

Independent Auditor's Report
To the shareholders of KhaniKhola Hydropower Company Limited

We have audited the accompanying financial statements of KhaniKhola Hydropower Company Limited which comprise the statement of financial position as at 31st Asadh, 2076 (July 16, 2019) and the statement of profit or loss & other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Nepal Financial Reporting Standards (NFRS). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 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. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, we consider internal control relevant to the entity's preparation and fair presentation of financial statement 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 the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

Basis for Qualified Opinion

NAS 19 "Employee Benefits" requires the measurement of the employee related liabilities to be measured through application of an actuarial valuation method and the use of actuarial assumptions. Khanikhola Hydropower Limited has not measured and presented employee related liabilities in its financial statements.

Qualified Opinion

Except for the effect on the Equity, Liabilities and Statement of Profit or Loss & other comprehensive income, of the matters referred to in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respect, the financial position of Khanikhola Hydropower Limited as at 31st Ashad, 2076 and its financial performance and its cash flow for the year then ended in accordance with Nepal Financial Reporting Standards and Company Act, 2063.

UDIN Number:200112CA00194Uq157





Report on Other Legal and Regulatory Requirements

In accordance with the Company Act 2063, we report that:

1. We have audited all information and the explanations; we have obtained all the information and the explanations, which, to the best of our knowledge and belief, were necessary for the purpose of our audit.
2. In our opinion, proper books of accounts as required by Companies Act have been kept by the Company to state the fair presentation of its transactions.
3. Statements of financial position, Statement of Profit or Loss & Other Comprehensive Income and the Cash Flow Statement provided to us have been in accordance with Nepal Financial Reporting Standards and these statements are in agreement with the books of account maintained by the Company.
4. In our opinion and to the best of our information and according to the explanations given to us and from our examinations of the books of accounts of the company, we have not come across the cases where the Board of Directors or any member thereof or any employee of the company have acted contrary to the provisions of law or caused loss or damage to the company or committed any misappropriation of the properties of the Company.
5. In our Opinion, the business of the Company has been conducted satisfactorily and within the scope of its authority.

Place: Kathmandu
Date: 27th Poush, 2076



Madan Kumar Niraula, FCA
Proprietor

Khani Khola Hydropower Company Ltd.

Dhumbarahi-4, Kathmandu


Statement of Financial Position

As on Ashadh 31st, 2076 (July 16th, 2019)

Particulars	Schedules	FY 2075/76	FY 2074/75
Assets			
Non Current Assets			
Property, Plant & Equipments	1	970,201,673	1,060,270,989
Investment	2	45,008,000	45,008,000
Total non current assets		1,015,209,673	1,105,278,989
Current Assets			
Advances & Deposits	3	16,027,873	19,176,518
Cash & Cash Equivalents	4	425,752	532,857
Total Current Assets		16,453,625	19,709,375
Total Assets		1,031,663,298	1,124,988,364
Equity & Liabilities			
Equity			
Share Capital	5	465,714,300	465,714,300
Retained Earnings	6	(434,062,108)	(285,170,470)
Total Equity		31,652,192	180,543,830
Non Current Liabilities		826,150,575	806,230,571
Loans and Borrowings	7	826,150,575	806,230,571
Current Liabilities		173,860,531	138,213,963
Provisions	8	1,439	2,658
Trade and Other Payables	9	146,789,121	110,788,528
Overdraft	10	27,069,970	27,422,777
Total Liabilities		1,000,011,106	944,444,534
Total Equity & Liabilities		1,031,663,298	1,124,988,364

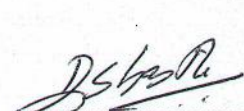
As per our report of even date

Significant Accounting Policies and Notes to the Accounts form an integral part of this financial statement


