

# B S R & Co. LLP

Chartered Accountants

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## Independent Auditor's Report

To the Members of Ethos Limited

### 1. Report on the Financial Statements

We have audited the accompanying financial statements of Ethos Limited ('the Company'), which comprise the Balance Sheet as at 31 March 2016, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information ("financial statements").

### 2. Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### 3. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.



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

#### **4. Basis for qualified Opinion**

Attention is invited to note 41 regarding the management's view that on the basis of the considered facts stated therein, the lease rent in respect of premises taken on operating lease when recognized as per the contractual terms of such leases, instead of straight line basis of over the lease term will be more prudent and representative of systematic basis of time pattern of the user's benefit of the leased space. However, in our view as per the Accounting Standard on Leases (AS-19), the recognition of lease rent as per the contractual terms in respect of fixed price contracts (with periodic cost escalations), should have been done on a straight line basis over the lease term. Had the company accounted for lease rent on straight line basis since inception of the lease period, the provision for lease straight lining would have been higher by Rs. 21.37 million. Accordingly, rent expense would have been increased by Rs 6.10 million (Previous year ended 31 March 2015 Rs 3.34 million), and loss for the year would have been increased by Rs 6.10 million (Profit for the Previous year ended 31 March 2015 reduced by Rs 3.34 million) and shareholder's funds would have been lower by Rs 21.37 million as at year ended 31 March 2016 (previous year ended 31 March 2015: Rs 15.27 million). This was also the subject matter of qualification in our audit report for the year ended 31 March 2015.

#### **5. Qualified Opinion**

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2016, and its loss and its cash flows for the year ended on that date.

#### **6. Report on Other Legal and Regulatory Requirements**

- (i) As required by the Companies (Auditor's Report) Order, 2016 ('the Order') issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, we give in the 'Annexure A', a Statement of the matters specified in paragraphs 3 and 4 of the Order.
- (ii) As required by Section 143 (3) 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) except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
  - (c) the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;
  - (d) except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;



- (e) on the basis of the written representations received from the directors as on 31 March 2016 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2016 from being appointed as a director in terms of Section 164 (2) of the Act;
- (f) the qualification relating to maintenance of accounts is stated in the Basis for Qualified Opinion paragraph above.
- (g) with respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in 'Annexure B'; and
- (h) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - (i) the Company has disclosed the impact of pending litigations on its financial position in its financial statements - Refer to Note 25 and 26 of the financial statements;
  - (ii) the Company did not have any long term contracts including derivative contracts for which there were any material foreseeable losses; and
  - (iii) there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

*For B S R & Co. LLP*

*Chartered Accountants*

Firm Registration No.: 101248W / W-100022



**Adhir Kapoor**

*Partner*

Membership No: 098297

Place: Chandigarh

Date: 25 May 2016

**Annexure A referred to in paragraph 6 (i) of the Independent Auditors' Report to the Members of Ethos Limited on the financial statements for the year ended 31 March 2016**

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) According to the information and explanations given to us, the Company has physically verified its movable fixed assets during the year. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account.
- (c) According to the information and explanations given to us, the Company does not have any immovable property. Accordingly, para 3(i)(c) of the order is not applicable.
- (ii) According to the information and explanation given to us, the inventories, except goods-in-transit, has been physically verified by the management during the year. The discrepancies noticed on such verification between the physical stocks and the book records were not material and have been properly dealt with in the books of account.
- (iii) The Company has not granted any loans, secured or unsecured, to companies, firms, limited liability partnerships or other parties covered in the register maintained under section 189 of the Act. Thus, paragraphs 3(iii) of the Order is not applicable.
- (iv) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 185 and 186 of the Act, with respect to the loans and investments made.
- (v) In our opinion and according to the information and explanations given to us, the Company has complied with the provision of Sections 73 to 76 or any other relevant provisions of the Act and the rules framed there under where applicable, the directives issued by the Reserve bank of India as applicable with regard to deposits accepted from the public. As informed to us, there have been no proceedings before the Company Law Board or National Company Law Tribunal and Reserve Bank of India or any court or any other tribunal in this matter and no order has been passed by any of the aforesaid authorities in this regard.
- (vi) The Central Government of India has not prescribed the maintenance of cost records under sub-section (1) of section 148 of the Act for the activities performed by the Company.
- (vii) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income tax, Sales tax, Value added tax, Service tax, duty of Customs, cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities, except for Service tax where there have been delays in few cases and Income tax (Withholding tax) where there is slight delay in one case. As explained to us, the Company did not have any dues on account of duty of excise.

d.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Value added tax, Service tax, duty of Customs, cess and other material statutory dues were in arrears as at 31 March 2016 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, there are no dues of Sales tax, Value added tax and duty of Customs which have not been deposited with the appropriate authorities on account of any dispute. Further, according to the information and explanations given to us, except as stated below, there are no dues of income tax, service tax which have not been deposited by the Company on account of disputes:

Name of the Statute	Nature of the Dues	Amount Disputed Rs.#	Amount deposited Rs.	Period to which the amount relates	Forum where the dispute is pending
Income Tax Act, 1961	Income Tax	1,028,770	1,028,770	Assessment Year 2012-13	CIT (Appeals)
Income Tax Act, 1961	Income Tax	2,608,650	-	Assessment Year 2013-14	CIT (Appeals)
Finance Act, 1994	CENVAT credit (including penalty)	48,553,342	17,000,000*	Financial Year 2008-09 to 2010-11	CESTAT

#an amount as per demand order including interest and penalty, whichever indicated in the order

\*paid under protest by utilising the balance in CENVAT credit.

- (viii) According to the information and explanations given to us, the Company has not defaulted in repayment of loans and borrowings from banks and financial institution. The Company has neither issued any debentures nor taken any loans or borrowings from government during the year or outstanding as at 31 March 2016.
- (ix) The Company did not raise any money by way of initial public offer or further public offer (including debt instruments) and the term loans were applied for the purposes for which they were obtained.
- (x) According to the information and explanations given to us, no fraud on or by the Company by its officers or employees has been noticed or reported during the course of audit.
- (xi) According to the information and explanations given to us, the Company has not paid or provided any managerial remuneration during the year. Thus paragraph 3 (xi) of the Order is not applicable.
- (xii) According to the information and explanations given to us, the Company is not a Nidhi Company and thus paragraph 3 (xii) of the Order is not applicable.
- (xiii) According to the information and explanations given to us and on the basis of our examination of records of the Company, transactions with the related parties are in compliance with Section 177 and 188 of the Act where applicable and details of such transactions have been disclosed in the financial statements as required by the applicable accounting standards.

*[Signature]*

**B S R & Co. LLP**

- (xiv) According to the information and explanations given to us, the Company has duly complied with the requirements of section 42 of the Act, in respect of preferential allotment of shares made during the year. The Company has neither made any private placement of shares nor issued any fully or partly convertible debentures during the year. Further, the amount received during the year have been used for the purposes for which the funds were raised.
- (xv) According to the information and explanations given to us, the Company has not entered into any non-cash transactions with the directors or persons connected with him during the year. Accordingly, paragraph 3(xv) of the Order is not applicable.
- (xvi) According to the information and explanations given to us, the Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

*For B S R & Co. LLP*

*Chartered Accountants*

Firm registration no.: 101248W / W-100022



**Adhir Kapoor**

*Partner*

Membership No: 098297

Place: Chandigarh

Date: 25 May 2016

**Annexure B referred to in paragraph 6(ii)(g) to the Independent Auditor's report of even date on the Financial Statements of Ethos Limited**

**Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")**

We have audited the internal financial controls over financial reporting of Ethos Limited ("the Company") as of 31 March 2016 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

**Management's Responsibility for Internal Financial Controls**

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India ('ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

**Auditors' Responsibility**

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.



### **Meaning of Internal Financial Controls Over Financial Reporting**

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

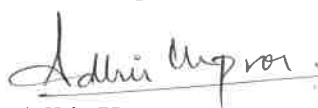
### **Inherent Limitations of Internal Financial Controls Over Financial Reporting**

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Opinion**

In our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2016, based on the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

*For B S R & Co. LLP*  
*Chartered Accountants*  
Firm's Registration No. 101248W / W-100022



**Adhir Kapoor**

*Partner*

Membership No.: 098297

Place: Chandigarh  
Date: 25 May 2016



**ETHOS LIMITED**  
**Balance Sheet as at 31 March 2016**  
*(Amount in Rupees unless stated otherwise)*

Particulars	Notes	As at 31 March 2016	As at 31 March 2015
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' funds</b>			
Share capital	2	319,569,100	311,314,800
Reserves and surplus	3	251,803,352	203,870,154
		571,372,452	515,184,954
<b>Non-current liabilities</b>			
Long term borrowings	4	102,731,009	81,534,025
Long term provisions	5	7,769,706	6,812,447
		110,500,715	88,346,472
<b>Current liabilities</b>			
Short term borrowings	6	540,609,932	464,138,945
Trade payables	7	-	-
Total outstanding dues of micro enterprises and small enterprises		-	-
Total outstanding dues of creditors other than micro enterprises and small enterprises		687,322,160	701,279,350
Other current liabilities	8	162,160,417	105,405,848
Short term provisions	5	9,281,788	14,127,226
		1,399,374,297	1,284,951,369
		2,081,247,464	1,888,482,795
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	9		
Tangible fixed assets		118,216,619	125,073,398
Intangible fixed assets		5,438,921	6,014,660
Capital work-in-progress		3,870,156	4,880,184
		127,525,696	135,968,242
Deferred tax asset	37	-	13,178,014
Long term loans and advances	10	129,286,872	114,285,598
Other non-current assets	11	8,172,994	385,000
		264,985,562	263,816,854
<b>Current assets</b>			
Inventories	12	1,637,868,381	1,466,293,145
Trade receivables	13	55,543,239	34,901,447
Cash and bank balances	14	63,899,615	54,134,232
Short term loans and advances	15	57,980,827	68,214,630
Other current assets	16	969,840	1,122,487
		1,816,261,902	1,624,665,941
		2,081,247,464	1,888,482,795

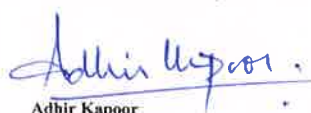
**Significant accounting policies**

1

The notes referred to above form an integral part of the financial statements.

