

L.P. Burlakoti & Associates

(Registered Auditor)

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P.P. Regd. No. 1259

PAN No. 100056749

Membership No. 4657

Category: 'B'

INDEPENDENT AUDITOR'S REPORT

To The Shareholders of
Mabilung Energy Ltd.

Report on the Financial Statements

We have audited the accompanying Balance Sheet as at 31st Ashad 2078 (Corresponding to 15th July 2021), Income Statement and Cash Flow Statement for the period from 1st Shrawan 2077 to 31st Ashad 2078 (corresponding to 16th July 2020 to 15th July 2021) and a summary of significant accounting policies and other explanatory notes. These Financial Statements are the responsibility of management and our responsibility is to express opinion on these statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

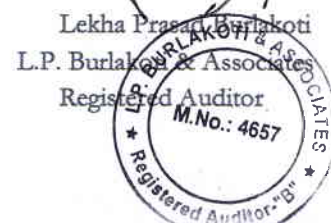
Opinion

In our opinion, the financial statements comprising of Balance sheet as at 31st Ashad 2078 (Corresponding to 15th July 2021), Income Statement and Cash Flow Statement for the period from 1st Shrawan 2077 to 31st Ashad 2078 (corresponding to 16th July 2020 to 15th July 2021), read with notes appended thereon, presents fairly, in all material aspects, revenue and costs incurred for the period from 1st Shrawan 2077 to 31st Ashad 2078 (corresponding to 16th July 2020 to 15th July 2021) and Cash balance as at 31st Ashad 2078 (Corresponding to 15th July 2021) in accordance with the local laws and in conformity with generally accepted accounting principles.

Date: 2078/09/08

Place: Kathmandu, Nepal

UDIN: 211230RA04657rxTTA



Mabilung Energy Ltd.

Lalitpur-10

Balance Sheet


As at Ashadh 31, 2078 (15th July, 2021)

Amount In NRs.

<u>Sources Of Fund</u>	<u>Sch</u>	<u>FY 2077/78</u>	<u>FY 2076/77</u>
Shareholder's Fund:			
Share Capital	1	9,55,00,000.00	4,00,00,000.00
Retained Earnings		6,76,705.00	3,93,153.00
Total Share Holder'S Fund		9,61,76,705.00	4,03,93,153.00
Advance for Share Capital		10,00,000.00	1,60,00,000.00
Total Sources Of Fund		9,71,76,705.00	5,63,93,153.00
Applications Of Fund			
Non-Current Assets	2	1,45,58,505.00	62,83,532.00
Less: Depreciation		(5,71,984.60)	(3,62,164.00)
Non-Current Assets (WDV)		1,39,86,520.40	59,21,368.00
Investment In Fixed Deposit		29,70,000.00	29,70,000.00
Project WIP- Upper Piluwa-3 Hydropower Project	6	5,50,66,440.60	4,22,83,623.00
Total Non Current Assets		7,20,22,961.00	5,11,74,991.00
Current Assets			
Cash And Bank Balances	3	42,81,092.00	5,52,588.00
Prepaid, Loan, Advances & Deposit	4	2,13,45,833.00	55,55,942.00
Total Current Assets (A)		2,56,26,925.00	61,08,530.00
Less: Current Liabilities And Provisions			
Accounts & Other Payables	5	4,73,181.00	8,90,368.00
Total Current Liabilities And Provisions (B)		4,73,181.00	8,90,368.00
Net Current Assets (C=A-B)		2,51,53,744.00	52,18,162.00
Total Applications Of Fund		9,71,76,705.00	5,63,93,153.00

Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even date.


Priya Shrestha
Accountant


Dabin Shrestha
Director


Rajesh Lal Shrestha
Chairman


Lekh Prasad Burlakoti
L. P. Burlakoti & Associates
Registered Auditor
M.No.: 4657
Registered Auditor-"B"

Date: 2078/09/08
Place: Lalitpur



Mabilung Energy Ltd.

