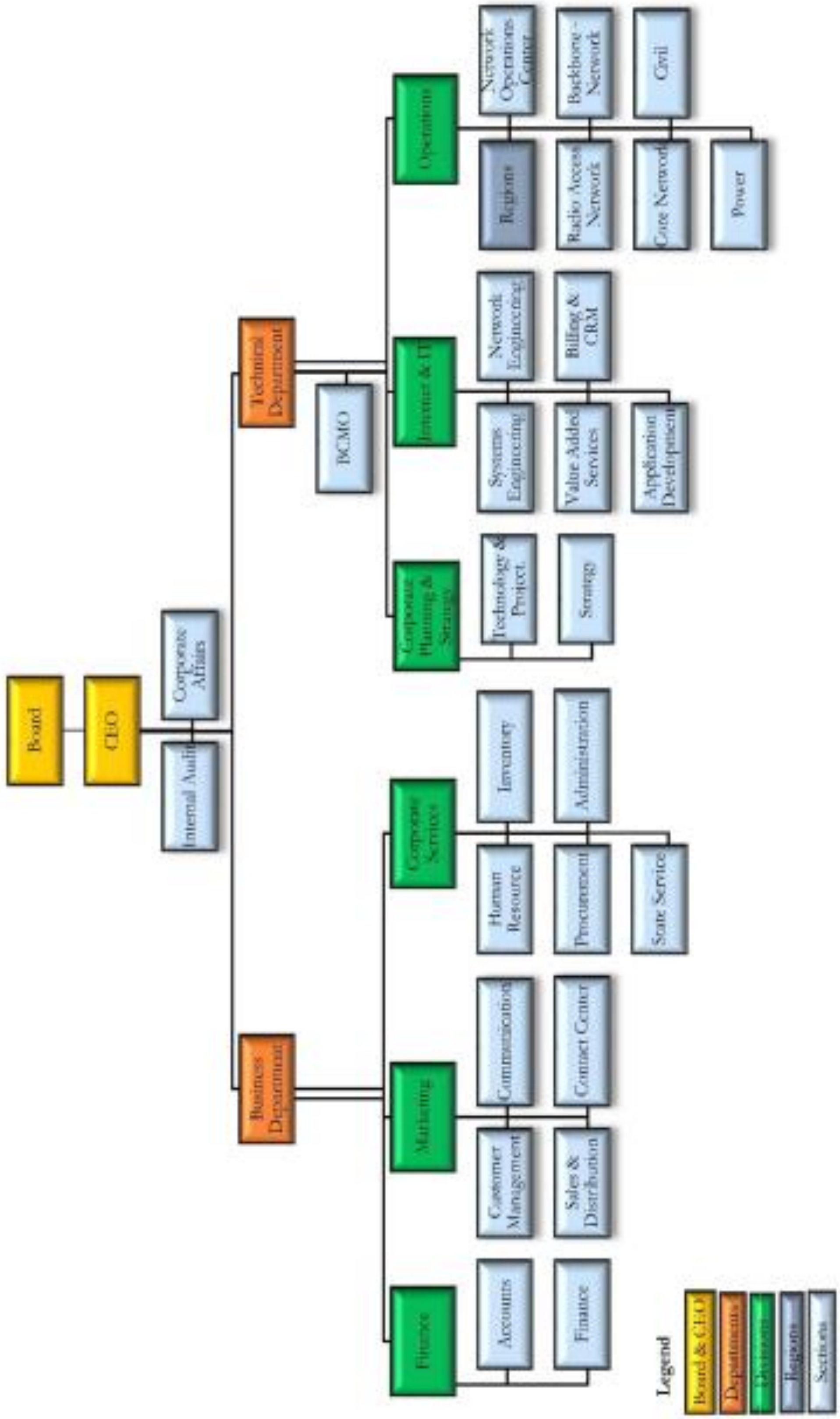
Integrity: We believe and commit to practice high ethical business standard in all business transactions including handling customers, suppliers and company information. We value in conducting our business with honesty, transparency and highest level of corporate ethics.

Growth: We believe and commit to create an enabling environment for employees to come up with new innovative ideas, which will contribute to the employees and the company's growth. To continuously develop human capacities and capabilities through education and training of employees.

Excellence: We believe and commit to strive for the highest possible standards while conducting business with continuous improvement, constantly seeking solutions to problems. To deliver quality services to meet customer expectations (external) and exerting efforts to obtain feedback from customers to understand their needs and wants.

Responsiveness: We believe and commit to respond swiftly to the fast changing market environment and requirements/feedbacks of customers. We should be able to anticipate emerging needs of the customers and market dynamics.

1.2 Organizational Chart



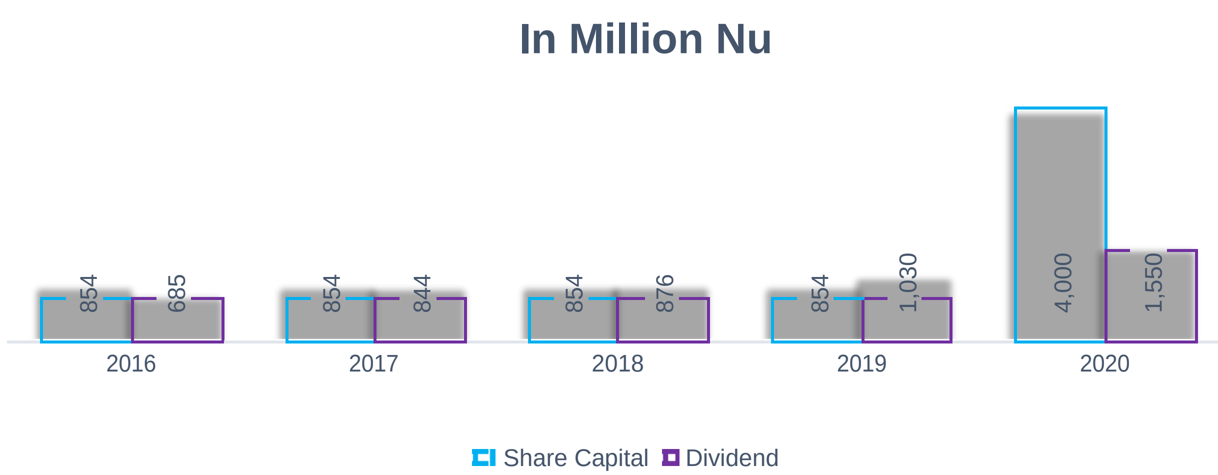
Revenue, Expenditure and Profit after Tax.

In Million Nu

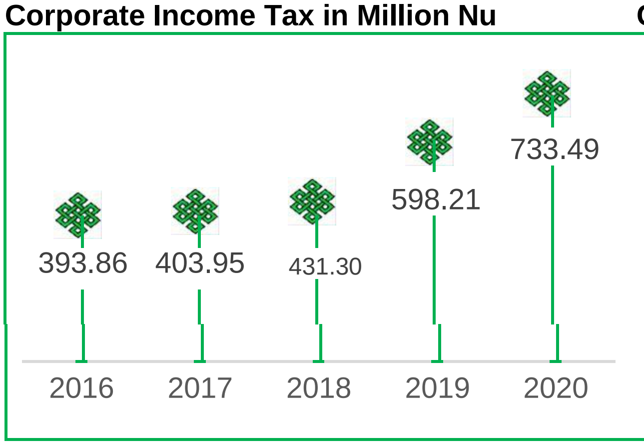
2016	2017	2018	2019	2020
3,131.86	3,175.05	3,593.28	4,039.01	4,785.75
1,852.88	1,947.87	2,220.20	2,338.28	2,514.01
869.10	839.67	941.79	1,102.51	1,538.25

Legend: **Revenue | Operational Expenditure | Profit after Tax**

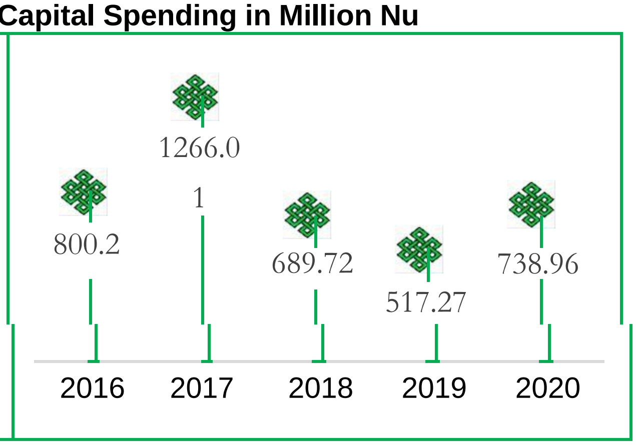
Dividend in Million Nu



Corporate Income Tax in Million Nu



Capital Spending in Million Nu



1.3 BT Day Celebration:

Coinciding with the World Telecommunication and Information Society Day, Bhutan Telecom celebrated the fourth BT day in Thimphu, Headquarter office on May 17, 2020. BT Day is observed every year to celebrate successes and achievements of the company by bringing together all employees of the company, and also to reward high performing employees. However, amid pandemic gathering was avoided and only the management team and awardees were present during the event.