As per our report of even date attached

For **BSR & Co. LLP**  
Chartered Accountants  
Firm Registration No.: 101248/W-100022

  
**Adhir Kapoor**  
Partner

Membership No.: 098297

For and on behalf of the Board of Directors of Ethos Limited

  
**Y. Saboo**  
Managing Director  
DIN No. 00012158

  
**C. Raja Sekhar**  
Chief Financial Officer

  
**Anil Khanna**  
Director  
DIN No. 00012232

  
**Anil Dhanan**  
Company Secretary

Place: Chandigarh  
Dated: 25 May 2016

Place: Chandigarh  
Dated: 25 May 2016

**ETHOS LIMITED**
**Statement of Profit and Loss for the year ended 31 March 2016**
*(Amount in Rupees unless stated otherwise)*

Particulars	Notes	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>Revenue from operations</b>	<b>17</b>		
Sale of products		3,258,097,827	2,794,271,902
Sale of services		13,406,351	8,064,324
Other operating revenues		15,208,314	7,821,585
		3,286,712,492	2,810,157,811
Other income	<b>18</b>	1,176,804	6,621,362
<b>Total revenue</b>		<b>3,287,889,296</b>	<b>2,816,779,173</b>
<b>Expenses</b>			
Purchase of stock-in-trade	<b>19</b>	2,676,937,690	2,411,510,624
Changes in inventories of finished goods and stock-in-trade	<b>20</b>	(171,575,236)	(321,861,040)
Cost of services rendered		4,185,943	2,080,697
Employee benefits	<b>21</b>	201,739,624	166,126,604
Depreciation and amortisation	<b>9</b>	37,817,066	37,523,199
Finance costs	<b>22</b>	82,474,732	71,249,145
Other expenses	<b>23</b>	502,592,545	414,717,743
<b>Total expenses</b>		<b>3,334,172,364</b>	<b>2,781,346,972</b>
<b>Profit/(loss) before tax</b>		<b>(46,283,068)</b>	<b>35,432,201</b>
<b>Tax expenses</b>			
Current tax		-	17,092,690
Deferred tax	<b>37</b>	13,178,014	(5,255,488)
Tax expense for earlier years		5,419	-
<b>Profit/(loss) for the year</b>		<b>(59,466,501)</b>	<b>23,594,999</b>
<b>Earnings / (loss) per equity share</b>			
Basic (Rs.) (face value Rs. 10)	<b>27</b>	(7.54)	0.13
Diluted (Rs.) (face value Rs. 10)	<b>27</b>	(7.54)	0.13

**Significant accounting policies**
**1**

The notes referred to above form an integral part of the financial statements.

As per our report of even date attached

For BSR &amp; Co. LLP

Chartered Accountants

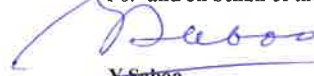
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**Adhir Kapoor**

Partner

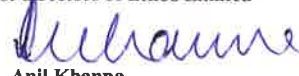
Membership No.:098297

For and on behalf of the Board of directors of Ethos Limited


**V. Saboo**

Managing Director

DIN No.00012158


**Anil Khanna**

Director

DIN No.00012232


**C. Raja Sekhar**

Chief Financial Officer


**Anil Dhanan**

Company Secretary

Place: Chandigarh

Dated: 25 May 2016

Place: Chandigarh

Dated: 25 May 2016

**ETHOS LIMITED**  
Cash Flow Statement for the year ended 31 March 16  
(Amount in Rupees unless stated otherwise)

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit/(loss) before taxes	(46,283,068)	35,432,201
Adjustments for:		
Depreciation	37,817,066	37,523,199
Bad debts, Advances and deposits written off	1,654,333	-
Fixed assets written off (net)	3,070,740	2,639,395
Finance costs	82,474,732	71,249,145
Liabilities / provisions no longer required, written back	(12,772,033)	(6,526,585)
Interest income	(1,058,172)	(781,413)
Amortisation of premium on forward exchange contracts	4,625,643	2,470,373
Amortisation of Employee stock option scheme	25,509	16,727
Unrealised foreign exchange differences	2,087,604	(5,705,298)
<b>Operating profit before working capital changes</b>	<b>71,642,354</b>	<b>136,317,744</b>
Adjustments for:		
(Increase) in inventories	(171,575,236)	(321,861,040)
(Increase) in trade and other receivables	(21,591,792)	(20,261,381)
(Increase) in long term loans and advances	(301,961)	(7,753,330)
(Increase) / decrease in short term loans and advances	4,948,955	(3,296,909)
(Increase) in other non-current assets	(6,878,189)	-
(Increase) / decrease in other current assets	143,455	(716,789)
Increase / (decrease) in trade payables	(3,272,761)	162,850,819
Increase / (decrease) in other current liabilities	18,206,093	(1,705,155)
Increase in short-term provisions	634,290	4,375,881
Increase in long-term provisions	957,259	1,331,253
<b>Cash used in operating activities before taxes</b>	<b>(107,087,533)</b>	<b>(50,718,908)</b>
Direct Taxes paid (including interest on late payment)	23,030,480	10,717,503
<b>Net cash used in operating activities</b>	<b>(130,118,013)</b>	<b>(61,436,411)</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditure on fixed assets, including capital advances and capital work in progress	(33,029,007)	(37,953,723)
Interest received	1,067,365	922,512
Bank deposits (having original maturity of more than three months)*	(8,497,793)	(166,572)
Security deposits for leased / licenced stores	3,361,267	(10,502,989)
<b>Net cash used in investing activities</b>	<b>(37,098,168)</b>	<b>(47,700,772)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of equity share capital (including share premium)	115,628,490	1,850,000
Proceeds from issue of preference share capital	-	64,999,870
Repayment of preference share capital	-	(3,249,870)
Repayment of secured loans	(24,157,630)	(23,256,105)
Proceeds from long term unsecured loans	117,000,000	31,500,000
Repayment of short term unsecured loans	(70,000,000)	(33,499,940)
Increase in short term borrowings (net)	76,470,987	140,187,800
Proceeds from deposits from shareholder's	37,281,000	-
Finance costs paid	(82,829,271)	(70,107,946)
<b>Net cash generated from financing activities</b>	<b>169,393,576</b>	<b>108,423,809</b>
<b>Increase/ (decrease) in cash and cash equivalents</b>	<b>2,177,395</b>	<b>(713,374)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>44,431,616</b>	<b>45,144,990</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>46,609,011</b>	<b>44,431,616</b>
<b>Notes:</b>		
<b>Components of cash and cash equivalents include:</b>	<b>As at 31 March 2016</b>	<b>As at 31 March 2015</b>
Cash in hand	23,205,836	7,892,883
Cheques in hand	2,631,078	2,199,751
Credit cards receivable	10,207,511	7,305,728
Balance with banks:		
Current accounts	10,564,586	27,033,254
<b>Cash and cash equivalents at the end of the year</b>	<b>46,609,011</b>	<b>44,431,616</b>

\* pledged Rs.10,806,049 (previous year Rs.10,087,616) with various banks for bank guarantees issued to different authorities


As per our report of even date attached

For BSR & Co. LLP  
Chartered Accountants  
Firm Registration No: 101248/W-100022

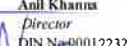
  
**Adhir Kapoor**  
Partner  
Membership No.:098297

Place: Chandigarh  
Dated: 25 May 2016

For and on behalf of the Board of Directors of Ethos Limited

  
**Y Saboo**  
Managing Director  
DIN No.00012158

  
**C Raja Sekhar**  
Chief Financial Officer

  
**Anil Khanna**  
Director  
DIN No.00012232

  
**Anil Dhanraj**  
Company Secretary

Place: Chandigarh  
Dated: 25 May 2016

## ETHOS LIMITED

### Notes to financial statements for the year ended 31 March 2016

#### I Significant accounting policies

##### i. Background

Ethos Limited ('Ethos' or 'the Company'), a subsidiary of KDDL Limited, is a limited liability company incorporated on 5 November 2007 under the provisions of the Companies Act, 1956.

The Company's business consists of trading of watches, accessories and luxury items and rendering of related after sale services.

##### ii. Basis of preparation

These financial statements have been prepared and presented on the accrual basis of accounting and comply with the Accounting Standards referred to in section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014, the relevant provisions of the Companies Act, 2013, pronouncements of the Institute of Chartered Accountants of India and other accounting principles generally accepted in India, to the extent applicable. The financial statements are presented in Indian rupees.

##### iii. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in India (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities on the date of the financial statements and the results of operations during the year. Differences between actual results and estimates are recognised in the year in which the results are known or materialised. Examples of such estimates are estimated useful life of assets, provision for doubtful debts, retirement benefits, etc. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

##### iv. Current-non-current classification

All assets and liabilities are classified into current and non-current.

###### Assets

An asset is classified as current when it satisfies any of the following criteria:

- it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is expected to be realised within 12 months after the reporting date; or
- it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

Current assets include the current portion of non-current financial assets.

All other assets are classified as non-current.

###### Liabilities

A liability is classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is due to be settled within 12 months after the reporting date; or
- the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current liabilities include current portion of non-current financial liabilities.

All other liabilities are classified as non-current.

###### Operating cycle

Operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Based on the nature of the products and time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the company has ascertained its operating cycle as 12 months for the purpose of current-non-current classification of assets and liabilities.

##### v. Fixed assets and depreciation

Fixed assets are carried at cost of acquisition less accumulated depreciation/amortisation and accumulated impairment loss, if any. Cost comprises all costs incurred to bring the assets to their location and working condition and includes all expenses incurred up to the date of launching new stores to the extent they are attributable to the new stores.

Pursuant to Companies Act, 2013 ('the Act') being effective from 1 April 2014, the Company had revised depreciation rates, wherever required, on its tangible fixed assets to align with the useful life specified in Part 'C' of Schedule II to the Act. As a result of this change, during the previous year ended 31 March 2015, based on transitional provision provided in Schedule II, an amount of Rs. 2,087,097 (after adjustment of related tax impact) had been debited to opening balance of retained earnings in respect of fixed assets where lives had expired as on 31 March 2014.

Intangible assets (software) are amortized over the estimated life of six years from the date of capitalization.

Mobile phones are depreciated over the estimated life of two years from the date of capitalization

Leasehold assets and improvements are depreciated under the straight line method over the period of the lease.



**vi. Impairment**

The carrying amounts of assets are reviewed at each balance sheet date in accordance with Accounting Standard – 28 on 'Impairment of Assets', to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Profit and Loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised.

**vii. Inventories**

Inventories are valued at the lower of cost or net realisable value. Cost of inventories includes all costs incurred in bringing the inventories to their present location and condition.

In determining the cost, the weighted average cost method is used.

**viii. Employee Benefits**

The Company's obligations towards various employee benefits have been recognised as follows:

**Short term employee benefits**

All employee benefits payable/available within twelve months of rendering the service are classified as short-term employee benefits. Benefits such as salaries, wages and bonus, etc., are recognised in the Statement of Profit and Loss in the period in which the employee renders the related service.

**Post employment benefits****Defined contribution plan**

The Company makes specified monthly contribution towards employee provident fund to Employees' Provident Fund administered by the Regional Provident Fund Commissioner. The Company's contributions to the fund are recognised in the Statement of Profit and Loss in the financial year to which they relate.

**Defined benefit plan**

Gratuity, a defined benefit plan, has been ascertained based on actuarial valuation at the year end, using the projected unit credit method, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of the estimated future cash flows. Actuarial gains and losses are recognised immediately in the Statement of Profit and Loss. The company has taken group gratuity policy from Life Insurance Corporation of India.