Lalitpur-10

Income Statement

For the period from Shrawan 1, 2077 to Ashadh 31, 2078 (16th July 2020 to 15th July 2021)

Amount In NRs.

Income	Sch	FY 2077/78	FY 2076/77
Sales		-	-
Less, Direct Cost Relating To Sales		-	-
Gross Income		-	-
Add: Other Income		3,78,070.00	5,24,204.00
Total Income		3,78,070.00	5,24,204.00
Less:			
Administrative Expenses		-	-
Depreciation	2	-	-
Profit / Loss Before Staff Bonus		3,78,070.00	5,24,204.00
Staff Bonus		-	-
Profit (Loss) Before Provision For Tax		3,78,070.00	5,24,204.00
Provision For Income Tax		-	-
Current Tax		94,518.00	1,31,051.00
Deferred Tax - Surplus (Expenses)		-	-
Provision For Bonus Share & Dividend		-	-
Profit (Loss) Up To The Previous Year		3,93,153.00	-
Balance Carried To Balance Sheet		6,76,705.00	3,93,153.00

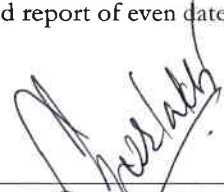
Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even date.


Priya Shrestha
Accountant


Dabin Shrestha
Director


Rajesh Lal Shrestha
Chairman


Lekh Prasad Burlakoti
L. P. Burlakoti & Associates
Registered Auditor

Date: 2078/09/08
Place: Lalitpur



Mabilung Energy Ltd.

Lalitpur-10

Cash Flow Statements

For the period from Shrawan 1, 2077 to Ashadh 31, 2078 (16th July 2020 to 15th July 2021)

Amount In NRs.

Particulars	FY 2077/78	FY 2076/77
<u>Cash Flow From Operating Activities</u>		
Net Profit/(Loss) As Per Income Statement	2,83,552.00	3,93,153.00
Add: Depreciation For The Year	5,71,984.60	3,62,164.00
Add: Non-Cash Expenses	-	-
Cash Flow from operating activities before changes in WC	8,55,536.60	7,55,317.00
(Increase)/Decrease In Current Assets	(1,57,89,891.00)	4,80,913.00
Increase/ (Decrease) In Current Liabilities	(4,17,188.00)	7,11,379.00
Net Cash Flow From Operating Activities (Sub-Total-A)	(1,53,51,542.40)	19,47,609.00
<u>Cash Flow From Investing Activities</u>		
Less: Investment In Fixed Deposits	-	(29,70,000.00)
Less: Purchase Of Fixed Assets	(86,37,137.00)	(35,82,545.00)
Less: WIP Assets Capitalized (Project Cost)	(1,27,82,817.60)	(1,38,71,883.00)
Net Cash Flow From Investing Activities (Sub-Total-B)	(2,14,19,954.60)	(2,04,24,428.00)
<u>Cash Flow From Financing Activities</u>		
Issue Of Share Capital	5,55,00,000.00	1,60,00,000.00
Advance Against Share Capital Received	(1,50,00,000.00)	-
Net Cash Flow From Financing Activities (Sub-Total-C)	4,05,00,000.00	1,60,00,000.00
Total Cash Generated In The Year (A+B+C)	37,28,504.00	(24,76,819.00)
Cash And Equivalent At The Beginning Of The Year	5,52,588.00	30,29,407.00
Cash And Equivalent At The End Of The Year	42,81,092.00	5,52,588.00


Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even date.


