

THE SHAREHOLDER OF
MAKARI GAD HYDROPOWER PRIVATE LIMITED

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Balance Sheet of Makari Gad Hydropower Private Limited, as of 31st Ashad, 2073 (Corresponding to 15th July, 2016), the related Income Statement, and the Cash Flow Statement for the year then ended.

Management responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Nepal Accounting Standards.

Auditor's Responsibility

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

We conducted our audit in accordance with Nepal Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

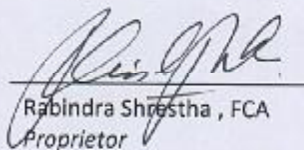
Report on Companies Act, 2063 requirements

As per the requirement of the Companies Act 2063 we also report that:

- we have obtained information and explanations, which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- in our opinion, proper books of account as required by the Act have been kept by the company and depicts the actual condition of its business; so far as appears from our examination of such books;
- in our opinion, the Balance Sheet, Income Statement, and the Cash Flow Statement have been prepared according to the Accounting Standards of Nepal and are in agreement with the books of account maintained by the company;
- in our opinion, based on the information and explanation provided during the course of audit, the balance sheet properly reflects the financial condition of the company, and the profit and loss account and the cash flow statement of the year ending of the same date properly reflect the profit and loss account and cash flow, respectively, of the company;
- to the best of our information and according to explanations given to us and from our examination of the books of account of the company necessary for the purpose of our audit, we have not come across cases where Board of Directors or any employees of the company have acted contrary to the provisions of law, or committed any misappropriation or caused loss or damage to the company.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31st Ashad, 2073 (Corresponding to 15th July, 2016), and of the results of its operations and its cash flows for the year then ended in accordance with Nepal Accounting standards and comply with the provisions of the Companies Act 2063.


Rabin Shrestha, FCA
Proprietor



R. Shrestha & Associates
Chartered Accountants

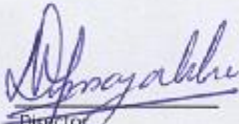
Date: 5th Falgun, 2073 (16th February, 2017)

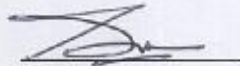
Place: Lalitpur, Nepal

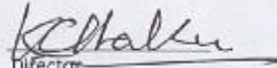
Makari Gad Hydropower Pvt. Ltd.
Balance Sheet
As at 31st Ashad, 2073 (15th July, 2016)

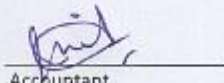
| | | As at 31st Ashad, 2073 Rs | As at 31st Ashad, 2072 Re stated Amount 'Rs | As at 32nd Ashad, 2071 Re stated Amount 'Rs |
|-------------------------------------|--------|------------------------------|--|--|
| Equity | | | | |
| Share capital | Sch- 1 | 46,838,900 | 46,838,900 | 46,838,900 |
| Reserve and accumulated profit | Sch- 2 | (10,092,281) | [9,567,207] | (2,843,220) |
| Total Equity & Reserves | | 36,746,619 | 37,271,693 | 43,995,680 |
| Liabilities | | | | |
| Trade and other payables | Sch- 3 | 9,300,000 | 7,673,450 | 4,138,885 |
| Current Liabilities | | 9,300,000 | 7,673,450 | 4,138,885 |
| TOTAL EQUITY AND LIABILITIES | | 46,046,620 | 44,945,143 | 48,134,565 |
| Assets | | | | |
| Property, plant and equipments | | - | - | - |
| Pre Development Expenditures | Sch- 4 | 44,900,000 | 44,900,000 | 4,900,000 |
| Total non-current assets | | 44,900,000 | 44,900,000 | 4,900,000 |
| Advances and receivables | Sch- 5 | 1,120,000 | - | 43,182,310 |
| Cash and cash equivalents | Sch- 6 | 26,620 | 45,143 | 52,255 |
| Total current assets | | 1,146,620 | 45,143 | 43,234,565 |
| Deffered Tax Assets | | - | - | - |
| TOTAL ASSETS | | 46,046,620 | 44,945,143 | 48,134,565 |

The notes to the accounts are integral part of this financial statement.



 Director


 Director


 Director


 Accountant




 Rabindra Shrestha, FCA
 Proprietor
 Shrestha & Associates
 Chartered Accountants



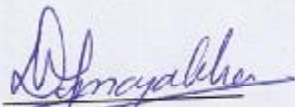
Makari Gad Hydropower Pvt. Ltd.

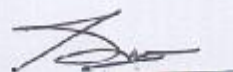
Income statement.