**Other long term liability****Compensated absences**

Benefits under the Company's compensated absences constitute other long term employee benefits, recognised as an expense in the Statement of Profit and Loss for the period in which the employee has rendered services. Estimated liability on account of these benefits is actuarially determined based on the projected unit credit method, using the yield on government bonds, as on the date of the balance sheet, as the discounting rate. Actuarial gains and losses are charged to the Statement of Profit and Loss.

**ix. Revenue recognition**

Revenue from sale of goods is recognised on transfer of all significant risks and rewards of ownership to the buyer. Net sales excludes sales tax and trade discounts.

Commission from sale of goods, received on consignment basis, is recognised on accrual basis.

Interest income is recognised on a time proportion basis.

**x. Foreign currency transactions**

Foreign exchange transactions are recorded using the exchange rate prevailing on the date of the transaction. Exchange differences arising on transactions settled during the year are recognised in the Statement of Profit and Loss of the year.

Monetary assets and liabilities denominated in foreign currencies as at the Balance Sheet date are translated at the exchange rates on that date and the resultant exchange differences are recognised in the Statement of Profit and Loss.

The premium or discount on a forward exchange contract taken to hedge foreign currency risk of an existing asset / liability is recognised over the period of contract. The amount is recognised in the Statement of Profit and Loss.

**xi. Earnings per share**

Basic earnings per share are computed using the weighted average number of equity shares outstanding during the year. Diluted earnings per share are computed using the weighted average number of equity and dilutive potential equity shares outstanding during the year, except where the results would be anti-dilutive.





## **ETHOS LIMITED**

### **Notes to financial statements for the year ended 31 March 2016**

#### **xii. Leases**

Lease rentals in respect of assets taken on operating lease are charged on a straight-line basis to the Statement of Profit and Loss except for those where other systematic basis is available.

#### **xiii. Club Echo points**

Club Echo points, accrued to the customer as a part of the loyalty programme, is provided for based on the management's past experience.

#### **xiv. Taxes on Income**

Income tax expense comprises current tax (that is amount of tax for the year determined in accordance with the Income-tax Act, 1961) and deferred tax charge or credit (reflecting the tax effects of timing difference between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liability or deferred tax asset is recognised using the tax rates that have been enacted or substantively enacted as at the Balance Sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty of realisation. Such assets are reviewed at each balance sheet date to reassess realisation. However, where there are carried forward losses or unabsorbed depreciation under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets.

Minimum Alternative Tax ('MAT') under the provisions of the Income-tax Act, 1961 is recognised as current tax in the Statement of Profit and Loss. The credit available under the Act in respect of MAT paid is recognised as an asset only when and to the extent there is convincing evidence that the company will pay normal income tax during the period for which the MAT credit can be carried forward for set-off against the normal tax liability. MAT credit recognised as an asset is reviewed at each Balance Sheet date and written down to the extent the aforesaid convincing evidence no longer exists.

#### **xv. Other Provisions and Contingent Liabilities**

A provision is created when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

The company does not recognise assets which are of contingent nature until there is virtual certainty of realisability of such assets. However, if it has become virtually certain that an inflow of economic benefits will arise, asset and related income is recognised in the financial statements of the period in which the change occurs.



**ETHOS LIMITED**

Notes to financial statements for the period ended 31 March 2016

(Amount in Rupees unless stated otherwise)

**2. Share capital**
**Authorised**

Equity shares of Rs. 10 each

12% cumulative optionally convertible preference shares of Rs. 65 each

12% cumulative compulsory convertible preference shares of Rs. 110 each

14% cumulative compulsory convertible preference shares of Rs. 130 each

As at 31 March 2016		As at 31 March 2015	
Number of shares	Amount	Number of shares	Amount
13,050,000	130,500,000	13,050,000	130,500,000
300,000	19,500,000	300,000	19,500,000
1,200,000	132,000,000	1,200,000	132,000,000
576,924	75,000,120	576,924	75,000,120
	<b>357,000,120</b>		<b>357,000,120</b>

**Issued subscribed and paid up**

Equity shares of Rs. 10 each fully paid up

12% cumulative compulsory convertible preference shares of Rs. 65 each fully paid up

12% cumulative compulsory convertible preference shares of Rs. 110 each fully paid up

14% cumulative compulsory convertible preference shares of Rs. 130 each fully paid up

As at 31 March 2016		As at 31 March 2015	
Number of shares	Amount	Number of shares	Amount
12,356,801	123,568,010	11,531,371	115,313,710
-	-	-	-
1,100,010	121,001,100	1,100,010	121,001,100
576,923	74,999,990	576,923	74,999,990
	<b>319,569,100</b>		<b>311,314,800</b>

**2(a) Reconciliation of share capital outstanding**

i) Equity shares of Rs. 10 each fully paid up

At the beginning of the year

Add: issued during the year

Add: issued on exercise of employee stock options

At the end of the year

As at 31 March 2016		As at 31 March 2015	
Number of shares	Amount	Number of shares	Amount
11,531,371	115,313,710	11,493,641	114,936,410
769,430	7,694,300	37,730	377,300
56,000	560,000	-	-
<b>12,356,801</b>	<b>123,568,010</b>	<b>11,531,371</b>	<b>115,313,710</b>

ii) 12% cumulative optionally convertible preference shares of Rs. 65 each

At the beginning and end of the year

Less: Redemption during the year\*

Less: Redemption through conversion into equity shares\*

At the end of the year

As at 31 March 2016		As at 31 March 2015	
Number of shares	Amount	Number of shares	Amount
-	-	69,228	4,499,820
-	-	49,998	3,249,870
-	-	19,230	1,249,950
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

iii) 12% cumulative compulsory convertible preference shares of Rs. 110 each fully paid up

At the beginning of the year

Add: issued during the year

At the end of the year

As at 31 March 2016		As at 31 March 2015	
Number of shares	Amount	Number of shares	Amount
1,100,010	121,001,100	1,100,010	121,001,100
<b>1,100,010</b>	<b>121,001,100</b>	<b>1,100,010</b>	<b>121,001,100</b>

iii) 14% cumulative compulsory convertible preference shares of Rs. 130 each fully paid up

At the beginning of the year

Add: issued during the year#

At the end of the year

As at 31 March 2016		As at 31 March 2015	
Number of shares	Amount	Number of shares	Amount
576,923	74,999,990	-	-
-	-	576,923	74,999,990
<b>576,923</b>	<b>74,999,990</b>	<b>576,923</b>	<b>74,999,990</b>

\*During the previous year, the company had redeemed 69,228 12% cumulative optionally convertible preference shares of Rs. 65 each. Out of these 49,998 shares redeemed by way of payment and balance shares were converted into 19,230 equity shares of Rs. 10 each at a premium of Rs. 55 each.

2(b)(i) During the five year period ended 31 March 2016 (31 March 2015), Nil (previous year: 76,924) 14% cumulative compulsory convertible preference shares of Rs. 130 each had been issued for consideration other than cash. In addition, 56,000 (previous year: Nil) equity shares of Rs. 10 each have been issued under employee stock option plans for which only exercise price has been received in cash.

2(b)(ii) During the five year period ended 31 March 2016 (31 March 2015) neither any bonus shares have been issued nor any shares have been bought back.

**2(c)**

i) The Company has only one class of equity shares having a par value of Rs. 10 per share. Each holder of equity shares is entitled to one vote per share except for the members whose calls are in arrears. No member shall be entitled to voting right in respect of any shares registered in his/her name on which any calls or other sums presently payable by him/her have not been paid or in regard to which the Company has exercised any right of lien. The Company declares and pays dividends in Indian Rupees. The dividend proposed by the Board of Directors (except for interim dividend) is subject to approval of the shareholders in the ensuing Annual General Meeting. In the event of liquidation of the Company the holders of equity shares will be entitled to receive the remaining assets of the Company after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

ii) The preference shareholders do not hold any voting rights. The Company declares and pays dividends in Indian Rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting. Where dividend on cumulative preference shares is not declared for a financial year the entitlement thereto is carried forward whereas in the case of non-cumulative preference shares the entitlement for that year lapses. In the event of liquidation of the Company the holders of preference shares will be entitled to receive the amount of their preference capital contribution before distribution of the remaining assets to the equity shareholders.

Conversion terms of 1,100,010 12% cumulative compulsorily convertible preference shares of Rs. 110 each fully paid up is 3 (three) years from the date of allotment in equal number of equity shares of face value of Rs. 10 each at a premium of Rs. 100 (and any cumulative dividend remaining unpaid) at the end of 3 (three) years. During the current year, the Company in a Board meeting and with the consent of shareholders has extended the date of redemption of 12% cumulative compulsory convertible preference shares of Rs. 110 each by two years from the date of original maturities.

Conversion terms of 576,923 14% cumulative compulsorily convertible preference shares of Rs. 130 each fully paid up is 5 (Five) years from the date of allotment in equal number of equity shares of face value of Rs. 10 each at a premium of Rs. 120 (and any cumulative dividend remaining unpaid) at the end of 5 (Five) years.



**ETHOS LIMITED**

Notes to financial statements for the period ended 31 March 2016

(Amount in Rupees unless stated otherwise)

**2(d) Shares held by ultimate holding company/ holding company and their subsidiaries/ associates**

	As at 31 March 2016		As at 31 March 2015	
	Number of shares	Amount	Number of shares	Amount
Equity shares of Rs. 10 each fully paid up				
KDDL Limited (holding company / ultimate holding company)	7,656,642	76,566,420	6,887,418	68,874,180
Mahen Distribution Limited (fellow subsidiary)	2,293,150	22,931,500	2,237,150	22,371,500
12% cumulative compulsory convertible preference shares of Rs. 110 each fully paid up				
KDDL Limited (holding company / ultimate holding company)	136,363	14,999,930	136,363	14,999,930
14% cumulative compulsory convertible preference shares of Rs. 130 each fully paid up				
KDDL Limited (holding company / ultimate holding company)	19,230	2,499,900	19,230	2,499,900

**2(e) Details of shareholders holding more than 5% shares of the Company**

	As at 31 March 2016		As at 31 March 2015	
	Number of shares	% holding	Number of shares	% holding
Equity shares of Rs. 10 each fully paid up held by				
KDDL Limited	7,656,642	62.0	6,887,418	59.7
Mahen Distribution Limited	2,293,150	18.6	2,237,150	19.4
Mr. Mukul Mahavir Agrawal	810,067	6.6	-	-
Mr. Y. Satish	-	-	1,340,111	11.6
Velocity Real Estate Private Limited	-	-	955,567	8.3
12% cumulative compulsory convertible preference shares of Rs. 110 each fully paid up held by				
Pulkit Sekhsaria	272,728	24.8	272,728	24.8
KDDL Limited	136,363	12.4	136,363	12.4
Walnut Partners LLP	-	-	181,818	16.5
Ganga Properties Private Limited	100,000	9.1	100,000	9.1
Mr. R. K. Saboo	90,910	8.3	-	-
Mr. Yashovardhan Saboo	90,900	8.3	-	-
Mehak Finpro (India) Private Limited	90,910	8.3	90,910	8.3
Saboo Coatings Private Limited	90,909	8.3	-	-
Ritu Prashant Khemka	90,909	8.3	-	-
14% cumulative compulsory convertible preference shares of Rs. 130 each fully paid up held by				
Sixth Sense India Opportunities - I	248,373	43.1	248,373	43.1
Mr. Nikhil Vora	115,462	20.0	115,462	20.0
Mr. R. K. Saboo	46,155	8.0	46,155	8.0
Dream Digital Technology Limited	38,462	6.7	38,462	6.7