Priya Shrestha
Accountant


Dabin Shrestha
Director


Rajesh Lal Shrestha
Chairman


Lekh Prasad Burlakoti
P. Burlakoti & Associates
Registered Auditor



Date: 2078/09/08
Place: Lalitpur



Mabilung Energy Ltd.
Lalitpur-10
Statement Of Changes In Equity
As at Ashadh 31, 2078 (15th July, 2021)

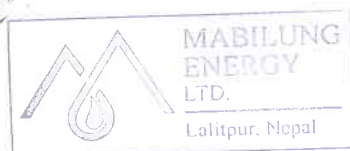
Particulars	Share Capital	Accumulated Profit/(Loss)	Total
Balance As On 1st Shrawan, 2077	4,00,00,000.00	3,93,153.00	4,03,93,153.00
Changes In Accounting Policies	-	-	-
Restated Balance	4,00,00,000.00	3,93,153.00	4,03,93,153.00
Net Profit/(Loss) For The Period		2,83,552.00	2,83,552.00
Share Capital Issued	5,55,00,000.00	10,00,000.00	5,65,00,000.00
Balance As on 31st Asadh 2078	9,55,00,000.00	16,76,705.00	9,71,76,705.00

Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even date.

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Mabilung Energy Ltd.

Lalitpur-10

Schedules Forming Parts Of The Financial Statements

As at Ashadh 31, 2078 (15th July, 2021)

Particulars	FY 2077/78	FY 2076/77
<u>Schedule 1: Share Capital</u>		
<u>Authorized Capital</u>		
40,00,000 No. Of Ordinary Share At Rs. 100 Each.	40,00,00,000	26,00,00,000
<u>Issued Capital</u>		
26,00,000 No. Of Ordinary Share At Rs. 100 Each.	26,00,00,000	26,00,00,000
<u>Paid Up Capital</u>		
955,000 No. Of Ordinary Shares At Rs. 100 Paid Each.	9,55,00,000	4,00,00,000
<u>Advance for Share Capital</u>		
10,000 No. of Ordinary Shares At Rs. 100 Paid Each	10,00,000	1,60,00,000
<u>Schedule 3 : Cash & Bank Balances</u>		
Cash In Hand	14,830.00	3,73,014.00
Guheswori Merchant Banking & Finance Limited	37,74,979.00	1,05,856.00
Laxmi Bank Ltd.	2,87,493.00	
Lumbini Bikash Bank Ltd.	2,03,790.00	73,718.00
Total	42,81,092.00	5,52,588.00
<u>Schedule 4 : Loans ,Advances and Deposits</u>		
Advance -Land Purchase	1,97,10,191.00	44,50,000.00
Advance Tax	1,35,642.00	78,931.00
Advance Site Office	15,00,000.00	
Deposits at DOED	-	10,00,000.00
Receivables	-	27,011.00
Total	2,13,45,833.00	55,55,942.00
<u>Schedule 5 : Withholding Tax (TDS) & Other Account Payables</u>		
TDS-Individual & Firms (11111)	640.00	266.00
TDS-Pvt. Ltd. (11123)	37,954.00	52,739.00
TDS- Rent (11131)	5,444.00	23,240.00
TDS-Salary & Wages (11112)	2,507.00	35,232.00
TDS-SST (11211)	23,309.00	-
Payable- Audit Fee	19,735.00	19,734.00
Payble B.K Agrawal & Co.	11,150.00	-
Payable Others	1,46,745.00	-
Payable-Professional Network for Engineering Services	-	2,40,463.00
Payable-Manifold Consult Pvt. Ltd.	-	2,99,643.00
Payable-House Rent	32,000.00	88,000.00
Provision for Income Tax	1,93,697.00	1,31,051.00
Total	4,73,181.00	8,90,368.00

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Mabilung Energy Ltd.