1.4 Service launch:

Vivo launch:

There was an affirmative start to the year with the signing of the memorandum of understanding (MoU) between Vivo Mobile India Private limited (manufacturer), 8 Eleven (supplier), and Bhutan Telecom (distributor). A well-defined strategy was developed for the sale and distribution of Vivo smartphones, with BT holding the absolute right to sell, distribute, promote, and market the product through BT's official service counters across the country. The pricing model and the SOP were established following the customer segmentation process. Two potential buyer categories were identified i.e. internal customers (BT staff) and external customers. Following the MoU. BT officially launched Vivo phones on 31st January 2020.

B-Trowa, B-Krita & RMA link:

On December 18, 2020, Bhutan Telecom launched two entertainment applications namely, B-Krita and an enhanced B-Trowa—already existing streaming platform. Both the applications have been developed with an aim to deliver entertainment to the people through a customer-centric application aligned to the global trends.

B-Trowa has been developed as a streaming entertainment service following a user subscription model. Through the service, subscribers will get access to various contents, ranging from movies, documentaries, and music to online learning and educational resources at a minimal subscription fee. Additionally, users can also opt for a free-of-cost version through which users will have access to BBS channels 1 & 2 and BBS radio channels 1 & 2. B-Trowa comes in both app-based and web-based versions.

B-Krita, on the other hand, is a gaming platform which brings global third party online games together on one platform. There is a growing demand for mobile gaming worldwide with 1.9 billion people engaged in mobile gaming today. This growing demand holds true for Bhutan as well. Keeping user demand in mind, B-Krita has been launched to ensure a smooth gaming experience for Bhutanese mobile gamers who can now find online games under one portal. This will eliminate the need to download multiple gaming applications, thus ensuring a convenient access to mobile games for all users. Additionally, BT also inaugurated a payment getaway link in collaboration with RMA.

2 Board Directors

Mr. Pema L. Dorji has a Master's degree from Fletcher School of Law and Diplomacy, Tufts Univertsity, USA and a Master's degree in Political Science from Delhi University. He has more than 29 years of work experience in the Ministry of Foreign Affairs, Royal Bhutanese Embassy in New Delhi and Dhaka. He also served as the Director for SAARC Secretariat and Deputy Permanent Representative to UN, New York. He is currently serving as Director General, Department of Immigration, MoHCA. He is the Chairman of BT Board and serves as an independent, non-executive director on BT Board.

Mr. Jigme Tenzing has a Masters in Information and Computer Science from University of Oregon, US. He has more than 18 Years of work experience in the field of strategic planning and Computer Science and Information Technology. He is currently serving as the Director, Department of Information Technology and Telecom. He serves as a non-independent, non-executive director on BT Board.

Ms. Jamyang Choeden has a M.Phil in International and Comparative Education from University of Oslo, Norway. She has more than 35 years of work experience in the field of education, strategic planning and administration. She is currently serving as the Director for Bhutan Council for School Examinations and Assessments. She serves as an independent, non-executive director on BT Board.

Mr. Gonpo Tenzin has a Masters in Urban and Regional Planning from University of Canberra, Australia. He has more than 18 years of experience in the field of strategic planning, research, program monitoring and evaluating experience. He is currently serving as the Chief, Policy & Planning Division for National Land Commission. He serves as independent, non-executive director on BT Board.

Dr. Lam Dorji has a Ph.D in Natural Resources Management from Asian Institute of Technology, Thailand. He has more than 29 years of experience in the field of environment management, innovative financing and sustainable development, governance and organizational management. He served as the Executive Director for the Royal Society for protection of nature and currently serving as an Independent Environmental Monitoring Expert at Construction Development Corporation Limited (CDCL) / ADB. He serves as an independent, non-executive director on BT Board.

Mr. Chencho Tshering Namgay has a Masters in Business Administration from Asian Institute of Management, Phillipines. He has more than 18 Years of work experience in the field of corporate finance, Financial securities, investment, risk management, project management, telecom infrastructure and power system automation. He is currently serving as the Director, Department of Investments for Druk Holding and Investments Ltd. He serves as a non-independent, non-executive director on BT Board.

Mr Karma Jurme has a Masters in Human Resources Management from Curtin University in Australia. He has more than 30 years of work experience in the field of Administration and Human Resource Management. He is the Chief Executive Officer for Bhutan Telecom Ltd. He serves as a non-independent, executive director on BT Board.

3 Management Team

Top Row (left to right): GM, Operations I GM, Corporate Services I GM, Marketing | GM, Finance
Front Row (left to right): GM, Corporate Planning & Strategy | Director, Business Dept. | Chief Executive Officer | Director, Technical Dept. | GM, Internet & IT

Mr. Karma Jurme is the Chief Executive Officer and he has more than 30 years of work experience in the field of administration and Human Resource Management. He holds a Masters in Human Resources Management from Curtin University in Australia.

Mr. Karma Tshewang is the Director, Technical Department. He has more than 24 years of work experience in the field of management and telecommunications, and holds a bachelor's degree in Electrical Engineering from Penn State University in USA.

Mr. Sangay Wangdi is the Director, Business Department. He has more than 18 years of work experience in the field of Marketing and Finance and holds a Master of Business Administration from Naresuan University in Thailand.

Mr. Jichen Thinley is the General Manager, Corporate Planning and Strategy Division. He has more than 31 years of work experience in the field of internet technology and telecommunications.

Mr. Jambay Sither is the General Manager, Operations Division. He has more than 29 years of work experience in the field of telecommunications and holds a Masters in Technology in Mobile Communication and Networking Technology from West Bengal University of Technology.

Mr. Dawa Sonam is the General Manager, Internet & IT Division. He has served as the IT Head, DHI prior to his current appointment and holds a Master in Information Technology from Mudorch University, Australia.

Mr. Phuntsho is the General Manager, Corporate Services Division. He has more than 18 years of work experience in the field of administration and human resource management, and holds a Masters in Human Resource Planning and Development from Institute of Applied Manpower Research, India.

Mr. Jigme Thinley is the General Manager, Marketing Division. He has more than 21 years of work experience in the field of taxation, business & finance, human resource management, marketing, Business development and organizational development, and holds a MBA (International Business) from Asian Institute of Technology, Thailand.

Mr. Jigme Thinley is the General Manager, Finance & Accounts Division. He has served as a Senior Financial Analyst and Head of Account with DHI prior to his current appointment, and holds a MBA (Specialization in Finance) from the Australian National University, Australia.

4 Directors' Report

Introduction.

On behalf of the Board of Directors of Bhutan Telecom Limited and the management, I would like to report that the year 2020 has been a very challenging year for the company due to the challenges posed by the Covid-19 pandemic. Despite the challenges, the company was able to live up to its mandate by ensuring uninterrupted telecommunications services. I am very happy to present the Directors' Report – 2020 covering operational performance, audited financial statements, audit observations/recommendations, corporate governance, corporate social responsibility, and the challenges and way forward for 2021.

Operational highlights.

In keeping with the company's mission to always be the providers of innovative and reliable ICT services, keeping Bhutan connected at all times, the company continued to prioritize enhancing network reliability and accessibility across the country, to keep the nation abreast with the global technological advancements. Some of the key operational performance and achievements are highlighted below:

Considering network reliability and high-speed data availability as the key factors for enhancing service quality, the company focused on commissioning additional 4G sites and sectors across the country. A total of 78 new 4G (LTE) sites and 22 sector addition, 44 new 3G nodes and 20 sector addition and 12 new 2G sites were deployed. In addition to the expansion of 4G (LTE), 3G and 2G sites, the existing international bandwidth of 21.2 Gbps from its four international links were increased to 30.6 Gbps, to ensure that the company has adequate and reliable international bandwidth at all times. Despite the challenges posed by the pandemic, the company continued to carry out regular drive tests and antenna alignment activities to ensure service reliability.

As envisioned by DHI and Board to scale up the company's digital initiatives and to play a greater role in the country's drive for digitalization, the company implemented virtual private servers in the cloud, and also implemented B-Krita (a game portal) and revamped its B-Trowa services as part of company's digital initiatives. The company also implemented a campaign management system as part of CRM initiative to enable the company to run real-time and customized campaigns for different customers based on their behavior. The company's active mobile subscriber base increased from 403,559 in 2019 to 423,020 at the end of 2020 and Leased line Internet subscriptions increased from **1,153** in 2019 to **1,921** at the end of 2020. The company had **2,564** fixed broadband Internet subscriptions and **22,986** fixed-line customers at the end of 2020.