**2(f) Employee stock options**

Terms attached to stock options granted to employees of the company and its holding company are described in note 30 regarding employee share based payments

**3. Reserves and surplus**

	As at 31 March 2016	As at 31 March 2015
<b>Share premium account</b>		
At the commencement of the year	200,615,818	197,893,168
Add: premium received during the year*	107,374,190	2,722,650
At the end of the year	307,990,008	200,615,818
<b>Capital reserve</b>		
At the commencement and end of the year	166,670	166,670
<b>Employee stock options outstanding account</b>		
At the commencement and end of the year	16,727	-
Expense for the year	25,509	16,727
Transferred to share capital on exercise of Stock options	-	-
	42,236	16,727
<b>Surplus / (Deficit) in Statement of Profit and Loss</b>		
At the commencement of the year	3,070,939	(18,436,963)
Less: Depreciation : Nil (previous year Rs. 2,087,097 (Net of deferred tax asset of Rs. 1,002,382)) #	-	(2,087,097)
Add: Profit/(Loss) for the year	(59,466,501)	23,594,999
Net surplus / (deficit) in the Statement of Profit and Loss	(56,395,562)	3,070,939
	251,803,352	203,870,154

#Refer note 1 (v)

\* includes current year Rs. Nil (previous year Rs. 1,057,650) for consideration other than cash due to conversion of 19,230 12% cumulative optionally convertible preference shares of Rs. 65 each





4. Long term borrowings	Foot notes	Non-current portion		Current portion	
		As at 31 March 2016	As at 31 March 2015	As at 31 March 2016	As at 31 March 2015
<b>Secured</b>					
Term loans					
- from bank	(i)	-	13,384,614	12,816,981	18,996,000
- from others	(ii)	37,364,165	42,270,351	4,906,182	4,321,786
Vehicle loans					
- from banks	(iii)	295,904	879,120	589,292	845,920
		37,660,069	56,534,085	18,312,455	24,163,706
<b>Unsecured</b>					
Inter corporate deposits					
- from related parties (refer note 29)	(iv)	14,999,940	4,999,940	-	-
- from others	(v)	10,000,000	20,000,000	40,000,000	-
Loan from relatives of directors (refer note 29)	(vi)	7,000,000	-	-	-
Deposits from Shareholders	(vii)	33,071,000	-	4,210,000	-
		65,070,940	24,999,940	44,210,000	-
Less: amount shown under other current liabilities		-	-	62,522,455	24,163,706
		<b>102,731,009</b>	<b>81,534,025</b>		

**Foot notes:**

- (i) Term Loans from bank (The Jammu & Kashmir Bank Limited) are secured by first charge on entire fixed assets both present and future of the Company. These limits are also secured by first charge on fixed assets of Ornapac unit at Chandigarh of KDDL Limited. This is further secured by the first and exclusive charge over land and building plant and machinery and office equipment of the Parwanoo unit of KDDL Limited excluding the assets purchased after 1 April 2005. These loans are also guaranteed by the Holding Company (KDDL Limited) and the director of the Company. The loan is repayable in 60 monthly installments of Rs. 1,583,000 each immediately from 11 November 2011. The rate of interest as on 31 March 2016 is 12.25% per annum. The outstanding amount as on 31 March 2016 will be repaid in 9 instalments during the next year.
- (ii) The loans from others include loan taken from Indiabulls Housing Finance Limited. The same is secured by exclusive mortgage and charge on personal property of the director and relatives of the director of the Company. These limits are also guaranteed by the holding company, the director of the Company and relatives of the director. The rate of interest on the term loan is 12.75% per annum. The original Loan of Rs 45 million will be repaid in 120 monthly instalments and Rs 5 million in 36 monthly instalments. The loan outstanding as on 31 March 2016 is Rs. 40.24 million and Rs. 2.03 million respectively which will be repaid as per repayment schedule.
- (iii) Vehicle loans are secured against hypothecation of the specified vehicle purchased from proceeds of the said loan. The rate of interest on vehicle loans varies from 11.5% to 12.70% per annum. The above loans are repayable in monthly installments within a period of next four years as per repayment schedule.
- (iv) Inter corporate deposit from related parties carry an interest rate ranging between 14% to 16% per annum and the same is repayable after 12 months.
- (v) Inter corporate deposit from others carry an interest rate ranging between 14% to 17% per annum and the same are repayable as per the repayment schedule within next two years.
- (vi) Unsecured loans from relative of directors carry an interest rate of 12.5% per annum and is repayable after 12 months.
- (vii) Deposits from Shareholders carry interest rate ranging between 11% to 12.5% per annum and carries a maturity period from 12 to 36 months from the respective date of deposits.
- (viii) There are no default in the repayment of any of the above loans taken by company and interest due on them.

5. Long term and short term provisions	Long Term		Short Term	
	As at 31 March 2016	As at 31 March 2015	As at 31 March 2016	As at 31 March 2015
<b>Provision for employee benefits</b>				
Compensated absences (refer note 31)	6,421,675	5,613,526	221,920	315,905
Gratuity (refer note 31)	1,348,031	1,198,921	-	67,316
<b>Others</b>				
Provision for tax	-	-	-	5,479,728
Club ECHO provision (refer note 38)	-	-	9,059,868	8,264,277
	<b>7,769,706</b>	<b>6,812,447</b>	<b>9,281,788</b>	<b>14,127,226</b>

6. Short term borrowings	Foot notes	As at 31 March 2016	As at 31 March 2015
<b>Secured</b>			
Loans repayable on demand			
Cash credit and overdraft facilities from banks			
- IDBI Bank Limited	(i)	168,095,724	133,863,804
- The Federal Bank Limited	(ii)	-	107,166,389
- The Jammu & Kashmir Bank Limited	(iii)	87,614,275	86,445,318
- The Bank of Maharashtra Limited	(iv)	206,395,371	78,391,414
Buyers' credit (IDBI Bank Limited)	(i)	38,504,562	58,272,020
Loan from others	(v)	40,000,000	-
		<b>540,609,932</b>	<b>464,138,945</b>



**ETHOS LIMITED**

Notes to financial statements for the period ended 31 March 2016

(Amount in Rupees unless stated otherwise)

**Foot notes:**

- (i) The cash credit, overdraft facilities and buyers' credit from IDBI Bank Limited are repayable on demand and are secured by first pari passu charge on all the current assets of the company both present and future and second pari passu charge on the fixed assets of the Company both present and future. These limits are also secured by exclusive mortgage and charge on all the immovable fixed assets of the tool room unit (Eigen) of KDDL Limited at Bangalore. These limits are guaranteed by the Holding Company (KDDL Limited), personal guarantees of director of the Company and relative of the director. The rate of interest on cash credit and overdraft facilities as on 31 March 2016 is 13.00% per annum.
- (ii) The cash credit and overdraft facilities from The Federal Bank Limited are repayable on demand and are secured by first pari passu charge on current assets of the Company including stock in trade and receivables. These limits are also secured by a Second pari passu charge on the fixed assets of the Company. These limits are guaranteed by the Holding Company, personal guarantee of the director of the Company and relative of the director.
- (iii) The cash credit and overdraft facilities from The Jammu & Kashmir Bank Limited are repayable on demand and are secured by first pari passu charge on the stock and receivables of the Company. These limits are also secured by exclusive first charge on assets of Ormapac unit at Chandigarh of KDDL Limited. This is further secured by the first and exclusive charge over land and building, plant and machinery and office equipment of the Parwanoo unit of KDDL Limited. These loans are also guaranteed by the Holding Company, personal guarantees of the director of the Company and relative of the director. The rate of Interest as on 31 March 2016 is 12.25% per annum.
- (iv) The cash credit and overdraft facilities from Bank of Maharashtra are repayable on demand and are secured by first pari passu charge by way of hypothecation on entire current assets of the company. These limits are also secured by 360,000 shares of holding company held by Sh. Yashovardhan Saboo and second pari passu charge on entire fixed assets of the company. Further, these limits are also guaranteed by the Holding Company, personal guarantee of director of the Company and relative of the director. The rate of interest as on 31 March 2016 is 13.20% per annum.
- (v) The loan from others represent loan taken from Maverick Financial Services Pvt. Ltd. and the same is secured by shares and securities of holding company held by Sh. Yashovardhan Saboo. These limits are also secured by the personal guarantee of director of the company. The rate of interest as on 31 March 2016 is 15% per annum and the same is repayable within 12 months.

**7. Trade payables**

	As at 31 March 2016	As at 31 March 2015
Due to micro and small enterprises (refer note 35)	-	-
Creditors other than micro and small enterprises		
- To related parties	18,900,095	7,352,070
- Others	668,422,065	693,927,280
	<b>687,322,160</b>	<b>701,279,350</b>

**8. Other current liabilities**

	As at 31 March 2016	As at 31 March 2015
Current maturities of long term debts (refer note 4)	62,522,455	24,163,706
Creditors for fixed assets	2,644,970	2,455,243
Forward contract payable	1,656,455	475,594
Advances from customers	19,887,278	15,479,412
Statutory dues	35,444,388	30,299,571
Employee related payable	38,229,973	31,001,157
Interest accrued but not due on borrowings	1,774,898	1,531,165
	<b>162,160,417</b>	<b>105,405,848</b>