For the year ending 31st Ashad, 2073 (15th July, 2016)

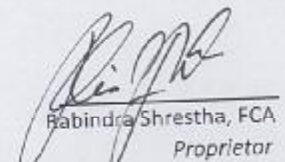
| | 2072-73 (2015-16) Amount 'Rs | 2071-72 (2014 15) Restated Amount 'Rs |
|--|------------------------------------|---|
| Income | - | - |
| Revenue from Sales | - | - |
| Cost of sales | - | - |
| Gross profit | 6,674,926 | - |
| Other income | (873,755) | (1,402,887) |
| Field expenses | (6,326,245) | (5,321,100) |
| Administrative expenses | (525,074) | (6,723,987) |
| Profit/ (Loss) before Interest, Tax & Depreciation (EBITDA) | - | - |
| Depreciation | (525,074) | (6,723,987) |
| Profit/ (Loss) before Interest & Tax (EBIT) | - | - |
| Financing Cost | (525,074) | (6,723,987) |
| Profit/ (Loss) before Tax (EBT) | - | - |
| Current Tax Expenses | (525,074) | (6,723,987) |
| Profit / (loss) after tax (EAT) | - | - |


The notes to the accounts are integral part of this financial statement.



Director


Director




Rabin Shrestha, FCA
Proprietor
Rshrestha & Associates
Chartered Accountants


Director


Accountant



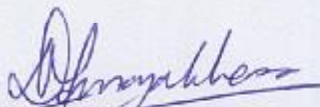
Makari Gad Hydropower Pvt. Ltd.


Cash Flow Statement

For the year ending 31st Ashad, 2073 (15th July, 2016)

| Schedule | 2072-73 (2015-16) Rs | 2071-72 (2014-15) Rs |
|---|----------------------------|----------------------------|
| Cash flows from operating activities | | |
| Profit/ (Loss) before taxation and extraordinary items | (525,074) | (6,723,987) |
| Adjustments: | | |
| Provision | | |
| Depreciation | - | - |
| Operating profit before working capital changes | | |
| Decrease/ (increase) in trade and other receivables | (1,120,000) | 43,182,310 |
| Increase/ (decrease) in trade and other payables | 1,626,550 | 3,534,565 |
| NET CASH FLOW FROM OPERATION | A (18,524) | 39,992,888 |
| Cash flow from investing activities | | |
| Pre-development expenditures capitalised | - | (40,000,000) |
| Project development advances | | |
| NET CASH FLOW FROM INVESTMENT ACTIVITIES | B - | (40,000,000) |
| Cash flows from financing activities | | |
| Equity | - | - |
| Dividend Payment | - | - |
| Proceeds from reserves | - | - |
| NET CASH FLOW FROM FINANCING ACTIVITIES | C - | - |
| Net increase / (decrease) in cash and cash equivalents | A+B+C (18,524) | (7,111) |
| Cash and cash equivalents at the beginning of the year | 45,143 | 52,255 |
| CASH AND CASH EQUIVALENTS AS AT 31st Ashad, 2073 (15th July, 2016) | 26,620 | 45,143 |

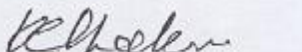
Notes to the accounts are the integral part of these financial statements



Director


Director




Rabindra Shrestha, FCA
Proprietor
R. Shrestha & Associates
Chartered Accountants


Director


Accountant



Makari Gad Hydropower Pvt. Ltd.

Statement of Changes in Equity

For the year ending 31st Ashad, 2073 (15th July, 2016)

| | Share Capital | Share Premium | Translation Reserves | General Reserves | Accumulated Profit | Total |
|---|---------------|---------------|----------------------|------------------|--------------------|-------------|
| Balance as at 31st Ashad, 2072 (16th July, 2015) | 46,838,900 | - | - | - | - | 46,838,900 |
| Changes in accounting policy/ Restated Balance | - | - | - | - | (9,567,207) | (9,567,207) |
| Surplus / (Deficit) on revaluation of properties | 46,838,900 | - | - | - | (9,567,207) | 37,271,693 |
| Currency Translation differences | - | - | - | - | - | - |
| Gains and losses not recognised in the income statement | - | - | - | - | - | - |
| Net profit for the period | - | - | - | - | (525,074) | (525,074) |
| Dividend (Proposed) | - | - | - | - | - | - |
| Issue of share capital | - | - | - | - | - | - |
| Balance as at 31st Ashad, 2073 (15th July, 2016) | 46,838,900 | - | - | - | (10,092,281) | 36,746,619 |



Schedules to Audited Financial Statement 2072-73 (2015-16)