In 2020, the company couldn't conduct any ex-country trainings owing to the travel restrictions posed by the pandemic, yet the company conducted 23 in-house trainings as part of the company's human resource development initiatives through knowledge sharing within the company. At the end of 2020, the company had a total of 656 employees, which includes 572 regular employees, 6 contract employees, 69 ESPs, and 9 local caretakers.

Financial position and key financial performance highlights.

The company has financially performed well in the year 2020, BT recorded revenue of Nu 4,785.75 Million for the period ending December 31, 2020, marking a revenue growth of 18.49% from the previous year. BT also recorded a profit after tax of Nu 1,538.24 Million for the period ending December 31, 2020, marking a growth of 39.52% from the previous year.

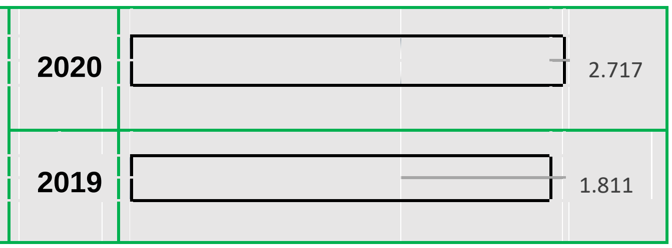
Financial highlights for 2020:

Revenue in Billion Nu.		**Expenditure in Billion Nu.**	
Nu 4.785 b	18.49%	**Nu 2.514 b**	7.52%

*The Revenue of the company marked a growth of **18.49%** in 2020. The Operating Expenditure of the company marked an increase of 7**.52%** in 2020.*

Cash from Operations in Billion Nu.

Nu 2.717 b 50.03%



PBT in Million Nu.		**PAT in Million Nu.**	
Nu 2,271.74 m	33.58%	**Nu 1,538.24 m**	39.52%

The PBT and PAT marked an increase compared to 2019, PBT marked an increase by 33.58% and PAT marked an increase by 39.52% in 2020.

Asset (Net Worth)

Fixed Assets	**Nu 3.410 b**	5.91%
Intangible Assets	**Nu 0.840 b**	8.91%
The overall percentage decrease in asset is 6.52% from 2019		

Liquidity.

	2020	2019
Current Ratio	2.72 : 1	1.51 : 1
Quick Ratio	2.68 : 1	1.48 : 1

The current ratio improved from 1.51:1 in 2019 to 2.72:1 in 2020 and the quick ratio improved from 1.48:1 in 2019 to 2.68:1 in 2020.

Profitability:

Return on Capital Employed		**Return on Equity**	
2019	19.97%	**2019**	23.76%
2020	25.08%	**2020**	28.05%
ROCE increased from 19.97% in 2019 to 25.08% in 2020.		*ROE increased from 23.76% in 2019 to 28.05% in 2020.*	

Audit Issues

The Company was audited by statutory auditors, Karma & Associates, Chartered Accountants based in Thimphu, Bhutan. Four of the past recommendations made by the auditors were fully implemented, however, the auditors have made the following suggestions for the financial period ending 31st December 2020:

a. **Audit Memo One: Improper assessment of requirements – Nu 2.2 Million.**
In keeping with the write-off approval accorded by the Board concerning obsolete equipment (set-top boxes) worth Nu 2.2 Million, the auditors issued an audit memo to dispose of the equipment following the Board decision without further delay and have it intimated to Royal Audit Authority.

In addition to the audit memo issued by the auditors, the following two suggestions were also made to the management:

b. **Recommendation One: Migration of SAP ERP system to ERP Next by 2021.**
In keeping with the plans to migrate from SAP ERP to ERP Next, the auditors recommended that the management may carry out a proper survey in the company before implementing such a project. Since BT is already on to SAP Hana, the auditor raised concerns that it may not be wise to do away with the SAP system, rather move to the next level of SAP, i.e., the analytics including various useful dashboards to the management team and also look at integrating other systems with SAP to have seamless integration.
Auditors suggested that BT may assess the success of Open-Source software in other bigger companies and defer the implementation plan if at all BT wants to implement ERPNext.

c. **Non-investment of balance gratuity provision – Nu 99,116,280.**
Because of the discontinuance of deposit of funds from gratuity provisions since 2018 owing to non-acceptance of such deposits by RICBL, Auditors recommended exploring other financial institutions to deposit the funds from gratuity provisions to have financial benefits for the company.

Board's recommendation of Dividend.

The dividend for 2020 to the shareholder (DHI) is recommended at 45% of the total share capital, which amounts to Nu. 1,800 Million.

Corporate governance.

The company is generally compliant with the provisions of the Corporate Governance Code and Ownership Policy developed and introduced by its owner – the Druk Holding & Investments Limited (DHI), the Companies Act, and other statutory requirements. In line with the signing of the integrity pledge with the Anti-Corruption Commission (ACC) on December 27, 2017, the company has been complying with the business code of conduct and other internal control systems ensuring complete and accurate procedures to limit potential losses and lapses through fraud.

All members of the Board of Directors are identified and appointed by DHI with a subsequent endorsement in the general meetings. The DHI organizes and conducts an orientation program for the new board members to prepare them for the roles and responsibilities of the board. At the end of 2020, the company's board comprised seven directors, including the Chief Executive Officer. The board held ten board meetings and an annual general meeting. The company had three board committees in place – Board Audit Committee, Board HR Committee, and Board Tender Committee. The audit committee held two meetings, HR Committee held three meetings and Tender Committee held two meetings in 2020.

Corporate Social Responsibility.

In keeping with the corporate belief to act responsibly in upholding the principle of balanced economic development through the extension of telecommunication services to rural and remote areas of the country, the company continued to provide telecommunications services even to non-profitable and challenging areas of the country as a social mandate. As guided by DHI and also in fulfilling the company's social mandates of standing in solidarity with the nation during such a difficult time due to the Covid-19 pandemic, the company contributed Nu 258.32 million to the government's covid-19 fund and extended free internet services to the quarantine centers and provided free communication facilities to some of the offices engaged in the nation's fight against containment of Covid-19 Pandemic. Furthermore, the company contributed Nu 365,224 as part of the Corporate Social Responsibility initiative in 2020, to various civil societies and social causes in the country.

Challenges and way forward.

Though it is not very significant at this point, retaining skilled employees leaving the organization for better opportunities has been a recurrent challenge faced by the company. However, the Board and management would continue assessing and addressing the shortfalls in 2021 and continue conducting bi-annual employee engagement surveys to understand the key areas of improvement for the company. Another recurrent challenge for the company is the threats from rapidly advancing technology with different standards calling for huge investments and the technology becoming obsolete in just a couple of years. However, the company is hopeful of managing such threats with the Corporate Strategic Plan and the Risk Management processes instituted in the company, with the guidance of the Board and the DHI.

In 2020, the company recorded a customer satisfaction score of 3.83 against the target of 3.90. As per the survey findings, most of the customers are satisfied with customer care, service efficiency, and service accessibility, however, customers have comparatively rated service attributes, complaint handling, and service innovation lower than other key result areas. To address the issues concerning service quality attributes, the company would continue enhancing the availability of high-speed data across the country and along the national highways. The company would continue enhancing the complaint handling system and come up with innovative services guided by its digital roadmap.

In line with the global trend and based on the board and shareholder's expectations to stay abreast with the global technological advancements, the company would be deploying a 5th Generation Mobile network in at least three core towns in 2021. In the same line, the company would be implementing Fintech and digital initiatives to fulfill the company's mandate to keep the nation up to date with the global technological advancements, and also drive digitalization.

Acknowledgements.

Our foremost gratitude goes to His Majesty the Druk Gyalpo for his exemplary and selfless leadership in leading the nation's efforts in containing the spread of Covid-19 in the country, thus ensuring the safety and wellbeing of every Bhutanese. The Board and Management takes this opportunity to rededicate our services to the Tsa-Wa-Sum and submit our prayers for the good health and glorious reign of His Majesty the Druk Gyalpo.

As always, our gratitude goes to the company's valued customers for their continued loyalty and support. Despite some shortcomings, the company has continued to receive cooperation and support from its valued customers. The company has plans to make major investments in 2021 to address the shortcomings, improve the customer experiences, and with the continued improvements being made, we believe that our valued customers will continue to remain with us.

The company's shareholder, DHI has guided the company throughout 2020 in overcoming the challenges and the company has been able to ensure uninterrupted telecommunications services during such a difficult time in the country. The board and management of the company would like to thank DHI for the same. We would also like to put on record our sincere thanks to all the other stakeholders for whatever support the company received during the year.