**ETHOS LIMITED**  
Notes to financial statements  
(Amount in Rupees unless stated otherwise)

**9. Fixed assets**

Particulars	Gross block				Depreciation / Amortization				Net block
	As at 31 March 2015	Additions	Disposals/ Adjustment	As at 31 March 2016	Upto 31 March 2015	Charge for the year	Disposals/ Adjustment	Upto 31 March 2016	As at 31 March 2016
<b>Tangible assets</b>									
Leasehold improvements	112,346,016	16,749,310	10,697,256	118,398,070	59,934,094	19,975,882	7,574,614	72,335,362	46,062,708
Plant and equipments	21,173,575	2,259,459	710,101	22,722,933	11,560,243	2,733,038	506,130	13,787,151	8,935,782
Furniture and fixtures	91,760,754	13,995,007	3,678,865	102,076,896	36,136,556	11,113,273	1,645,944	45,603,885	56,473,011
Vehicles	6,114,282	-	-	6,114,282	2,471,398	871,522	3,342,920	3,342,920	2,771,362
Office equipments	6,946,371	2,132,235	1,265,818	7,812,788	3,165,309	1,464,636	790,913	3,839,032	3,973,756
Sub total (A)	238,340,998	35,136,011	16,352,040	257,124,969	113,267,600	36,158,351	10,517,601	138,908,350	118,216,619
<b>Intangible assets</b>									
Software	16,049,012	1,103,803	106,454	17,046,361	10,034,352	1,658,715	85,627	11,607,440	5,438,921
Sub total (B)	16,049,012	1,103,803	106,454	17,046,361	10,034,352	1,658,715	85,627	11,607,440	5,438,921
<b>Total (A)+(B)</b>	<b>254,390,010</b>	<b>36,239,814</b>	<b>16,458,494</b>	<b>274,171,330</b>	<b>123,301,952</b>	<b>37,817,066</b>	<b>10,603,228</b>	<b>150,515,790</b>	<b>123,655,540</b>

For the year ended 31 March 2015

Particulars	Gross block				Depreciation / Amortization				Net block	
	As at 31 March 2014	Additions	Disposals/ Adjustment	As at 31 March 2015	Upto 31 March 2014	Impact of revision in useful lives of fixed assets (refer note 1 (v))	Charge for the year	Disposals/ Adjustment	Upto 31 March 2015	As at 31 March 2015
<b>Tangible assets</b>										
Leasehold improvements	89,889,960	26,520,464	4,064,408	112,346,016	41,364,902	-	20,121,112	1,551,920	59,934,094	52,411,922
Plant and equipments	17,349,291	4,206,192	381,908	21,173,575	6,777,142	1,699,693	3,465,315	381,907	11,560,243	9,613,332
Furniture and fixtures	83,204,379	8,768,742	212,367	91,760,754	25,707,203	441,247	10,050,082	61,976	36,136,556	55,624,198
Vehicles	6,114,282	-	-	6,114,282	1,590,802	-	880,596	-	2,471,398	3,642,884
Office equipments	5,245,297	1,720,074	19,000	6,946,371	1,014,435	948,540	1,208,217	5,882	3,165,309	3,781,062
Sub total (A)	201,803,209	41,215,472	4,677,683	238,340,998	76,454,484	3,089,480	35,725,322	2,001,685	113,267,600	125,073,398
<b>Intangible assets</b>										
Software	11,781,142	4,267,870	-	16,049,012	8,236,475	-	1,797,877	-	10,034,352	6,014,660
Sub total (B)	11,781,142	4,267,870	-	16,049,012	8,236,475	-	1,797,877	-	10,034,352	6,014,660
<b>Total (A)+(B)</b>	<b>213,584,351</b>	<b>45,483,342</b>	<b>4,677,683</b>	<b>254,390,010</b>	<b>84,690,959</b>	<b>3,089,480</b>	<b>37,523,199</b>	<b>2,001,685</b>	<b>123,301,952</b>	<b>131,088,058</b>

Particulars				As at 31 March 2016	As at 31 March 2015
Capital work-in-progress				3,870,156	4,880,184
<b>Total</b>				<b>3,870,156</b>	<b>4,880,184</b>



	Non-current portion		Current portion	
	As at 31 March 2016	As at 31 March 2015	As at 31 March 2016	As at 31 March 2015
<b>10. Long term loans and advances</b>				
<i>(Unsecured and considered good unless otherwise stated)</i>				
<b>To parties other than related parties</b>				
Security and other deposits	82,913,983	86,320,379	41,957,973	42,617,177
Capital advances	2,547,154	1,773,683	-	-
Other loans and advances				
Claim receivable (refer note 26)	17,000,000	17,000,000	-	-
CENVAT credit receivable	7,705,489	7,126,900	-	-
Advance tax	17,944,745	612,508	-	-
Prepaid expenses	382,047	537,128	5,381,901	5,234,776
Loan to employees	793,454	915,000	2,495,359	441,462
	<u>129,286,872</u>	<u>114,285,598</u>	<u>49,835,233</u>	<u>48,293,415</u>
Less: amount shown under short term loans and advances (refer note 15)			49,835,233	48,293,415
	<u>129,286,872</u>	<u>114,285,598</u>		
<b>11. Other non current assets</b>			As at 31 March 2016	As at 31 March 2015
Bank deposits (due to mature after 12 months from the reporting date)*			1,294,805	385,000
Insurance claim receivable (refer note 42)			6,878,189	-
			<u>8,172,994</u>	<u>385,000</u>
* pledged as security for bank guarantees				
<b>12. Inventories</b>	As at 31 March 2016	As at 31 March 2015		
<i>(at the lower of cost or net realisable value)</i>				
Finished goods for trading	1,632,152,457	1,435,873,505	30,419,640	1,466,293,145
add: goods-in transit	<u>5,715,924</u>	<u>1,637,868,381</u>		<u>1,466,293,145</u>
		<u>1,637,868,381</u>		
<b>13. Trade Receivables</b>			As at 31 March 2016	As at 31 March 2015
<i>(Unsecured and considered good unless otherwise stated)</i>				
Receivables outstanding for a period exceeding six months from the date they became due for payment			2,392,584	-
Other receivables considered good			2,757,694	-
- from related parties (refer note 29)			50,392,961	34,901,447
- from others				
			<u>55,543,239</u>	<u>34,901,447</u>
<b>14. Cash and bank balances</b>			As at 31 March 2016	As at 31 March 2015
<b>Cash and cash equivalents</b>				
Balances with banks in current accounts			10,564,586	27,033,254
Cash in hand			23,205,836	7,892,883
Cheques in hand			2,631,078	2,199,751
Credit cards receivable			10,207,511	7,305,728
			<u>17,290,604</u>	<u>9,702,616</u>
<b>Other bank balances*</b>			<u>63,899,615</u>	<u>54,134,232</u>
* includes fixed deposits amounting Rs 9,511,244 (previous year 9,702,616) pledged as security for bank guarantees				
<b>Detail of bank deposits</b>			As at 31 March 2016	As at 31 March 2015
Bank deposits due to mature within 12 months of the reporting date included under 'Other bank balances'			17,290,604	9,702,616
Bank deposits due to mature after 12 months of the reporting date included under 'Other non current assets' (refer note 11)			1,294,805	385,000
			<u>18,585,409</u>	<u>10,087,616</u>
<b>15. Short term loans and advances</b>			As at 31 March 2016	As at 31 March 2015
<i>(Unsecured and considered good unless otherwise stated)</i>				
<b>Current portion of long terms loans and advances (refer note 10)</b>				
To parties other than related parties			49,835,233	48,293,415
<b>Other short term loans and advances</b>				
To parties other than related parties			6,662,796	8,879,586
Advances for supply of goods and services			-	5,608,982
Advance to employees			1,482,798	4,115,667
Other advances				
To related parties				1,316,980
Receivable for expenses from fellow subsidiary (refer note 29)				
			<u>57,980,827</u>	<u>68,214,630</u>
<b>16. Other current assets</b>			As at 31 March 2016	As at 31 March 2015
<i>(Unsecured and considered good unless otherwise stated)</i>				
Interest accrued but not due on bank deposits			172,693	181,886
Unamortised premium on forward contracts			797,147	940,601
			<u>969,840</u>	<u>1,122,487</u>



**ETHOS LIMITED**

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(Amount in Rupees unless stated otherwise)

		For the year ended 31 March 2016	For the year ended 31 March 2015
<b>17. Revenue from operations</b>	<b>Foot notes</b>		
Sale of products (net) - Traded goods	(i)	3,258,097,827	2,794,271,902
		3,258,097,827	2,794,271,902
Sale of services (net of service tax)			
Service income		13,170,744	8,005,175
Commission income		235,607	59,149
		13,406,351	8,064,324
Other operating revenues			
Other operating income		2,436,281	1,295,000
Liabilities / provisions no longer required written back		12,772,033	6,526,585
		15,208,314	7,821,585
		<u>3,286,712,492</u>	<u>2,810,157,811</u>
<b>Foot notes:</b>			
(i) <b>Sale of products (net) - Traded goods</b>			
Sales of traded goods (net)			
Watches		3,219,846,554	2,764,761,144
Others		38,251,273	29,510,758
Total		<u>3,258,097,827</u>	<u>2,794,271,902</u>
		<b>For the year ended 31 March 2016</b>	<b>For the year ended 31 March 2015</b>
<b>18. Other Income</b>			
Interest income on bank deposits		1,035,028	678,902
Interest from others		23,144	102,511
Other non operating income		118,632	-
Foreign exchange gain (net)		-	5,839,949
		<u>1,176,804</u>	<u>6,621,362</u>
		<b>For the year ended 31 March 2016</b>	<b>For the year ended 31 March 2015</b>
<b>19. Purchase of stock-in-trade</b>	<b>Foot notes</b>		
Finished goods for trading	(i)	2,676,937,690	2,411,510,624
		<u>2,676,937,690</u>	<u>2,411,510,624</u>
<b>Foot notes:</b>			
(i) <b>Purchase of stock-in-trade</b>			
Watches		2,644,259,836	2,393,841,688
Others		32,677,854	17,668,936
Total		<u>2,676,937,690</u>	<u>2,411,510,624</u>
		<b>For the year ended 31 March 2016</b>	<b>For the year ended 31 March 2015</b>
<b>20. Changes in Inventories of finished goods and Stock-in-trade</b>	<b>Foot notes</b>		
Opening Inventory			
Finished goods for trading	(i)	1,466,293,145	1,144,432,105
Closing Inventory			
Finished goods for trading	(ii)	1,637,868,381	1,466,293,145
		<u>(171,575,236)</u>	<u>(321,861,040)</u>
<b>Foot notes:</b>			
<b>Particulars of inventory:</b>			
(i) <b>Opening stock</b>			
Watches		1,442,724,072	1,120,850,886
Others		23,569,073	23,581,219
Total		<u>1,466,293,145</u>	<u>1,144,432,105</u>
(ii) <b>Closing stock</b>			
Watches		1,601,368,715	1,442,724,072
Others		36,499,666	23,569,073
Total		<u>1,637,868,381</u>	<u>1,466,293,145</u>



**ETHOS LIMITED**

Notes to financial statements for the period ended 31 March 2016

(Amount in Rupees unless stated otherwise)