| | 2072-73 (2015-16) Amount 'Rs | 2071-72 (2014-15) Amount 'Rs |
|--|------------------------------------|------------------------------------|
| Schedule 1 | | |
| Share Capital | | |
| Authorised Share Capital | 250,000,000 | 250,000,000 |
| Issued share capital | 46,838,900 | 46,838,900 |
| Paid Up Share Capital | 46,838,900 | 46,838,900 |
| | <u>46,838,900</u> | <u>46,838,900</u> |
| Schedule 2 | | |
| Reserves | | |
| Balance of profit/(loss) as per last account | (9,567,207) | (2,843,220) |
| Current period profit/ (loss) | (525,074) | (6,723,987) |
| | <u>(10,092,281)</u> | <u>(9,567,207)</u> |
| Schedule 3 | | |
| Trade and Other Payables | | |
| Sundry creditors | 3,948,591 | 3,471,940 |
| TDS Payable | 468,924 | 121,815 |
| Salary Payable | 1,104,994 | 302,204 |
| Excess Share Call amount to refund | 3,777,492 | 3,777,492 |
| | <u>9,300,000</u> | <u>7,673,450</u> |
| Schedule 4 | | |
| Pre Development Expenditure | | |
| Project Development Expenditure | 44,000,000 | 44,000,000 |
| Licence and other cost | 900,000 | 900,000 |
| | <u>44,900,000</u> | <u>44,900,000</u> |
| Schedule 5 | | |
| Trade and Other Receivables | | |
| Advances | 700,000 | - |
| Prepaid expenses | 420,000 | - |
| | <u>1,120,000</u> | <u>-</u> |
| Schedule 6 | | |
| Cash and Cash Equivalents | | |
| Bank Balances | 6,886 | 25,409 |
| Cash in hand | 19,734 | 19,734 |
| | <u>26,620</u> | <u>45,143</u> |



Schedules to Audited Financial Statement 2072-73 (2015-16)

| | 2072-73 (2015-16) Amount 'Rs | 2071-72 (2014-15) Amount 'Rs |
|--------------------------------|------------------------------------|------------------------------------|
| Schedule 7 | | |
| Administrative Expenses | | |
| Advertisement | 32,178 | 123,951 |
| Audit Fee | 67,800 | 67,800 |
| Electricity | 9,932 | 4,799 |
| Fuel | - | 75,636 |
| House Rent | 838,880 | 528,008 |
| Internet Exp | 30,000 | 57,700 |
| Professional fee | 40,000 | 542,400 |
| Misc Expenses | 178,717 | 225,337 |
| Local Conveyances | 12,830 | 139,500 |
| Printing and Stationary | - | 75,207 |
| Repair Exp | 100,050 | 192,081 |
| Salary and Wages | 4,475,199 | 2,964,595 |
| Bank charge | 384,000 | 10 |
| Staff Welfare | 14,001 | 172,242 |
| Telephone Exp | 6,042 | 30,069 |
| Water Exp | 3,256 | 1,265 |
| Fine and penalties | 30,838 | 4,800 |
| Vehicle hire | - | 115,700 |
| Legal Fee | 101,522 | - |
| | 6,326,245 | 5,321,100 |
| Schedule 8 | | |
| Field Expenses | | |
| Hotel Accomodations | 58,705 | 26,171 |
| Rent Darchula | 360,000 | 175,990 |
| Promotion expenses | - | 360,714 |
| Travelling Expenses | 375,000 | 840,012 |
| Wages | 80,050 | - |
| | 873,755 | 1,402,887 |



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(1) General information

Makarigad Hydropower Private Limited, is a Hydro-electric company registered with the Company Registrar Office on 21st Magh, 2070. It is currently engaged in the development of a 10 MW hydropower generation project from Makarigad river located at Khandeswari and Guljar VDCs in Darchula district.

(2) Summary of significant accounting policies

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

(a) Statement of compliance

The financial statements have been prepared in accordance with Nepal Accounting Standards (NAS) adopted by the Nepal Accounting Standards Board (NASB), and presentational requirement of the Companies Act, 2063.

(b) Basis of preparation

The financial statements are presented in NRs, rounded to the nearest rupee They are prepared on the historical cost basis.

The preparation of the financial statements in conformity with NAS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

(c) Pre- Development Expenditures

These expenditures are incurred that are vital for the study, survey and development of the hydro-electric project. These all expenditures including project development expenditures and license fee are capitalised until the date of completion of the project development activities.

(d) Property plant and equipment

No property plant and equipment have been recognized, as there have been no asset constructed to the extent that it can be operated as intended by management and put to use.

(e) Trade and other receivables

Trade and other receivables are stated at their cost less provision for impairment.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank balances.

(g) Trade and other payables

Trade and other payables are stated at their cost.



(h) Change in accounting policy

During the year, the company has changed its accounting policy with respect to capitalisation of the expenditures. Now the company recognises all the administrative and field related expenditures as expenses. Prior to the change in policy, the company applied the policy to capitalise all administrative and field related expenditures.

The impact of this voluntary change in accounting policy is "pre development expenditures has reduced and relevant expenditures have increased for the year presented.

The impact on each line item is presented below

| Particulars | 2071-72 (now) | 2071-72 (Before) | 2070-71 (now) | 2070-71 (Before) |
|-----------------------------|------------------|---------------------|------------------|---------------------|
| Assets | | | | |
| Pre development expenditure | 44,900,000 | 54,467,207 | 4,900,000 | 7,743,219 |
| Equity | | | | |
| Retained Earnings | (9,567,207) | - | (2,843,220) | - |
| Expenditures | | | | |
| Field expenses | 1,402,887 | - | 847,768 | - |
| Administrative expense | 5,321,100 | - | 1,995,451 | - |

(i) Comparative information

Previous years figures have been regrouped and/or rearranged wherever necessary to facilitate comparison. Figures are rounded off to the nearest rupee.