Lalitpur-10

Schedules Forming Parts Of The Financial Statements

As at Ashadh 31, 2078 (15th July, 2021)

Schedule 6 : Work In Progress Capital Expenditure

Particulars	FY 2077/78	Addition During The Year	FY 2076/77
Schedule 6.1 : Preoperating Expenses	2,84,11,738.00	-	2,84,11,738.00
Schedule 6.2 : Transmission Line and Switchyard Cost	5,75,735.00	5,75,735.00	-
Schedule 6.3 : Environment and Social Mitigation Cost	9,58,525.00	-	9,58,525.00
Schedule 6.4 : Project Management & Construction Supervision Expenses	2,00,24,942.60	71,11,582.60	1,29,13,360.00
Schedule 6.5 : Interest During Construction	50,95,500.00	50,95,500.00	-
Total Work In Progress	5,50,66,440.60	1,27,82,817.60	4,22,83,623.00

Schedule 6.1 : Pre-Operating Expenses

Particulars	FY 2077/78	Addition During The Year	Amount in NRs. FY 2076/77
Audit Fee	90,000.00	-	90,000.00
Bank Charges	30,245.00	-	30,245.00
Depreciation Expenses	8,70,528.00	-	8,70,528.00
DPR & Feasibility Study Expenses	16,76,725.00	-	16,76,725.00
Environmental Impact Assessment Expenses	5,65,000.00	-	5,65,000.00
Fuel & Transportation Expenses	2,83,254.00	-	2,83,254.00
Fuel Expenses	1,19,967.00	-	1,19,967.00
Labour, Porter & Transportation Expenses	30,22,050.00	-	30,22,050.00
Legal & Accounting Expenses	32,000.00	-	32,000.00
License Fee, Renewal & Registration Expenses	40,00,000.00	-	40,00,000.00
Lodging Fooding Expenses	5,01,276.00	-	5,01,276.00
Office Expenses	3,24,285.00	-	3,24,285.00
Office Kitchen/Entertainment Expenses	3,96,155.00	-	3,96,155.00
Office Rent Expenses	10,47,500.00	-	10,47,500.00
PPA Related Expenses	90,000.00	-	90,000.00
Printing and Stationery Expenses	3,34,676.00	-	3,34,676.00
Registration and Renewal Expenses	26,500.00	-	26,500.00
Salary Expenses	94,65,000.00	-	94,65,000.00
Site Office Expenses	5,42,845.00	-	5,42,845.00
Site Visit/ Travelling Expenses	27,64,311.00	-	27,64,311.00
Survey License Fee	20,00,000.00	-	20,00,000.00
Telephone & Communication Expenses	1,30,030.00	-	1,30,030.00
Water & Electricity Expenses	1,01,394.00	-	1,01,394.00
Less: Interest Income	(2,003.00)	-	(2,003.00)
Total	2,84,11,738.00	-	2,84,11,738.00

Schedule 6.2 : Transmission Line and Switchyard Cost

Particulars	FY 2077/78	Addition During The Year	FY 2076/77
Desk Study Report for Survey License of TL	75,145.00	75,145.00	-
Detail Feasibility Study, Design & IEE-TL	5,00,590.00	5,00,590.00	-
Total	5,75,735.00	5,75,735.00	-

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Mabilung Energy Ltd.

Lalitpur-10

Schedules Forming Parts Of The Financial Statements

Schedule 6.3 : Environment and Social Mitigation Cost

Particulars	FY 2077/78	Addition During The Year	FY 2076/77
Environmental Impact Assessment Expenses	9,58,525.00	-	9,58,525.00
Total	9,58,525.00	-	9,58,525.00