Lastly, the board would like to thank the management and employees of the company for working hard and achieving a lot of success in 2020. The board looks forward to similar efforts and success in 2021.

On behalf of the Board of Directors.

(Pema L Dorji)

CHAIRMAN

5 Independent auditors Report

To

The Members of

Bhutan Telecom Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Bhutan Telecom Limited**, (the Company), which comprise the statement of financial position as on **31st December 2020** and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fairly, in all materials respect, the financial position of the Company as at **31st December, 2020,** of its financial performance and its cash flows for the year then ended are in accordance with Bhutanese Accounting Standards (BAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Karma & Associate Chartered Accountants

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and describe actions applicable in the jurisdiction.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Karma & Associate Chartered Accountants

As part of an audit in accordance with ISAs, we exercise professional judgment and maintained professional skepticism throughout the audit. We also;

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain evidences 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 omission, 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, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 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 auditor's 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 audit's report. However, future events or conditions may cause the Company to cease to continue as a going concern; and
- Evaluate the overall presentation, structure, and content of the financial statement, including the disclosures, and whether the financial statement 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 thought to bear on our independence, and where applicable, related safeguards.

Karma & Associate Chartered Accountants

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan, 2016 (the Minimum Audit Examination and Reporting Requirements) we provide in the ***Annexure A*****,** a statement on the matters specified therein to the extent applicable.

As required by Section 265 of the Act, we report that:

(a) We have sought and obtained all the 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 appear from our examination of the books, proper returns adequate for purpose of our audit have been received,

(c) The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this report have been prepared in accordance with Bhutanese Accounting Standards and are in agreement with the books of accounts and returns.

(d) In our opinion, Company has complied with other Legal & Regulatory requirements.

For **Karma & Associates**
Chartered Accountants
Firm Registered No.: **BH-08**

(Chimmi Dorji)
Partner

Karma & Associate ★ Chartered Accountants ★

Place: **Thimphu**
Date: 10/03/2021

6 (Annexure "A" To AUDITOR'S REPORT

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

As required by Section 266 of the Companies Act of Bhutan, 2016

Bhutan Telecom Limited on the financial statements for the year ended 31st December, 2020

As required under the International Standards of Auditing (ISA) as adopted and issued by Accounting and Auditing Standards of Bhutan (AASBB). On the basis of the checks as we considered appropriate & according to the information and explanation provided to us we report that.

General:

a) Company have adhered to the Corporate Governance Guidelines and Regulations as applicable on them.

b) The governing board/authority pursued a prudent and sound financial management practice in managing the affairs of the company.

c) The financial statements are prepared applying the Bhutanese Accounting Standards issued by the Accounting and Auditing Standards Board of Bhutan (AASBB).

d) Proper books of accounts have been maintained and financial statements are in agreement with the underlying accounting records.

e) Adequate records as specified under Section 228 of the Companies Act of Bhutan 2016 have been maintained.

f) Mandatory obligations, social or otherwise, if any, entrusted are being fulfilled.

g) The amount of tax is computed correctly and reflected in the financial statements.

Regulatory norms in examining the accounts of the corporations subject to such statutory audit contains the following:

1. a) The Company has maintained Property, Plant & Equipment (PPE) Register showing full particulars including quantitative details and situation of PPE.

   b) Due to large size of regional office and assets located at various location BTL has decided to conduct physical verification for each region annually by the management/asset custodian and there were material variances that were identified in between the asset register

Karma & Associates Chartered Accountants

and the physical assets on floor, the discrepancies has been properly dealt with in the books of accounts.

c) Bhutanese Accounting Standards (BAS)-16 Property, Plant and Equipment states that the residual value and the useful life of an asset shall be reviewed at least at each financial year-end. The Company have adequate policy to review residual value and useful life of assets in relation to the size of the company and the nature of its business.

2. The fixed assets of the Company have not been revalued during the year under audit.

3. As explained to us, physical verification of inventories has been conducting at reasonable intervals by a committee nominated by the management for reconciling Inventories between the System and actual physical inventories.

4. In our opinion, the procedures followed for physical verification of inventories are considered reasonable and adequate in relation to the size of the company and the nature of its business.

5. According to information given to us, the Company is conducting physical verification of Inventory in quarterly basis and no material discrepancies were noticed during review of quarterly reports. Quantitative reconciliation has been carried out during the year in respect of all major items of inventories at the end of the accounting period.

6. On the basis of our examination and information's given to us, the company has maintained reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs, commensurate with its size and nature of its business.

7. In our opinion and basis of information given to us, the quantitative reconciliation is carried out at least at the end of accounting year in respect of all major items of inventories by the company.

8. The company has adequately created provision for obsolete, damaged, slow moving and surplus goods/inventories which is based on policy of the company.

9. As explained to us, the unserviceable or damaged inventories were disposed through open auction in the year 2020.

10. According to information given to us, the approval of appropriate authority is obtained for writing off amounts due to material loss/discrepancies in physical/book balances of inventories including finished goods, raw materials, stores and spares.

Karma & Associate Chartered Accountants

11. On the basis of our examination of stock records, we are satisfied that the valuation is fair and proper in accordance with the applicable Accounting Standards issued by the Accounting and Auditing Standard Board of Bhutan (AASBB). The basis of valuation of stock is same as that in the previous year. In addition, the company has created a provision for impairment in value of inventory lying for long time.

12. The Company has 7.5% secured, non-convertible redeemable bonds of 1000 each redeemable at par in full on 15th July 2020 which is secured by hypothecation of Fixed Assets/ Plant & Machinery of the company. The terms of the said bonds are prima facie not prejudicial to the interest of the Company. Apart from this Company has also availed term loan at average rate of 7.5%. The Company has fully liquidated the bond in July 2020.

13. The Company has availed loan from its Holding Company i.e. Druk Holding & Investment (DHI) of Nu 400 million at an interest rate of 5%. Based on our verification and explanation provided, terms and condition of the loan is not prejudicial to the interest of the company. The Company has fully liquidated the loan in year 2020.

14. **(a)** The Company has granted loan to one of its fellow subsidiary M/s Dungsam Cement Corporation Limited (DCCL) of Nu. 400 Million at an interest rate of 5%. Terms and condition are not prejudicial to the interest of the Company and the loan is also guaranteed by the Holding Company i.e Druk Holding & Investment Limited (DHI)

    (b) The advances granted to officers/staffs are in keeping with the provision of service rules. No excessive/frequent advances are granted and accumulation of large advances against particular individual is avoided.

15. In our opinion and according to the information and explanations given to us in course of the audit, the Company generally has an established system of internal control to ensure completeness, accuracy and reliability of accounting records, for carrying out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the rules & regulations, systems and procedures.

16. According to the information and explanation given to us, the Company has reasonable system of authorization at proper levels, and adequate system of internal control commensurate with the size of the company and nature of its business, on issue of stores and allocation of materials and labour to jobs.

Karma & Associate
Chartered Accountants

17. In our opinion and according to information and explanations given to us, the Company has reasonable system of obtaining competitive bids/quotations from the vendors in respect of purchase of stores, plant & machinery, equipment and other assets commensurate with the size of the Company and nature of its business.

18. **(a)** As informed to us, there is no transaction for purchase and sale of goods and services made in pursuance of contracts or agreements entered into with the directors or any other parties related to directors or with the Company or firms in which the directors are directly or indirectly interested.

    (b) The examination of records does not reveal any transaction entered into by the Company which is prejudicial to the interest of the company wherein the directors are directly or indirectly interested.

19. According to the information and explanations given to us, no personal expenses have been debited to the Statement of Comprehensive Income Account excepting those payable under contractual obligations any unserviceable or damaged stores, finished goods are determined, and provisions for loss, if any, have been made in the accounts.

20. According to the records, no unserviceable or damaged inventory, raw materials or finished goods are determined during year 2020.

21. As explained to us, the Company, in generally, has a reasonable system of ascertaining and identifying point of occurrence of breakage/damages of stores, spares and capital goods while in transit, during loading/unloading in storage and during handling etc. so that responsibility could be fixed and compensation sought from those responsible.

22. Since Company is majorly into service sector, it is maintaining records related to service inventory as well as consumable inventory on proper basis. Proper controls have been put in place to ensure the safety of inventory of the company.

23. The Company is maintaining reasonable records for sales and disposal of unusable and scrap items.

24. According to the records, the Company is generally regular in depositing rates and taxes, duties etc. and other statutory dues with the appropriate authorities during the year 2019. Provision for Corporate Income Tax is adequate and necessary adjustments have been made to compute the amount of tax required to be paid under The Rules on the Income Tax Act of Bhutan, 2017.