	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>21. Employee benefits</b>		
Salaries wages and bonus	179,018,087	146,487,875
Compensated absences	4,978,072	4,015,980
Contribution to provident and other funds	9,043,251	7,776,281
Staff welfare expenses	8,700,214	7,846,468
	<b>201,739,624</b>	<b>166,126,604</b>
<b>22. Finance costs</b>		
Interest on loans	81,069,958	70,698,564
Interest others	1,191,680	30,636
Interest on delay in deposit of income tax	213,094	519,945
	<b>82,474,732</b>	<b>71,249,145</b>
<b>23. Other expenses</b>		
Power and fuel	11,556,370	11,534,526
Insurance	4,234,539	2,972,145
Rent (net of reimbursements) (refer note 32)	279,455,112	244,121,717
Rates and taxes excluding taxes on income	573,963	1,159,371
Repair and maintenance		
Buildings	776,678	430,658
Others	9,961,794	7,820,356
Foreign exchange loss (net)	3,008,573	-
Travelling and conveyance	16,664,882	15,732,699
Advertisement and sales promotion	87,397,453	61,670,014
Directors sitting fees	1,660,912	832,631
Printing and stationery	1,384,939	1,330,799
Recruitment expenses	2,201,799	2,545,511
Telephone and telex	6,664,131	5,463,068
Postage and telegram	11,157,511	9,674,141
Legal and professional fees (refer note 28)	16,588,883	11,751,227
Bank charges	28,667,187	24,075,507
Bad debts	950,000	-
Advances / deposits written off	704,333	-
Fixed assets written off (net)	3,070,740	2,639,395
Amortisation of premium on forward exchange contracts	4,625,643	2,470,373
Miscellaneous expenses	11,287,103	8,493,605
	<b>502,592,545</b>	<b>414,717,743</b>





**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

**24. Commitments**

Particulars	As at 31 March 2016	As at 31 March 2015
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	2,326,410	4,177,118
	<b>2,326,410</b>	<b>4,177,118</b>

**25. Contingent liability not provided for**

Particulars	As at 31 March 2016	As at 31 March 2015
a) Bank guarantee outstanding	32,425,028	24,900,028
b) Income tax matters	3,637,420	1,028,770
c) Civil and consumer matters	53,700	-
d) Claims against the Company not acknowledged as debts		
Arrears of fixed cumulative dividend on 12% cumulative compulsory convertible preference shares and 14% cumulative compulsory convertible preference shares including dividend distribution taxes	78,645,972	48,532,331
	<b>114,762,120</b>	<b>74,461,129</b>

26. During the year 2011-2012, pursuant to the visit of the officers of Directorate general of Central excise intelligence (DGCEI) in the premises of the Company on 18 August 2011, the company had reversed the input service tax credit of Rs. 17,000,000 availed by the Company in previous years. The above amount was reversed as per the opinion of the officials of DGCEI. The Company, on the basis of legal opinion obtained, is of the view that the Company is entitled to this input service tax credit. Since, the amount was reversed under protest and without prejudice to the legal rights of the Company, the Company has shown the above amount of Rs. 17,000,000 reversed as claim receivable under the head "Long term loans and advances". During the financial year 2012-13, the Company had received a notice from DGCEI whereby, the Company had been called upon to show cause as to why service tax amounting to Rs. 663,452 which had been short paid and CENVAT credit amounting to Rs. 24,276,671 wrongly availed should not be demanded and recovered. The Company had filed the reply to the show cause notice with the Commissioner-Central Excise and Service Tax, Chandigarh. The authority has confirmed the demand except Rs. 663,452. Further, the authority has imposed a penalty of Rs. 24,276,671. Being aggrieved against the order of Commissioner- Central Excise and Service Tax, the Company has preferred appeal with CESTAT and the matter is sub-judice with CESTAT, New Delhi. Due to the pending adjudication of the appeal, liability on this account has not been provided in the accounts.

**27. Earnings per equity share**

The computation of basic and diluted earnings per share is set out below:-	As at 31 March 2016	As at 31 March 2015
Profit / (loss) after taxes as per Statement of Profit and Loss	(59,466,501)	23,594,999
Less: arrears of dividend on preference shares and tax thereon	30,113,640	22,079,908
<b>Net profit / (loss) attributable to equity share-holders</b>	<b>(89,580,141)</b>	<b>1,515,091</b>
Total equity shares outstanding at the end of the year	12,356,801	11,531,371
Number of weighted average equity shares for		
Basic	11,884,817	11,510,256
Diluted	13,561,750	12,823,525
Nominal value of equity share (Rs.)	10.00	10.00
Basic earnings per share	(7.54)	0.13
Diluted earnings per share	(7.54) *	0.13*
* The effect of 12% cumulative compulsorily convertible preference shares and 14% cumulative compulsorily convertible preference shares being anti-dilutive in nature, dilutive EPS has not been computed.		

**28. Auditors' remuneration (excluding service tax)**

Particulars	As at 31 March 2016	As at 31 March 2015
<b>As Auditor</b>		
Statutory audit fee	1,200,000	1,000,000
Limited review fee	675,000	675,000
<b>In other capacity</b>		
Certification and other services	935,000	230,500
Reimbursement of out of pocket expenses	134,871	36,110



**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

**29. Related parties****a. Related parties and nature of related party relationship, where control exists:**

Description of Relationship	Name of the Party
Holding / Ultimate Holding Company	KDDL Limited

**b. Other related parties with whom transactions have taken place:**

Description of Relationship	Name of the Party
Fellow Subsidiaries	Mahen Distribution Limited
Entities over which significant influence is exercised by the Key Management Personnel	Saboo Coatings Limited VBL Innovations Private Limited Vardhan Properties & Investment Limited
Entities over which significant influence is exercised by relative of the Key Management Personnel	Dream Digital Technology Limited
Key Management Personnel	Mr. Y. Saboo (Managing director) Mr. C. Raja Sekhar (Chief Financial Officer) Mr. Anil Dhiman (Company Secretary)
Relatives of Key Management Personnel	Mr. R K Saboo Mr. Pranav Saboo Mrs. Usha Saboo Mrs. Anuradha Saboo

**c. Transactions with related parties**

Nature of transactions	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>a) Purchase of goods</b>	<b>93,193</b>	<b>6,717,707</b>
- KDDL Limited	93,193	1,477,022
- Mahen Distribution Limited	-	5,240,685
<b>b) Sales of goods</b>	<b>3,300,241</b>	<b>522,732</b>
- VBL Innovations Private Limited	3,150,000	-
- Saboo Coatings Limited	81,445	160,494
- KDDL Limited	68,796	316,563
- Dream Digital Technology Limited	-	45,675
<b>c) Employee benefits paid</b>	<b>5,289,288</b>	<b>4,489,300</b>
- Mrs. Anuradha Saboo	290,327	-
- Mr. C. Raja Sekhar	4,378,953	3,978,200
- Mr. Anil Dhiman	620,008	511,100
<b>d) Personnel expenses Paid</b>	<b>959,398</b>	<b>711,631</b>
- KDDL Limited	959,398	711,631
<b>e) Personnel expenses Received</b>	-	<b>3,938,166</b>
- Mahen Distribution Limited	-	3,938,166
<b>f) Interest expenses</b>	<b>2,413,210</b>	<b>2,507,827</b>
- Mr. R K Saboo	832,398	1,234,928
- Mahen Distribution Limited	-	115,643
- Vardhan Properties & Investment Limited	778,630	-
- Dream Digital Technology Limited	802,182	1,157,256
<b>g) Rent expense</b>	<b>4,655,202</b>	<b>3,782,801</b>
- KDDL Limited	4,655,202	3,782,801
<b>h) Publicity and advertisement (including service tax)</b>	<b>28,356,807</b>	<b>22,355,002</b>
- Dream Digital Technology Limited	28,270,364 *	22,355,002
- KDDL Limited	86,443	-
<b>i) Reimbursement of expenses paid</b>	<b>2,007,781</b>	<b>1,819,174</b>
- KDDL Limited	2,007,781	1,819,174





**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

Nature of transactions	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>j) Reimbursement of expenses received</b>		<b>1,530,133</b>
- Mahen Distribution Limited		1,530,133
<b>k) Loan taken</b>	<b>17,000,000</b>	<b>11,500,000</b>
- Mr. R K Saboo	7,000,000	-
- Vardhan Properties & Investment Limited	10,000,000	-
- Mahen Distribution Limited		6,500,000
- Dream Digital Technology Limited		5,000,000
<b>l) Loan repaid</b>		<b>23,500,060</b>
- Mr. R K Saboo		12,000,000
- Mahen Distribution Limited		6,500,000
- Dream Digital Technology Limited		5,000,060
<b>m) Payment made on our behalf by the company</b>		<b>450,534</b>
- KDDL Limited		450,534
<b>n) Payment made on behalf of the company</b>	<b>101,305</b>	<b>1,225,644</b>
- Mahen Distribution Limited	101,305	1,225,644
<b>o) 14% Compulsory Convertible Preference Shares issued</b>		<b>20,100,210</b>
- KDDL Limited		2,499,900
- VBL Innovations Private Limited		2,600,000
- Dream Digital Technology Limited		5,000,060
- Mr. R K Saboo		6,000,150
- Mr. Y Saboo		2,500,030
- Mrs. Anuradha Saboo		1,500,070
<b>p) Equity shares issued</b>	<b>7,769,300</b>	<b>25,000</b>
- Mr. C. Raja Sekhar	77,000	25,000
- KDDL Limited	7,692,300	-
<b>q) Share premium received</b>	<b>103,009,190</b>	<b>225,000</b>
- Mr. C. Raja Sekhar	701,600	225,000
- KDDL Limited	102,307,590	-
<b>r) Guarantees given on behalf of the Company</b>	<b>122,500,000</b>	<b>240,000,000</b>
- KDDL Limited	27,500,000	80,000,000
- Mr. R K Saboo	27,500,000	80,000,000
- Mr. Y Saboo	67,500,000	80,000,000

\* This figure includes an amount of Rs. 24,489,434 which has been reimbursed by brands

**d. Outstanding balances as at year end**

Particulars	As at 31 March 2016	As at 31 March 2015
<b>Payables</b>	<b>18,900,094</b>	<b>7,352,069</b>
- Dream Digital Technology Limited	10,763,313	6,176,383
- Vardhan Properties & Investment Limited	314,316	-
- KDDL Limited	7,822,465	1,175,686
<b>Receivables / Advances</b>	<b>2,757,694</b>	<b>1,316,980</b>
- Mahen Distribution Limited		1,316,980
- VBL Innovations Private Limited	2,757,694	-
<b>12% Cumulative Compulsory Convertible Preference Shares</b>	<b>37,499,110</b>	<b>27,499,010</b>
- KDDL Limited	14,999,930	14,999,930
- Mr. R K Saboo	10,000,100	5,000,050
- Mr. Y Saboo	9,999,000	4,998,950
- Mrs. A Saboo	2,500,080	2,500,080
<b>14% Cumulative Compulsory Convertible Preference Shares</b>	<b>20,100,210</b>	<b>20,100,210</b>
- KDDL Limited	2,499,900	2,499,900
- VBL Innovations Private Limited	2,600,000	2,600,000
- Dream Digital Technology Limited	5,000,060	5,000,060
- Mr. R K Saboo	6,000,150	6,000,150
- Mr. Y Saboo	2,500,030	2,500,030
- Mrs. A Saboo	1,500,070	1,500,070



**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

Particulars	As at 31 March 2016	As at 31 March 2015
<b>Equity Share Capital</b>	<b>99,690,230</b>	<b>91,437,990</b>
- Mahen Distribution Limited	22,931,500	22,371,500
- KDDL Limited	76,566,420	68,874,180
- Mr. Y Saboo	192,310	192,310
- Mr. C. Raja Sekhar	106,870	105,560
<b>Unsecured loans</b>	<b>21,999,940</b>	<b>4,999,940</b>
- Dream Digital Technology Limited	4,999,940	4,999,940
- Vardhan Properties & Investment Limited	10,000,000	
- Mr. R K Saboo	7,000,000	
<b>Interest Payable</b>		<b>522,733</b>
- Dream Digital Technology Limited		522,733
<b>Guarantees taken by the company</b>	<b>1,770,215,349</b>	<b>1,704,129,776</b>
- KDDL Limited	598,587,328	594,972,751
- Mr. R K Saboo	490,770,347	467,592,137
- Mr. Y Saboo	638,587,328	594,972,751
- Mrs. U Saboo	42,270,347	46,592,137

**30. Disclosures on Employee share based payments****(a) Employee Stock Option Scheme**

In the annual general meeting held on 15 September 2011, the shareholders approved the issue of options not exceeding 84,000 options under the Scheme titled "KRL Employee Stock Option Plan - 2011" (ESOP)

The ESOP allows the issue of options to eligible employees of the Company. Each option comprises one underlying equity share.