Schedule 6.4 : Project Management & Construction Supervision Expenses

Particulars	FY 2077/78	Addition During The Year	FY 2076/77
A. Project Management Expenses			
Advertisement & Notice Publication Expenses	1,46,186.00	16,950.00	1,29,236.00
Amortization Expenses	5,785.60	5,785.60	-
Audit Fee	40,000.00	20,000.00	20,000.00
Bank Charges	34,000.00	3,170.00	30,830.00
Business Promotion Expenses	19,110.00	19,110.00	-
Certification Expenses	28,250.00	28,250.00	-
Depreciation Expenses	9,28,363.00	5,66,199.00	3,62,164.00
Fines & Penalties	5,776.00	1,998.00	3,778.00
Generation License Fee	5,00,000.00	-	5,00,000.00
Labour, Porter & Transportation Expenses	16,95,970.00	35,970.00	16,60,000.00
Legal & Accounting Expenses	2,63,000.00	1,63,000.00	1,00,000.00
Lodging Fooding Expenses	2,68,050.00	-	2,68,050.00
Office Expenses	1,17,847.00	95,417.00	22,430.00
Office Kitchen/Entertainment Expenses	5,82,710.00	1,31,610.00	4,51,100.00
Office Meeting Expenses	75,296.00	75,296.00	-
Office Rent Expenses	24,00,000.00	12,00,000.00	12,00,000.00
Printing and Stationery Expenses	2,86,683.00	93,224.00	1,93,459.00
Registration and Renewal Expenses	3,62,212.00	1,99,812.00	1,62,400.00
Regulatory Meeting Allowances	14,117.00	14,117.00	-
Salary Expenses	46,05,759.00	23,30,759.00	22,75,000.00
Site Office Expenses	63,560.00	18,950.00	44,610.00
Site Visit/ Travelling Expenses	15,84,953.00	6,87,410.00	8,97,543.00
Survey License Fee	20,000.00	20,000.00	-
Telephone & Communication Expenses	18,628.00	18,628.00	-
Water & Electricity Expenses	2,40,000.00	-	2,40,000.00
B. Project Consultants & Supervision Expenses			
DPR & Feasibility Study Expenses	30,93,375.00	4,12,450.00	26,80,925.00
Geophysical Investigation Expenses	16,71,835.00	-	16,71,835.00
Due Diligence Audit Expenses	7,24,104.00	7,24,104.00	-
Layout Marking Expenses	2,29,373.00	2,29,373.00	-
Total	2,00,24,942.60	71,11,582.60	1,29,13,360.00

Schedule 6.5 : Interest During Construction

Particulars	FY 2077/78	Addition During The Year	FY 2076/77
Loan Management Fee	50,95,500.00	50,95,500.00	-
Total	50,95,500.00	50,95,500.00	-

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Mabilung Energy Ltd.
Lalitpur-10
Summary of Salary Sheet
For the FY 2077/78

S.N. Name	Designation	Basic	Allowances	Dashain Allowance	Total	TDS	Net Pay	Signature
1 Rajesh Lal Shrestha	Chairman	2,52,000	1,08,000	30,000	3,90,000	3,900	3,86,100	
2 Dabin Shrestha	Director	2,52,000	1,08,000	30,000	3,90,000	3,900	3,86,100	
3 Tshiring Sherpa	Assistant Manager	1,05,000	45,000	30,000	1,80,000	1,800	1,78,200	
4 Sajal Maskey	Admin Manager	2,31,000	99,000	20,000	3,50,000	3,500	3,46,500	
5 Rukmani Basnet	Admin Officer	2,26,800	97,200	27,000	3,51,000	3,510	3,47,490	
6 Priya Shrestha	Account Officer	2,10,000	90,000	25,000	3,25,000	3,250	3,21,750	
7 Bhim Lingthep	Site Coordinator	1,22,500	53,259	-	1,75,759	1,758	1,74,001	
8 Sushila Shrestha	Receptionist	1,09,200	46,800	13,000	1,69,000	1,690	1,67,310	
Total		15,08,500	6,47,259	1,75,000	23,30,759	23,308	23,07,451	

Amount In Rs.

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Mabilung Energy Ltd.