Karma & Associate Chartered Accountants

25. According to the books records, Company has no undisputed amount payable in respect of rates and taxes, royalties, provident funds and other statutory deductions were outstanding as of 31st December 2020.
26. The Company is a service oriented organization and not a manufacturing concern and there is no system of allocating man hours utilized to the respective jobs etc.
27. System of price fixation taking into account the cost of production and market conditions is not applicable for a service oriented Company.
28. The credit sales policy and credit rating of customers is not applicable for the Company.
29. The Company has engaged some agents in connection with mobile service through appropriate screening. The agency commission structure is in keeping with the industry norms / market conditions. Generally the Company has adequate system of evaluating performance of each agent on a periodic basis.
30. We are given to understand that, the Company has reasonable system of follow-up with debtors and other parties for recovery of outstanding amounts. The management have also done age-wise analysis of outstanding amount to realize the old debts and follow-up action.
31. According to records, the management of liquid resources particularly cash / bank and short term deposits etc. are reasonably adequate in respect of nature and size of the business. No excessive amount are lying idle in non-interest bearing accounts.
32. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Company are in our opinion lawful and intra-vires the Articles of Incorporation of the Company.
33. According to the information and explanations given to us, the Company has a system of approval of the Board for all capital investment decision and investments in new projects are made only after ascertaining the technical and economic feasibility.
34. The Company has established an adequate and effective budgetary control system.
35. *The Company does not have a costing system to ascertain cost of its services. Current practice is based on estimation. The company is going to upgrade its systems for having better revenue allocation and cost management.*

Karma & Associate * Chartered Accountants *

36. The details of remuneration to the Board of Directors including the Chief Executive Officer have been indicated in the Notes to the Accounts.

37. In our opinion and on the basis of examination of books and records, generally the directives of the Board issued have been complied with.

38. According to the information and explanations, we are given to understand that the officials of the Company have not transmitted any price sensitive information, which is not made publicly available, unauthorized to their relatives/friends/associates, or close persons, which would directly or indirectly benefit themselves. We have however relied on the management assertion on the same and cannot independently verify the same.

39. According to our examination of books and records, the company have maintained proper records for inter unit transaction/ service. The periodic reconciliations also done between its units.

40. In our opinion, the Company has maintained reasonable records related to leases and other items. As of date there is no machinery/ equipment's are acquired on lease or leased out to others.

41. To the extent revealed by our examination, the Company maintains a reasonable system of costing to ascertain the cost of its services and enable it to make proper pricing decisions for its services.

Computerized Accounting Environment

1. The Company has introduced and operating in SAP ERP environment since 2014. In our opinion and according to the information and explanations given to us in course of the audit, the internal control system with respect to property plant and equipment (PPE), inter unit transactions, inventory management, supplier and debtor trials and revenue accounting are improved as compared to 2019. And organizational and other system development controls appears to be adequate relative to the size and nature of computer installation of the Company.

2. In our opinion, the Company appears to have taken adequate measures and back up facilities commensurate with the size and nature. As explained, the Company has a main system at Thimphu and standby server installed at Phuntsholing and backup is going on daily basis

Karma & Associate Chartered Accountants

with complete backup with two way process. Firstly, data backup are going on system and then it takes it to TSM server on daily basis.

3. The Company has a Disaster Recovery Plan (DRP) in place, the Company keeps a back-up data for the entire Company in a standby server installed at Phuntsholing and the same is being maintained at Thimphu.
4. The operational controls in the Company are adequate to ensure correctness and validity of input data and output information.
5. According to the information and explanations given to us, measures to prevent unauthorized access to the computer installation and files are adequate.
6. As per information given to us, the data migration during change over to new system in previous year were settled and no data migration to new system is done in year 2020.

GENERAL

1. Going Concern Issues

On the basis of the attached Financial Statements as at 31st December, 2020 and according to the information and explanations given to us, the financial position of the company is healthy and we have no reason to believe that the Company is likely to become sick in the near future.

2. Ratio Analysis

Financial and operational ratio in respect of the Company is given in the statement of Ratio Analysis.

3. Compliance of Companies Act of Bhutan, 2016:

The Company has complied with the provisions of The Companies Act of Bhutan 2016 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares, raising of loans and all other matters specified in the said Act.

4. Adherence of Laws, Rules & Regulations:

The audit of the Company is governed by the Companies Act of Bhutan, 2016 and the scope of audit is limited to examination and review of the financial statements, as produced to us by the management. In the course of audit, we have reviewed compliance to the Companies

Karma & Associates Chartered Accountants

Act and its Articles of Incorporation and as explained to us, the Company has been complying with appropriate laws, rules and regulations, systems, procedures and practices.

For **Karma & Associates**
Chartered Accountants
Firm Registered No.: **BH-08**

(Chimmi Dorji)
Partner

Place: **Thimphu**
Date: 10/03/2021

7 Statement of Financial Position for the year ended 31st December, 2020

Amount in Nu.

Particulars	Note no.	As at 31st December, 2020	As at 31st December,2019
I. ASSETS:			
Non-current assets			
Property, plant and equipment	2(a)	3,410,461,431	3,624,675,324
Intangible assets	2(b)	840,939,889	923,199,456
Capital work-in-progress		78,625,176	37,233,705
Investments	3	15,847,192	15,847,192
Other receivable	4	1,000,000	1,000,000
Deferred tax assets (net)	5	429,165,697	411,885,580
Other non-current assets	6	4,615,616	115,260
Total non-current assets		**4,780,655,000**	**5,013,956,517**
Current assets			
Investments	7	602,849,126	758,243,006
Inventories	8	34,071,870	37,793,099
Trade receivables	9	116,014,798	116,858,064
Cash and bank balances	10	1,163,196,976	621,732,645
Loans	11	400,000,000	400,000,000
Other receivable	12	893,149	8,850,634
Other current assets	13	10,373,541	10,454,777
		2,327,399,459	**1,953,932,225**
Asset classified as held for distribution to owners	14	99,285,178	99,285,178
Total current Assets		**2,426,684,638**	**2,053,217,403**
Total assets		**7,207,339,638**	**7,067,173,920**
II. EQUITY AND LIABILITIES			
: EQUITY			
Equity share capital	15	4,000,000,000	854,082,000
Other equity	16	1,483,260,741	3,786,007,427
Total equity		**5,483,260,741**	**4,640,089,427**
Non-current liabilities			
Long term borrowings	17	84,279,486	201,583,020

Karma & Associate
Chartered Accountants

Other payables	18	62,523,889	91,350,778
Deferred government grants	19	563,775,802	678,986,567
Employee benefit obligation	20	123,373,504	96,757,359
Total non-current liabilities		**833,952,680**	**1,068,677,724**
Current liabilities			
Short term borrowings	21	-	400,000,000
Trade and other payables	22	67,226,235	69,474,051
Other payables	23	164,397,246	453,076,359
Short term provision	24	527,228,901	311,091,064
Other current liabilities	25	115,677,324	90,704,178
Employee benefit obligation	26	15,596,513	34,061,117
Total current liabilities		**890,126,218**	**1,358,406,769**
Total liabilities		**1,724,078,898**	**2,427,084,493**
Total equity and liabilities		**7,207,339,638**	**7,067,173,920**

For Karma & Associates.
Chartered Accountants
(Firm Reg. No. BH08)

Chimmi Dorji
Partner

Place: Thimphu
Date: 10/03/2021

Karma & Associate
Chartered Accountants

For and on behalf of board of directors

Chairman

Chief Executive Officer

8 Statement of Comprehensive Income for the year ended 31st December 2020

Amount in Nu.