As per the Scheme, the Compensation Committee grants the options to the employees deemed eligible. The exercise price of each option shall be equal to the "Market Price" as defined in the Scheme. The options granted vest as follows. Options may be exercised within 2 years of vesting.

1. 50% of the options granted to the selected employee shall vest on 1st April, 2014 in case there is continuation of his service till the date of vesting.
2. 50% on the first day of the financial year subsequent to the achievement of billing of Rs. 300 crores in any financial year by the Company, subject to the continuation of service till the date of vesting. However there shall remain a gap of minimum one year between the date of grant and the date of vesting under this clause. The compensation committee shall declare such date as and when it is triggered.

The Company has in its Compensation Committee meeting on 04.01.2013 granted outstanding 2,500 options to employee of the Company. The above options have been issued by the Compensation Committee in accordance with the terms & conditions of the "KRL Employee Stock Option Plan-2011" (ESOP)

In the Extraordinary General Meeting held on 10.03.2014, the shareholders approved the issue of options not exceeding 3,50,000 options under the Scheme titled "Ethos Employee Stock Option Plan - 2013"

The ESOP allows the issue of options to eligible employees of the Company. Each option comprises one underlying equity share.

As per the Scheme, the Compensation Committee grants the options to the employees deemed eligible. The exercise price of each option shall be equal to the "Market Price" as defined in the Scheme. The options granted vest as follows. Options may be exercised within 3 years of vesting.

1. 50% of the options granted to the selected employee shall vest on 1st October, 2017 in case there is continuation of his service till the date of vesting.
2. 50% on the first day of the financial year subsequent to the achievement of billing of Rs. 500 crores in any financial year by the Company, subject to the continuation of service till the date of vesting. However there shall remain a gap of minimum one year between the date of grant and the date of vesting under this clause. The compensation committee shall declare such date as and when it is triggered.

The Company has in its Compensation Committee meeting on 04.08.2014 granted outstanding 3,500 options to employee of the holding Company. The above options have been issued by the Compensation Committee in accordance with the terms & conditions of the "Ethos Employee Stock Option Plan - 2013"

The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option (being the intrinsic value of the option) representing Stock compensation expense is expensed over the vesting period.



**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

**(b) Employee stock options details as on the Balance Sheet date are as follows:**

Particulars	During the year ended 31 March 2016		During the year ended 31 March 2015	
	Options	Weighted average	Options	Weighted average exercise
<b>KRL Employee Stock Option Scheme - 2011</b>				
Option outstanding at the beginning of the year	54,750	100	72,000	100
Granted during the year	-	-	-	-
Vested during the year	54,750	100	-	-
Exercised during the year	54,750	100	17,250	-
Lapsed during the year	-	-	-	-
Options outstanding at the end of the year	-	-	54,750	100
Options exercisable at the end of the year	-	-	18,750	-
No. of shares arising out of the options outstanding	-	-	54,750	-
<b>KRL Employee Stock Option Scheme - 2011</b>				
Option outstanding at the beginning of the year	1,250	110	2,500	110
Granted during the year	-	-	-	-
Vested during the year	1,250	-	-	-
Exercised during the year	1,250	-	1,250	-
Lapsed during the year	-	-	-	-
Options outstanding at the end of the year	-	110	1,250	110
Options exercisable at the end of the year	-	-	-	-
No. of shares arising out of the options outstanding	-	-	1,250	-
<b>Ethos Employee Stock Option Scheme - 2013</b>				
Option outstanding at the beginning of the year	258,000	120	264,000	120
Granted during the year	-	-	-	-
Vested during the year	-	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	30,000	120	6,000	120
Options outstanding at the end of the year	228,000	120	258,000	120
Options available for grant at the end of year	-	-	82,500	120
Options exercisable at the end of the year	-	-	-	-
No. of shares arising out of the options outstanding	228,000	-	258,000	-
<b>Ethos Employee Stock Option Scheme - 2013</b>				
Option outstanding at the beginning of the year	3,500	120	-	-
Granted during the year	-	-	3,500	120
Vested during the year	-	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Options outstanding at the end of the year	3,500	120	3,500	120
Options available for grant at the end of year	-	-	-	-
Options exercisable at the end of the year	-	-	-	-
No. of shares arising out of the options outstanding	3,500	-	3,500	-

Weighted average fair value of the options during the year

56.08

Weighted average remaining contractual life (Years) (KRL1/KRL2/Ethos)

2.55/1.24/3.56/3.16

**(c) The impact on Earnings per Share if the 'fair value' of the options (on the date of the grant) were considered instead of the 'intrinsic value' is as under:**

Particulars	As at 31 March 2016	As at 31 March 2015
Net profit after tax (as reported)	(59,466,501)	23,594,999
Less: arrears of fixed cumulative preference dividend	(30,113,640)	(22,079,908)
Less: stock based compensation expenses determined under fair value method for the grants issued	(2,273,667)	(2,618,795)
Adjusted net profit / (loss)	(91,853,809)	(1,103,704)
Basic earnings per share (as reported)	(7.54)	0.13
Basic earnings / (loss) per share (adjusted)	(7.43)	(0.10)
Diluted earnings per share (as reported)	(7.54)	0.13
Diluted earnings / (loss) per share (adjusted)	(7.43) *	-0.10 *

\* The effect of 12% cumulative compulsorily convertible and 14% cumulative compulsorily convertible preference shares being anti-dilutive in nature, dilutive EPS had not been computed

**(d) The fair value of the options has been determined under the Black-Scholes model. The assumptions used in this model for calculating fair value are as below:**

Assumptions	As at 31 March 2016	As at 31 March 2015
Risk Free Interest Rate-KRL1/KRL2/Ethos	8.50%/8.00%/7.60%/7.60%	8.50%/8.00%/7.60%/7.60%
Expected Life (years) -KRL1/KRL2/Ethos	3.55/2.24/4.56/4.16	3.55/2.24/4.56/4.16
Expected Annual Volatility of Shares	-	-
Expected Dividend Yield	-	-



**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

**31. Employee benefits**

The disclosures required under Accounting Standard 15 "Employee Benefits" are given below:

**Defined Contribution Plan**

Contributions to Defined Contribution Plan, recognised and debited to the Statement of Profit and Loss are as under:

Particulars	As at 31 March 2016	As at 31 March 2015
Employer's contribution to provident fund	7,626,584	6,492,439

**Defined Benefit Plan**

The employees' gratuity fund scheme managed by Life Insurance Corporation of India is a defined benefit plan. The present value of obligation is determined based on actuarial valuation using the Projected Unit Credit Method, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. The Company made annual contributions to the LIC of India of an amount advised by the LIC.

**Gratuity**

Particulars	As at 31 March 2016	As at 31 March 2015
<b>Changes in the present value of defined benefit obligation</b>		
Present value of obligation at the beginning of the year	5,586,012	4,311,587
Current service cost	1,412,764	1,212,620
Interest cost	446,881	344,927
Benefits paid	(446,948)	(87,231)
Actuarial (gain) / loss on obligations	(289,164)	(195,891)
<b>Present value of obligations at the end of the year</b>	<b>6,709,545</b>	<b>5,586,012</b>
<b>Changes in the fair value of plan assets</b>		
Fair value of plan assets at the beginning of the year	4,381,575	3,500,808
Expected return on plan assets	378,070	304,104
Contributions	1,149,059	700,000
Benefits paid	(446,948)	(87,231)
Actuarial gain / (loss) on plan assets	(100,242)	(36,106)
<b>Fair value of plan assets at the end of the year</b>	<b>5,361,514</b>	<b>4,381,575</b>
<b>Net liability recognised in the Balance Sheet</b>		
Present value of obligation at the end of the year	6,709,545	5,586,012
Fair value of plan assets at the end of the year	5,361,514	4,381,575
<b>Net liability recognised in the Balance Sheet</b>	<b>(1,348,031)</b>	<b>(1,204,437)</b>
<b>Expense recognised in the Statement of Profit and Loss</b>		
Current service cost	1,412,764	1,212,620
Interest cost on benefit obligation	446,881	344,927
Expected return on plan assets	(378,070)	(304,104)
Net actuarial loss recognised in the year	(188,922)	(159,785)
<b>Net expense/(gain) recognised in Statement of Profit and Loss</b>	<b>1,292,653</b>	<b>1,093,658</b>
<b>Actuarial (Gain) / Loss recognized</b>		
Actuarial gain/ (loss) for the year - Obligation	289,164	195,891
Actuarial gain/ (loss) for the year - Plan Assets	(100,242)	(36,106)
Total gain/ (loss) for the year	188,922	159,785
Actuarial (gain)/ loss recognized in the year	188,922	159,785
Unrecognized actuarial (gain)/ loss at the end of the year	-	-
<b>Actuarial assumptions</b>		
Discount rate	8.00%	8.00%
Expected return on plan assets	9.00%	9.00%
Estimated rate of increase in compensation levels	5.00%	5.00%
<b>Demographic assumptions</b>		
Mortality	Indian assured lives mortality (2006-08)	Indian assured lives mortality (2006-08)
Retirement age	58	58
Attrition rates		
Upto 30 years	3%	3%
30 to 44 years	2%	2%
Above 44 years	1%	1%

The estimates of future increase in compensation levels, considered in actuarial valuation, take account of inflation, seniority, promotions and other relevant factors such as supply and demand in the employment market. Discount rate is based on market yields prevailing on government bond as at the end of year for the estimated term of obligation.