Lalitpur-10

Schedules Forming Parts Of The Financial Statements

As at Ashadh 31, 2078 (15th July, 2021)

Schedule-2

Assets	Dep. Rate	Opening Balance	Addition During The Year	Total Balance at Cost Price	Depreciation For The Period	Closing Balance
Pool A						
Land & Building		48,27,644.00	74,37,137.00	1,22,64,781.00	-	1,22,64,781.00
Total A		48,27,644.00	74,37,137.00	1,22,64,781.00	-	1,22,64,781.00
Pool B						
Furniture And Fixture	25%	70,697.63	12,00,000.00	12,70,697.63	3,17,674.41	9,53,023.22
Computer & Printers	25%	4,06,917.19	-	4,06,917.19	1,01,729.30	3,05,187.89
Office Equipments	25%	3,73,850.91	-	3,73,850.91	93,462.73	2,80,388.18
Construction & Decoration	25%	2,13,329.91	-	2,13,329.91	53,332.48	1,59,997.43
Total B		10,64,796.00	12,00,000.00	22,64,796.00	5,66,199.00	16,98,597.00
Pool C						
Vehicle	20%	-	-	-	-	-
Total C		-	-	-	-	-
Pool D						
Machinery Equipment						
Total D		-	-	-	-	-
Total (A+B+C+D)		58,92,440.00	86,37,137.00	1,45,29,577.00	5,66,199.00	1,39,63,378.00
Pool E						
Software	5	28,928.00	-	28,928.00	5,785.60	23,142.40

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Mabilung Energy Ltd.

Lalitpur-10

Schedule Forming Part of Financial Statements for the Year Ended Ashadh 31, 2078

Significant Accounting Policies and Other Explanatory Notes

1. Corporate Information

Mabilung Energy Ltd. is a Limited liability company established and registered in 2071 BS as a Private Limited Company under Company Act 2063 with an aim to invest & develop hydropower projects. It was then converted into Public Limited Company in 2076/11/12 under Company Act 2063 (Regd.235243/076/077). The Corporate office of the company is located at Lalitpur-10, Nepal.

It has obtained feasibility study license from Department of Electricity Development (DoED) on 2074/07/26 for developing Upper Piluwakhola Khola-3 Hydroelectric Project 4.95 MW in Sankhuwasabha District. The company has completed initial phase of research of the project and has obtained generation license from DoED on 2077/04/09 for tenure of 35 year. Connection agreement between NEA & Mabilung Energy Pvt. Ltd. has been completed. Power Purchase Agreement (PPA) with NEA was concluded on 2075/12/12. The Required Commercial Operation Date (RCOD) of the Project is 2078-11-16. Company has entered into financial arrangement agreement with Laxmi Bank Ltd. as lead bank on 2077-11-10.

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 for the whole period and 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"), except otherwise stated, and to comply with the requirement of Companies Act, 2063.

B. Method of Accounting

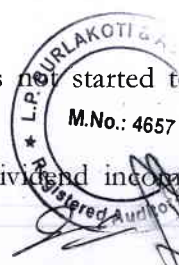
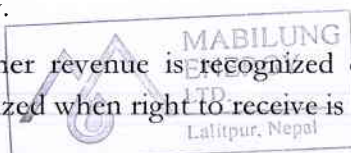
- i) The accounts have been prepared on accrual basis, in accordance with Nepal Accounting Standards (NAS), which have been prescribed by the Companies Act, 2063, to the extent applicable and other relevant practices.
- ii) The financial statements are prepared on the historical cost convention. The preparation of financial statements in conformity with NAS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in process of applying the Company's accounting policies and accounting estimates.

C. Revenue Recognition

- i) **Hydroelectricity Sales:** Company has the policy to recognize income from sale of hydroelectricity on accrual basis and based on the invoice issued to Nepal Electricity Authority (NEA), which is subject to confirmation from Nepal Electricity Authority (NEA). Any subsequent disputed amount deducted by NEA, if any, will be recognized as an expense on the year of confirmation.

However; the sole project of the company is under construction and has not started to generate the electricity.

- ii) **Other Revenue:** Other revenue is recognized on accrual basis except dividend income which shall be recognized when right to receive is established.