Particulars	Note no.	31st December, 2020	31st December, 2019
Income:			
Income from operations	27	4,708,529,145	3,978,153,744
Other income	28	77,225,556	60,852,269
		4,785,754,700	**4,039,006,013**
Expense:			
Network operating expenses	29	551,376,801	595,866,355
Cost of trading goods	30	27,468,417	32,523,544
Employee benefit expenses	31	384,172,154	369,497,297
Depreciation and amortization	32	944,928,543	955,288,999
Finance cost	33	34,130,668	65,523,527
Other expenses	34	571,935,143	319,583,649
		2,514,011,726	**2,338,283,371**
Profit before tax		**2,271,742,975**	**1,700,722,642**
Tax expenses	35		
Current tax		750,776,588	542,390,741
Deferred income tax		(17,280,115)	55,820,005
Total tax expense		**733,496,473**	**598,210,746**
Profit after tax for the year		**1,538,246,502**	**1,102,511,896**
Other comprehensive income			
Remeasurement (gains)/losses on defined benefit plans		(16,568,365)	26,027,493
Income tax relating to component for other comprehensive income		4,970,510	(7,808,248)
Other comprehensive income, net of tax		(11,597,856)	18,219,245
Total comprehensive income for the year		**1,549,844,357**	**1,084,292,651**
Earnings per share	36	461	1,291

The above accompanying notes are an integral part of the financial statements
This is the statement of comprehensive income referred to in our report of even date

For Karma & Associates.	**For and on behalf of board of directors**
Chartered Accountants	
(Firm Reg. No. BH08)	
Chimmi Dorji	**Chairman**
Partner	
Place: Thimphu	
Date: 10/03/2021	**Chief Executive Officer**

Chartered Accountants ★ Karma & Associates ★

9 Statement of Changes in Equity for the year ended 31st December, 2020

Amount in Nu

A. Equity Share Capital	
Particulars	**Amount**
As at 1st January 2020	854,082,000
Changes in equity share capital	3,145,918,000
As at 1st January,2020	**854,082,000**
Changes in equity share capital- (During the year Company issued 3,145,918 bonus shares at Nu. 1000 each to DHI)	3,145,918,000
As at 31st December 2020	**4,000,000,000**

B. Other equity			
Particulars	**2020** **Retained earnings**	**2019** **Retained earnings**	**Total other equity**
Balance at 1 January 2020	**3,786,007,427**	**2,938,916,122**	**2,938,916,122**
Add: Depreciation	45,891,111	450,666,806	450,666,806
Add: Brand & Management fee	19,194,172	**3,389,582,928**	**3,389,582,928**
Dividend for the year	**-**	(751,592,160)	(751,592,160)
Profit for the year (restated)	-	941,788,658	941,788,658
Other comprehensive income, net of tax (restated)	-	(15,441,828)	(15,441,828)
As at 31 December 2020	**3,851,092,710**	**3,564,337,598**	**3,564,337,598**
Reduction in retained earnings due to issuance of bonus shares	**(3,145,918,000)**	**2,903,751,554**	**2,903,751,554**
	-	660,586,042	660,586,042
Retained Earnings before payment of dividend	**705,174,710**	**3,564,337,596**	**3,564,337,596**
Dividend for the year	(771,758,326)	(862,622,820)	
Profit for the year	1,538,246,502	1,102,511,896	1,102,511,896
Other comprehensive income, net of tax	**11,597,856**	(18,219,245)	(18,219,245)
Total comprehensive income for the year	778,086,031	**221,669,831**	**1,084,292,651**
As at 31 December 2020	**1,483,260,741**	**3,786,007,427**	**4,648,630,247**

For Karma & Associates.
Chartered Accountants
(Firm Reg. No. BH08)

Chimmi Dorji
Partner

Place: Thimphu
Date: 10/03/2021

Chartered Accountants ★ Karma & Associates ★

For and on behalf of board of directors

Chairman

Chief Executive Officer

10 Cash Flow Statement for the year ended 31st December, 2020

Amount in Nu.

Particulars	31st December, 2020	2020	31st December 2019
Cash flow from operating activities			
Net profit before tax	2,271,742,975		1,700,722,642
Add/Less: Gain on sale of property plant and equipment	(5,280)		(1,070,484)
Add/Less: Gain or loss on scrapping/retirement of assets	10,903,592		4,440,470
Add/Less: Inventory loss (gain) on physical verification	-		-
Add/Less: Provision for loss allowance	9,529,411		13,250,310
Add/Less: PPE adjustment related to last year	(33,482,192)		
Add/Less: Adj for last year accounted in SOCIE	65,085,283		
Add/Less: Provision for old inventories	-		13,700,637
Add/Less: Foreign exchange loss/(gain)	-		(150,217)
Add: Less: Remeasurement gain/loss	16,568,365		
Net profit before tax and after adjustment of provisions		2,340,342,154	1,730,893,358
Adjustment for:	-		
Depreciation during the year	1,060,139,308		955,288,999
Interest paid	32,526,659		77,924,469
Interest received	(43,507,186)	1,049,158,781	(25,258,467)
Net profit from operating activities before working capital changes		3,389,500,935	2,738,848,358
Adjustment for:	-		
Inventories	3,721,229		47,383,368
Non-current/current financial and other assets	150,246,099		(1,045,740,242)
Non-current/current financial and other liabilities/provisions	(300,450,494)	(146,483,167)	567,621,302
(Increase)/decrease in investment in associate			
Cash generated from operating activities		3,243,017,768	2,308,112,787
Income tax paid		(525,787,898)	(496,966,166)
Net cash flow from operating activities	-	2,717,229,866	1,811,146,621
Cash flow from investing activities	-		
Payment for property plant and equipment	(474,919,041)		(491,431,781)
Payment for intangible assets	(266,415,545)		(188,029,573)
Payment for capital work in progress	(41,391,471)		46,183,248
Purchase of long term investments	-		189,682,583
Sale of property plant and equipment (actual cash received)	252,619		1,070,426
Interest earned on fixed deposits	43,507,186		(74,741,534)

Karma & Associate * Chartered Accountants *

Net cash used in investing activities		(738,966,252)	(517,266,631)
Cash flow from financing activities	-		
Term loan (long term borrowings)	(117,303,534)		(401,044,123)
Short term borrowings	(400,000,000)		-
Receipt of capital grant from BICMA	(115,210,766)		24,349,024
Payment of dividend	(771,758,326)		(862,622,820)
Interest paid on Loans	(32,526,659)		(65,863,566)
Net cash used in financing activities		(1,436,799,285)	**(1,305,181,485)**
Net Increase/(decrease) in cash and cash equivalents		541,464,331	**(11,301,498)**
Cash and cash equivalents at the beginning of the financial year	621,732,645		754,965,598
Effect of exchange rate changes on cash and cash equivalents			150,217
Closing cash and cash equivalents	1,163,196,976		743,814,317
Increase/(decrease) in cash and cash equivalents		541,464,331	**(11,301,498)**

For Karma & Associates.
Chartered Accountants
(Firm Reg. No. BH-08)

Chimmi Dorji
Partner

Karma & Associate Chartered Accountants

Place: Thimphu
Date:10/03/2021

For and on behalf of board of directors

Chairman

Chief Executive Officer

11 Notes forming part of the Financial Statements as at 31st December 2020

Note 1: Significant Accounting Policies

1. Bhutan Telecom Limited ("Company") was formed as a public corporation by virtue of Telecommunication Act of Kingdom of Bhutan, 1999. The principal activities of Bhutan Telecom Limited are providing the telecom services like landline service, mobile service, internet and other allied services. Company is also engage in providing data center and contact center services. The holding company is Druk Holding and Investments Limited.

The financial statements were approved and authorized for issue in accordance with the resolution of the Company's Board of Directors on 10th March 2021.

The accounting policies adopted in the preparation of these financial statements are set out as below:-

2. Basis of Preparation:

The financial statements have been prepared on accrual and going concern basis. The accounting policies are applied consistently to all the periods presented in the financial statements. The financial statements are presented in Nu and all values are rounded off to the nearest Nu.

a) Compliance with BAS/BFRS

The separate financial statements of the Company has been prepared in accordance with Bhutanese Accounting Standards (BAS) Phase I, Phase II and Phase III standards. The 'Accounting and Auditing Standards Board of Bhutan' (AASBB), has decided to adopt International Financial Reporting Standards (IFRS) in a phase manner with minor changes. As per the roadmap issued by AASBB a total of 18 standards are to be implemented in first phase (Phase I) commencing in 2013 for a period of 3 years, while 9 standards will be implemented in second phase (Phase II) and 10 standards in third phase (Phase III) from 2016 and 2018 respectively. The Company in compliance with the Companies Act of Bhutan has decided to adopt all the applicable Standards from 2016.

b) Historical cost convention

The financial statements have been prepared on a historical cost basis, except assets held for sale which are measured at fair value less cost of disposal.

3. Use of estimates:

The preparation of Financial Statements in conformity with BAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the

Karma & Associates Chartered Accountants

reported amounts of assets, liabilities, the disclosures of contingent assets and contingent liabilities at the date of financial statements, income and expenses during the period. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods which are affected. The areas involving critical estimates or judgments are:

a. Estimation of defined benefit obligation - Note No. 42 to 46
b. Estimation of useful life of Property plant and equipment - Note ""2 (a)""
c. Income Taxes: Significant judgments are involved in determining the provision for income taxes, including amount expected to be paid/recovered for uncertain tax positions. - Note No. 37
d. Recognition of deferred tax asset - Note No.38
e. Estimation of Impairment of Trade Receivable- Note No. 41

4. Current and non-current Classification:

The Company presents assets and liabilities in the statement of financial position based on current/ non-current classification.

An asset is treated as current when:

a. it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
b. it holds the asset primarily for the purpose of trading;
c. it expects to realize the asset within twelve months after the reporting period; or
d. the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. Current maturities of non-current asset are also termed as current assets.