**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

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**Compensated absences**

Particulars	As at 31 March 2016	As at 31 March 2015
<b>Actuarial assumptions</b>		
Discount rate	8.00%	8.00%
Estimated rate of increase in compensation levels	5.00%	5.00%
<b>Demographic assumptions</b>		
Mortality	Indian assured lives mortality (2006-08)	Indian assured lives mortality (2006-08)
Retirement age	58	58
Attrition rates		
Upto 30 years	3%	3%
30 to 44 years	2%	2%
Above 44 years	1%	1%

The disclosure relating to experience adjustments have not been given in the financial statements, the management is of the view that the same will not be material to the overall financial statement disclosure and presentation.

32. The Company has taken showrooms under operating lease arrangements, with an option of renewal at the end of the lease term and escalation clauses in some of the cases. Lease payments (gross of reimbursements) charged during the year to the Statement of Profit and Loss aggregate (excluding service tax) Rs. 260,701,564 (previous year Rs. 240,868,713) [including Rs. 65,558,040 towards cancellable lease (previous year Rs. 136,963,753)].

Future minimum lease payments due	As at 31 March 2016	As at 31 March 2015
Within one year	155,314,591	109,464,129
Later than one year and not later than five years	370,096,491	294,260,993
More than 5 years	30,274,742	52,850,729
<b>Total</b>	<b>555,685,824</b>	<b>456,575,851</b>

**33. Segment reporting**

The Company is in the business of trading of watches, accessories and luxury items, which constitutes a single business segment, primarily in India.

The Company is organised in two key geographical segments, based upon the location of its customers within India (domestic) and outside India (exports).

Information in respect of geographical segments is as follows:

**Year ended 31 March 2016**

Particulars	Within India	Outside India	Total
Segment revenue*	3,286,712,492	-	3,286,712,492
Segment Assets	2,081,247,464	-	2,081,247,464
Capital expenditure	(35,229,786)	-	(35,229,786)

**Year ended 31 March 2015**

Particulars	Within India	Outside India	Total
Segment revenue*	2,804,545,259	5,612,552	2,810,157,811
Segment Assets	1,874,692,273	-	1,874,692,273
Capital expenditure	(47,829,248)	-	(47,829,248)

\* Segment revenue excludes other income

**Segment Accounting policies**

The accounting principles used in the preparation of the financial statements and applied to record revenue and expenditure in individual segments are as set out in Note 1 (ii) of the financial statements. The description of segment assets and liabilities and the accounting policies in relation to segment accounting are as follows:

**Segment revenue**

Segment revenue has been allocated to both the segments on the basis of specific identification.

**Segment assets**

Segment assets include all operating assets used by the segment and consist principally of fixed assets, capital work in progress, trade receivables etc. Segment assets do not include advance tax and deferred tax.





**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

**34. Expenditure and earnings in foreign currency****a. Earnings in foreign currency**

Particulars	As at 31 March 2016	As at 31 March 2015
Duty free sale in foreign currency	266,852,480	266,269,465
Export Sale (FOB basis)	-	5,612,552
Reimbursement of rent	1,949,996	2,790,000
Brand incentives	-	1,671,080
<b>Total</b>	<b>268,802,476</b>	<b>276,343,097</b>

**b. Expenditures in foreign currency**

Particulars	As at 31 March 2016	As at 31 March 2015
Foreign travel	2,189,697	2,081,511
Software License expense*	29,363	2,826,287
<b>Total</b>	<b>2,219,060</b>	<b>4,907,798</b>

\*lying in prepaid expenses as on 31 March 2015 in note 10.

**c. CIF value of imports**

Particulars	As at 31 March 2016	As at 31 March 2015
Purchase of finished goods for trading	575,754,837	484,220,900
<b>Total</b>	<b>575,754,837</b>	<b>484,220,900</b>

35. The Ministry of Micro, Small and Medium Enterprises has issued an Office Memorandum dated 26 August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allocated after filing of the Memorandum. Accordingly, the disclosure in respect of amounts payable to such enterprises as at the period/year end has been made in the financial statements based on information available with the company as under :

Particulars	As at 31 March 2016	As at 31 March 2015
(a) The principal amount remaining unpaid to any supplier at the end of each accounting year;	-	-
(b) The interest due thereon remaining unpaid to any supplier at the end of each accounting year;	-	-
(c) The amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 ( "MSMED Act");	-	-
(d) The amount of the payment made to the supplier beyond the appointed day during each accounting year;	-	-
(e) The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this act;	-	-
(f) The amount of interest accrued and remaining unpaid at the end of each accounting year;	-	-
(g) The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise;	-	-



**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

36. The Company uses foreign currency forward contracts to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments. There are open foreign currency forward contracts as at the end of the year for foreign currency payables.

a. Following foreign currency exposures are not hedged, as on 31 March 2016 and 31 March 2015

Particulars	Units of Foreign Currency	As at 31 March 2016		As at 31 March 2015	
		(in Foreign currency)	(in Rupees)	(in Foreign currency)	(in Rupees)
Trade Payables					
	CHF	963,674	66,570,615	46,748	2,998,878
	USD	27,080	1,792,171	214,000	13,340,750
	SGD	70,959	3,487,641	-	-
	EURO	143	10,749	25	1,678

b. The unexpired foreign exchange forward contracts, as on 31 March 2016 and 31 March 2015

Units of Foreign Currency	As at 31 March 2016		As at 31 March 2015	
	(in Foreign currency)	(in Rupees)	(in Foreign currency)	(in Rupees)
CHF	-	-	1,652,864	106,031,228
USD	584,688	40,351,086	149,885	9,343,853

37. The Company has carried out tax computation in accordance with Accounting Standard 22 - Accounting for Taxes on Income notified under Accounting Standards referred to in section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014. Management is of the view that it is not virtually certain to realise the deferred tax assets in the near future. In the absence of virtual certainty of realisability of deferred tax assets, the deferred tax assets has been recognised only to the extent of deferred tax liability.

The components of net deferred tax assets are as follows:

	As at 31 March 2016	As at 31 March 2015
<b>Deferred tax liabilities on (a)</b>		
i. Excess depreciation as per Income tax Act, 1961, over depreciation as per books	-	-
<b>Deferred tax assets on :</b>		
Excess depreciation as per books over depreciation as per Income tax Act, 1961	15,589,267	9,567,924
Provision for leave encashment	2,052,871	1,923,803
Provision for gratuity	416,542	410,830
Provision for bonus	798,610	454,996
Brought forward losses and unabsorbed depreciation	5,533,077	-
Other disallowances under Income tax Act, 1961	2,639,000	820,461
<b>Deferred tax assets (b)</b>	<b>27,029,367</b>	<b>13,178,014</b>
<b>Net deferred tax assets/ (liabilities) [(b)-(a)]</b>	<b>27,029,367</b>	<b>13,178,014</b>
<b>Net deferred tax assets recognized during the year</b>	<b>-</b>	<b>6,257,870#</b>
<b>Net deferred tax assets derecognized (reversed) during the year</b>	<b>(13,178,014)</b>	<b>-</b>

#Refer note I (v)

38. Movement in provision for points accrued under Club Echo Loyalty Programme is as under:

Particulars	As at 31 March 2016	As at 31 March 2015
Opening provision	8,264,277	4,553,178
Add: amount provided during current year	8,170,686	8,805,313
Less: amount utilised/reversed during current year	7,375,095	5,094,214
Closing provision	<u>9,059,868</u>	<u>8,264,277</u>

The Company's sales model comprises of outright sales of purchased goods to customers as well as items placed on a consignment basis with the Company, though billed by the Company. As a revenue recognition policy, consignment sales are not part of the Company's sales in the Statement of Profit and Loss since only the related commission income forms part of the other operating income.



**ETHOS LIMITED**

Notes to financial statements for the year ended 31 March 2016

(Amount in Rupees unless otherwise stated)

39 . Had the billings under the consignment arrangement are also included, the gross billings would work out to be as under:

	As at 31 March 2016	As at 31 March 2015
Sales (gross including billings under consignment arrangement and sales tax)	3,691,485,354	3,154,152,096
Less: consignment sales	1,053,968	215,774
Less: sales tax	432,333,559	359,664,420
Net sales	<u>3,258,097,827</u>	<u>2,794,271,902</u>

- 40 . The Company's business consists of trading of watches, accessories and luxury items and rendering of related after sales services. Such activities are carried out largely through premises taken under operating lease / leave and license arrangements. Such arrangements normally call for security deposits, refundable at the end of the term of arrangement. The Company considers such deposits as a part of investing activities, being deposited for long term real estate/leased premises and which are refundable.
- 41 . The Company's leasing arrangements include payment of lease rentals based on the revenue sharing model as well as fixed payments with cost escalations over the lease term. After reviewing the status of leases as well as considering the fact that lease charges of some of the retail stores of the company being directly based on the revenue sharing model which contribute substantial part of the aggregate lease charge and having established the revenue growth over the period of last three years, the management is of the opinion that the lease charge on the basis of the terms of the lease agreements will be more representative of the systematic basis of time pattern of the user's benefit of the leased space. Accordingly, the Company has charged lease rent on the basis of terms of the lease agreement.
- 42 . During the current year, a fire broke out in one of the stores located at Ambience Mall, Gurgaon, thereby resulting in a loss of Rs. 2.78 millions on account of damage to fixed assets (furniture and leasehold improvements) and Rs. 4.10 millions on account of damage to inventory. Consequently, the Company has filed an insurance claim with the insurance Company. Pending final acceptance of the amount by the insurance Company as at 31 March 2016, the Company has recognised an amount of Rs. 6.88 millions as receivable in the financials appearing under the "Non-current assets", thereby having no impact on profit and loss for the year. Any further changes to the insurance claim amount will be accounted for once the amount gets finalized with the insurance company.
- 43 . Pursuant to amendment in the Payment of Bonus Act, 1965, the Company is required to pay additional bonus to the employees retrospectively from 1 April 2014. However, based upon the stay order of the Hon'ble High Court of Kerala and legal opinion of the consultant, the Company is of the view that additional bonus amount of Rs. 3,801,579 for the financial year 2014-15 need not be provided. Accordingly, the Company has provided for additional bonus only for the year 2015-16.
- 44 . Previous year figures have been regrouped / reclassified wherever considered necessary, to conform to current period's classification.

As per our report of even date attached

For B S R & Co. LLP

Chartered Accountants

Firm Registration No: 101248/W-100022

Adhir Kapoor

Partner

Membership No.:098297

For and on behalf of the Board of directors of Ethos Limited

Y Saboo

Managing Director

DIN 00012158

C Raja Sekhar

Chief Financial Officer

Anil Khanna

Director

DIN 00012232

Anil Dhillon

Company Secretary

Place: Chandigarh

Dated: 25 May 2016

Place: Chandigarh

Dated: 25 May 2016