D. Revenue Expenditure

Expenditure incurred for the operation and management of projects which are already started the commercial operation is recognized as revenue expenditure and treated as operation and administrative costs. Whereas, direct expenditures incurred for the projects, which are under construction and not started the commercial operation, has been capitalized as project development cost under the related project head.

E. Fixed Assets and Depreciation/Amortization

- i) Fixed Assets are recorded at cost less accumulated depreciation and impairment loss, except otherwise stated. Where cost is calculated considering the purchase/construction costs and other direct costs.
- ii) Fixed Assets related to the hydropower projects are classified as Project Assets and treated as the Leasehold assets as they are transferrable to the Government of Nepal after completion of the electricity generation license.
- iii) Depreciation on the Project Assets will be charged on Straight Line Method over the useful period of license i.e. starting from the year of commercial operation of the projects.
- iv) Depreciation is charged off to the Income Statement as per the provisions of Schedule-2 of the Income Tax Act, 2058, which is not as per the provision of Nepal Accounting Standard 06 on Property Plant and Equipment.

F. Capitalization of Borrowing Costs and other Expenditure

Interest and other borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. And interest and other borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are charged as financial expenses on accrual basis. (A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.)

G. Inventories

Inventories have been measured at the lower of cost and net realizable value.

H. Cash and Cash Equivalent

Cash and Cash Equivalent represent cash in hand and balance in bank accounts at the year end.

I. Employee Benefits

Company has policy of recognizing the employee related liabilities, except regular salary and benefits, on cash basis.

J. Investments

Investments are recognized at cost price.

K. Income Taxes

Provision for current tax is made with reference to taxable profit for the financial year determined under the provisions of Income Tax Act, 2058 and Rules thereof.

3. Notes to the Annual Accounts

A. Share Capital



The authorized Share Capital of company is NRs. 40,00,00,000 ; issued Capial 26,00,00,000 and paid up share capital is NRs. 955,00,000. Company has received 10,00,000 as advance for share capital.

B. Revenue

- i. The Company is constructing the Upper PiluwaKhola-3 Hydropower Project-4.95 MW, the only project being operated by the company at the end of the period, and accordingly has no revenue income during the period.
- ii. During the period company has received interest income of NRs. 378,070 from Guheswori Merchant Banking & Finance Limited and Lumbini Bikash Bank Ltd. and same has been shown as interest income on income statement.

C. Changes in Accounting Policies

The Board of the company has its policy not to show project related income and expenses on income statement during construction period for the better presentation of its financial statements. Accordingly, administrative expenses and depreciation for general assets are capitalized under project WIP. However, Audit Fee is assumed to be related directly with company.

D. Fixed Assets, Project Assets and Depreciation

Fixed assets, based on their nature, are classified into following groups and depreciation is charged on diminishing balance method, except project assets which will be depreciated on SLM basis over remaining license period of the project, at the following rates:

- | | |
|--------------------------------|-----|
| 1. Building & Structure | 5% |
| 2. Computer & Office Equipment | 25% |
| 3. Vehicles | 20% |
| 4. Plant and Machineries | 15% |
- i) As per the provision of the license granted to the company by the Department of Electricity Development (DOED), the total project assets of the project is to be transferred to the Nepal Government after expiry of the generation license.

As per the policy of the company, total depreciation of fixed assets during the year is NRs.5,66,199. Depreciation on fixed assets has been capitalized to project cost.

E. Employees Benefits


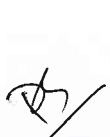
Company has not recognized provision for gratuity, provident fund and other retirement benefits.

Due to the loss in the current period no provision for employee benefits has been recognized during the year.

Any type of liabilities towards employees' benefits, except provided, arising under labor related laws will be recognize on cash basis.

F. Income Tax Liability

- i) Company has taxable income of NRs.3,78,070 during the period and accordingly provision for income tax has been recognized.
- ii) Deferred tax has not been recognized during the year.



**MABILUNG
ENERGY
LTD.**
Lalitpur, Nepal