(a) it expects to settle the liability in its normal operating cycle;
(b) it holds the liability primarily for the purpose of trading;
(c) the liability is due to be settled within twelve months after the reporting period; or
(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Current maturities of non-current liabilities are also termed as short term liability.

Karma & Associate
Chartered Accountants

Company always classifies deferred tax assets (liabilities) as non-current assets (liabilities). All other liabilities are classified as non-current.

The operating cycle of a company is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months."

5. Revenue recognition:

Revenue is recognized upon transfer of control of promised products or services to the customer at the consideration, which the Company has received or expects to receive in exchange of those products or services, net of any taxes / duties, discounts and process waivers. When determining the consideration to which the Company is entitled for providing promised products or services via intermediaries, the Company assesses whether it is primarily responsible for fulfilling the performance obligation and whether it controls the promised service before transfer to customers. To the extent that the intermediary is considered a principal, the consideration to which the Company is entitled is determined to be that received from the intermediary.

Revenue is recognized when, or as, each distinct performance obligation is satisfied. The main categories of revenue and the basis of recognition are as follows:

a. Service revenue:

Service revenues mainly pertain to usage, subscription and customer onboarding charges for voice, data, messaging and value added services. It also includes revenue from interconnection / roaming charges for usage of the Company's network by other operators for voice, data, messaging and signaling services.

Telecommunication services (comprising voice, data and SMS) are considered to represent a single performance obligation as all are provided over the Company's network and transmitted as data representing a digital signal on the network. The transmission consumes network bandwidth and therefore, irrespective of the nature of the communication, the customer ultimately receives access to the network and the right to consume network bandwidth.

The Company recognizes revenue from these services as they are provided. Revenue is recognized based on actual units of telecommunication services provided during the reporting period as a proportion of the total units of telecommunication services to be provided. Subscription charges are recognized over the subscription pack validity period. Customer onboarding revenue and associated cost is recognized upon successful onboarding of customer i.e. upfront. Revenues

Karma & Associate Chartered Accountants

in excess of invoicing are classified as contract assets while invoicing / collection in excess of revenue are classified as contract liabilities.

Service revenues also includes revenue from interconnection / roaming charges for usage of the Company's network by other operators for voice, data, messaging and signaling services. These are recognized upon transfer of control of services being transferred over time.

Certain business services revenues include revenue from registration and installation, which are amortised over the period of agreement since the date of activation of service.

Revenues from long distance operations comprise of voice services and bandwidth services (including installation), which are recognized on provision of services and over the period of respective arrangements"

b. Sale of Trading goods :

Revenue from the sale of goods mainly pertain to sale of telecommunication equipment and related accessories for which revenue is recognized when the control of equipment is transferred to the customer, i.e. transferred at a point in time when the risk and rewards of the goods are transferred to the buyer. However, in case of equipment sale forming part of multiple-element revenue arrangements which is not a distinct performance obligation, revenue is recognized over the customer relationship period.

c. Interest income:

Interest income is recorded using the effective interest rate (EIR) for the long term investments, and any interest income earned from short term deposits with banks and bank balances are recorded at prevailing market interest rates offered by respective financial institutions.

d. Rental income:

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

e. Other Claims:

All other miscellaneous incomes are booked in the accounts only when collection is made.

6. Property Plant & Equipment:

a) PPE is initially recognized at cost. The company follows cost model for Property, plant and equipment and are stated at cost less accumulated depreciation and where applicable accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its

Karma & Associates Chartered Accountants

intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Only those costs are recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost can be measured reliably. Cost of software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The Property, Plant and Equipment are derecognized when no future economic benefits are expected from its use or on disposal. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income / other expenses" in Statement of comprehensive income.

b) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other costs incurred for the running and maintenance of property, plant and equipment are expensed off in the year in which they are incurred.

c) Depreciation:

i. Depreciation is recorded by a charge to operating profit computed on a straight-line basis so as to write off the cost of the assets to their residual values over the expected useful lives. The residual value and the useful life of an asset are reviewed at each year end.

ii. Estimated useful life of Assets applied is as follows:

Asset type	Useful life
1. Land	NA
2. Building	
a. Permanent structure	50 yrs
b. Semi-permanent structure	15 yrs
c. Temporary structure	5 yrs
3. Tele-equipment	
a. Tower	30 yrs
b. Rest	7 yrs
4. Power systems & cable	
a. Air conditioner	5 yrs
b. Rest	10 yrs
5. Furniture	10 yrs
6. Office equipment	5 yrs
7. Vehicle	5 yrs
8. Software application	5 yrs
9. License (based on agreement)	15 yrs

Karma & Associate * Chartered Accountants *

d) Capital work in progress:

Expenditure on material, labour, contract expenses and directly attributable cost such as employee costs and overheads, project management expenses incurred during construction period for executing the particular project are included in CWIP till these are capitalized. Indirect expenditure and overheads incurred is expensed off and are not capitalized. Work, which is still in progress relating to civil construction, is accounted for under capital work-in-progress after settling the project system in SAP on monthly basis. Capitalization of work-in-progress has been done on the basis of completion certificate issued by the concerned authority.

7. Intangible

assets: a) Software:

The intangible assets are initially measured at cost and carried as per cost model. Intangible assets having finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the intangible asset.

b) Subsequent Expenditure:

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other expenditure, including expenditure on internally generated goodwill and brands, are expensed off in the year in which they are incurred.

c) Amortization:

These costs are amortized over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Intangible assets include license fees which is amortized over the period of license.

8. Borrowing cost:

General and specific borrowing costs directly attributable to the acquisition, construction or production of a major capital project, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing cost also includes exchange differences to the extent regarded as an adjustment to the borrowing costs. Further, exchange losses arising from foreign currency borrowings should be regarded as an adjustment to the interest cost to the extent these losses do not exceed the difference between

Karma & Associate Chartered Accountants

the cost of borrowing in functional currency when compared to the cost of borrowing in foreign currency.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in Statement of comprehensive income in the period in which they are incurred.

9. Leases:

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Company as a lessee:

Assets on operating lease are not recognized as part of company's asset. Payments made for operating leases are recognized in Statement of comprehensive income on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the user's benefit.

Company as a lessor:

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Lease Income:

Lease income from operating lease is recognized in statement of comprehensive income on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the user's benefit.

10 .Government grants:

Grants from Government and Government agencies including non-monetary grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Grants related to income are recognized in the Statement of comprehensive income on a systematic basis over the periods in which the entity recognizes expenses and the related costs for which the grants are intended. The unallocated portion of such grant is presented as part of deferred income in the Statement of Financial Position. Government grants related to depreciable assets is treated as deferred income and are recognized in comprehensive income statement on a systematic basis over the useful life of asset. Government Grants related to assets are presented in the statement of financial position by setting up the grant

Karma & Associate Chartered Accountants

as deferred income. Amount of depreciation on property, plant and equipment acquired through grant has been transferred to statement of comprehensive income by reducing depreciation expense. A government grant received or that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in Statement of comprehensive income in the year it is received or becomes receivable. A government grant may take form of a transfer of a non-monetary asset, such as land or other resources, for the use of company. In these circumstances, the fair value of the non-monetary asset is assessed and both the grant and asset are accounted for at that fair value. Grants relating to the period prior to 30th June 2000 are not identifiable and as such merged with the deferred government grants.

11. Employee benefits:

Employee benefits are accrued in the period in which the associated services are rendered by employees of the company as detailed below:

a. Defined Contribution Plan (Pension and Provident Fund):

As required by National Pension & Provident Fund, both the employee and employer make monthly contributions to the provident fund, which is a Defined Contribution Plan, equal to a specified percentage of employee's basic salary. The company has no further obligations under the plan beyond its monthly contributions. The company does not have any legal or constructive obligation to pay further contributions if the Fund does not have sufficient assets to pay all of the employee's entitlements. Obligation for contributions to the plan is recognized as an employee benefit expense in statement of comprehensive income when the contribution to the Fund becomes due.

b. Defined Benefit Plans (Gratuity):

In accordance with the BTL service rule, the company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee's last drawn salary and the years of employment with the company. The company's net obligation in respect of the gratuity plan is calculated by estimating the amount of future benefits that the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method and amount of obligation is provided in the statement of comprehensive income. Remeasurement gains and

Karma & Associate Chartered Accountants

losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, and presented in other comprehensive income.

c. Short Term Benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. All employee benefits payable wholly within twelve months of rendering the service are classified as short term employee benefits and they are recognized in the period in which the employee renders the related service. The Company recognizes the undiscounted amount of short term employee benefits expected to be paid in exchange for services rendered as a liability (accrued expense) after deducting any amount already paid.

d. Earned Leave Encashment:

The employees of the company are entitled for earned leave. The employees can carry forward a portion of the unutilized earned leave subject to the limit set as per BTL service manual and utilize it in future periods or compensated in cash during retirement or termination of employment for the unutilized accrued earned leave based on the salary at the time. The company's net obligation in respect of the earned leave is calculated by estimating the amount of future benefits that the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary and amount of obligation is provided in statement of comprehensive income. The plan is unfunded.

e. Other Long-Term Benefits:

As per company's service rules , the employee who have rendered minimum three years of service are entitled to Traveling allowance of an amount equal to one month's last basic pay of the employee, Transfer grant of an amount equal to one month's last basic pay of the employee and Carriage charges at the time of leaving the service. One month basic pay for this purpose is the pay at the time of leaving the service. The company's net obligation in respect of this terminal benefit is calculated by estimating the amount of benefits that the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary and amount of obligation is provided in Statement of comprehensive income. The plan is unfunded.

12 Fair value measurement:

The Company measures some financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly

Karma & Associate Chartered Accountants

transaction between market participants at the measurement date. 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. 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:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 — inputs other than quoted prices included in level 1 that are observed for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company recognizes transfers between levels of the fair value hierarchy at the end of reporting period during which the change has occurred. The management has an established control framework with respect to fair value measurement. This includes a valuation team that has an overall responsibility for overseeing all significant fair value measurement, including level 3 fair values, and reports directly to the management.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. This note summarizes accounting policy for fair value. Other fair value related disclosures are given in the relevant notes.

- Disclosures for valuation methods, significant estimates and assumptions
- Financial instruments (including those carried at amortized cost).

13. Current & deferred income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (Tax Base).

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Karma & Associate Chartered Accountants

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the tax authority on the taxable entity, further they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in subsidiary, associate and joint venture where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

14. Provision:

Provisions are recognized if, as a result of a past event, the entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. A provision for onerous contracts is recognized when the expected benefits to be derived by the entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

15. Contingent Liabilities and Contingent Assets:

Contingent liabilities is not recognized but disclosed for all possible obligations that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets is also not recognized but disclosed for all possible assets that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Karma & Associate ★ Chartered Accountants ★

16. Foreign Currency:

Transactions in foreign currency are initially recognized in the financial statements in functional currency using exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the relevant functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains and losses are generally recognized in statement of comprehensive income. Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the Statement of comprehensive income on a net basis within other income or other expenses. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in a foreign currency and measured at historical cost are translated at the exchange rate prevalent at the date of transaction.

17. Inventories:

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost of inventories includes all cost of purchase, cost of conversion and other cost incurred in bringing the inventories to their present location and conditions.

Traded goods: Cost includes cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined on weighted average basis.Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Consumables and Stores & Spares: The Stock of stores & spare parts are charged to revenue account except loose tools. Stores are valued at cost calculated on the basis of yearly weighted average method. Provisions are made for unserviceable, damaged, obsolete, slow moving, defective stores and spares identified during the physical stock taking.

18. Segmental reporting:

The company is in the Business of providing telecom services and its operating facilities are all situated in the Royal Kingdom of Bhutan only. Under the broad segment of telecom services the company has subsidiary segments of fixed line service, mobile service, data center and cloud service and internet service. Further as the company's share are not listed with any stock exchange market, the provision of BFRS-8 - Operating segments is not applicable to the company.

Karma & Associate ★ Chartered Accountants ★

19. Impairment:

At the end of each reporting period, entity assesses whether there is any indication that an asset (tangible or intangible) may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset. Asset is impaired when its carrying value exceeds its recoverable amount. Where an indication of impairment exists, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

20. Investments & other financial assets:

a) Initial measurement:

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

b) Classification and subsequent measurement:

For the purpose of subsequent measurement, financial assets of the company are classified in the following categories:

i. Financial assets measured at amortized cost;
ii. Financial assets measured at fair value through other comprehensive income (FVTOCI); and
iii. Financial assets measured at fair value through profit and loss (FVTPL)

The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

i. Financial assets measured at amortized cost:

A financial asset is measured at amortized cost if both the following conditions are met:

a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

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

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account

Karma & Associates Chartered Accountants

any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income and the losses arising from impairment are also recognized in the same. This category generally applies to trade and other receivables, bank deposits, security deposits, investment in government securities, bonds, cash and cash equivalents and employee loans, etc.

ii. Financial instruments measured at fair value through other comprehensive income:

A financial instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met:

a) The objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and

b) The asset's contractual cash flow represent SPPI.

Financial instruments included within FVTOCI category are measured initially as well as at each reporting period at fair value. Fair value movements are recognized in other comprehensive income (OCI). Currently, the company does not have any asset classified under this category.

iii. Financial instruments measured at fair value through profit and loss:

Fair value through profit and loss is the residual category. Any financial instrument which does not meet the criteria for categorization as at amortized cost or fair value through other comprehensive income is classified at FVTPL. Financial instruments included within FVTPL category are measured initially as well as at each reporting period at fair value. Fair value movements are recorded in statement of profit and loss. c) Impairment of financial assets:

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. Impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset.

Loss events are events which have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The amount of loss is recognized in statement of profit or loss.

d) De-recognition of financial assets:

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is primarily derecognized only when:

i. The rights to receive cash flows from the asset have been transferred, or

ii. "The company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients. When the

Sharma & Associates Chartered Accountants company has transferred an asset, it evaluates whether it has substantially transferred all risks and rewards of ownership of the financial asset. In such cases, the financial asset is derecognized.

When the company has not transferred substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognized. When the company has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of the financial asset, the financial asset is derecognized if the entity has not retained control of the financial asset. When the entity retains control of the financial asset, the asset is continued to be recognized to the extent of continuing involvement in the asset.

e) Income recognition:

Interest income: Interest income from debt instruments is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating the effective interest rate, the company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. Dividend income: Dividends are recognized in comprehensive income only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and the amount of the dividend can be measured reliably.

21. Financial liabilities:

a) Initial recognition and measurement:

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables. All financial liabilities are recognized initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs. The company's financial liabilities include trade and other payables, borrowings including bank overdrafts.

b) Subsequent measurement:

The measurement of financial liabilities depends on their classification, as described below:

i. Financial Liabilities at fair value through profit or loss:

"Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognized in the profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in BFRS 9 are satisfied. For liabilities designated as FVTPL, fair value gains/ losses attributable to changes in own credit risk are recognized in OCI. These gains/ loss are not subsequently transferred to P&L. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognized in the Statement of comprehensive income. The Company has not designated any financial liability as at fair value through profit and loss.

ii. Borrowings:

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in Statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity classify the liability as current, if the lender does not agreed not to demand payment as a consequence of the breach before reporting date.

iii. Embedded derivatives:

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract - with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through statement of comprehensive income. If the hybrid contract contains a host that is a financial asset within the scope of BAS 9, the Company does not separate embedded derivatives. Rather, it applies the classification requirements contained in BAS 9 to the entire hybrid contract.

Karma & Associates Chartered Accountants

Derivatives embedded in all other host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though statement of comprehensive income. These embedded derivatives are measured at fair value with changes in fair value recognized in statement of comprehensive income, unless designated as effective hedging instruments.

iv. Trade and other payables:

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

c) De-recognition:

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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the Statement of comprehensive income. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in Statement of comprehensive income.

Financial guarantee contracts:

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with BAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization, where appropriate. The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations. Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and

Karma & Associate Chartered Accountants

recognized as part of the cost of the investment.

22. Offsetting :

Financial assets and financial liabilities or income and expenses are offset and the net amount reported in the Statement of Financial Position and Statement of Comprehensive Income when, and only when, the entity has a legal right and is allowed by the standard to offset the amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

23. Cash & cash equivalents:

Cash and cash equivalents include cash in hand, demand deposits with banks, other short - term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

24. Trade & other receivables:

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

25. Trade & other payables:

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

26. Assets held for sale

Non-current assets or disposal groups comprising of assets and liabilities are classified as 'held for sale' when all of the following criteria's are met: (i) decision has been made to sell. (ii) the assets are available for immediate sale in its present condition. (iii) the assets are being actively marketed and (iv) sale has been agreed or is expected to be concluded within 12 months of the Statement of financial position date.

Subsequently, such non-current assets and disposal groups classified as 'held for sale' are measured at the lower of its carrying value and fair value less costs to sell. Non-current assets held for sale are not depreciated or amortized.

Karma & Associate * Chartered Accountants *

27. Earnings per share:

a. Basic earnings per share

Basic earnings per share is calculated by dividing:

a) the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

b) by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

b. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

a) the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

b) The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Karma & Associate * Chartered Accountants *