Sagar Nepal
Finance Officer


Bharat Lamichhane Thapa
Chief Executive Officer



Bhimsen Ghimire
Director



Dinesh Pd. Shrestha
Director


Batu Lamichhane
Director


Chiranjibi Karki
Director


Binod Sherchan
Director


Bijay Man Sherchan
Chairman


Madan Kumar Niraula, FCA
Proprietor
Madan Niraula & Co.,
Chartered Accountants



UDIN - 200112EA00194Uq157

Date:- 2076.9.24
Kathmandu, Nepal

Khani Khola Hydropower Company Ltd.
Dhumbarahi-4, Kathmandu
Statement of Profit or Loss and Other Comprehensive Income
For the year ended Ashadh 31st, 2076 (July 16th, 2019)


Particulars	Schedules	FY 2075/76	FY 2074/75
Direct income		62,560,240	68,928,350
Revenue	11	62,560,240	68,928,350
Cost of Sales		211,454,700	231,231,824
Administrative Expenses	12	124,862,384	133,512,394
Depreciation	1	86,592,316	97,163,913
Operating Profit/ (Loss)		(148,894,460)	(162,303,474)
Indirect Income		3,763	10,630
Interest Income	13	3,763	10,630
Profit/ (Loss) before Tax and Bonus		(148,890,698)	(162,292,844)
Staff Bonus		-	-
Profit/ (Loss) before Tax		(148,890,698)	(162,292,844)
Less: Tax		(941)	(2,658)
Net Profit/ (Loss)		(148,891,638)	(162,295,501)
Earnings Per Share			
Basic		(32)	(35)
Diluted		(32)	(35)
Other Comprehensive Income:			
Changes in revaluation surplus			
Actuarial Gain (Loss) on remeasurements of defined benefit plans			
Gains and losses on financial assets measured at fair value through other comprehensive income			
Income tax relating to items that will not be reclassified			
Other Comprehensive Income for the Year			
Total Profit/ (Loss) & Other Comprehensive Income		(148,891,638)	(162,295,501)

As per our report of even date


 Sagar Nepal
 Finance Officer



 Bharat Lamichhane Thapa
 Chief Executive Officer



 Bhimsen Ghimire
 Director



 Dinesh Pd. Shrestha
 Director


 Batu Lamichhane
 Director


 Chiranjibi Karki
 Director


 Binod Sherchan
 Director


 Bijay Man Sherchan
 Chairnam


 Madan Kumar Niraula, FCA
 Proprietor
 Madan Niraula & Co.,
 Chartered Accountants



Date:- 2076.05.24
 Kathmandu, Nepal



Khani Khola Hydropower Company Ltd.
Dhumbarahi-4, Kathmandu

Statement of Change in Equity
For the year ended Ashadh 31st, 2076 (July 16th, 2019)

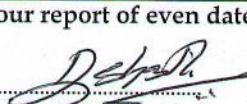
Particulars	Share Capital	Retained Earning	Revaluation Reserve	Total
Opening Balance as Shrawan 1st, 2075	465,714,300	(285,170,470)		180,543,830
Net Profit / (Loss) After Tax		(148,891,638)		(148,891,638)
Closing Balance as on 31st Asadh, 2076	465,714,300	(434,062,108)	-	31,652,192

As per our report of even date


Sagar Nepal
Finance Officer

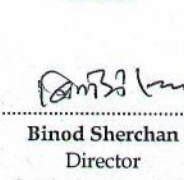

Bharat Lamichhane Thapa
Chief Executive Officer


Bhimsen Ghimire
Director

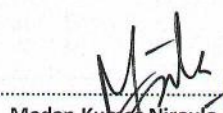


Dinesh Pd. Shrestha
Director


Batu Lamichhane
Director


Chiranjibi Karki
Director


Binod Sherchan
Director


Bijay Man Sherchan
Chairman


Madan Kumar Niraula, FCA
Proprietor
Madan Niraula & Co.,


Date:- 2076.09.24
Kathmandu, Nepal



Khani Khola Hydropower Company Ltd.
Dhumbarahi-4, Kathmandu

Statement of Cash Flows

For the year ended Ashadh 31st, 2076 (July 16th, 2019)

Particulars	FY 2075/76	FY 2074/75
Cash Flow from Operating Activities		
Net Profit/ Loss for the Year	(148,891,638)	(162,295,501)
Adjustments		
Interest Expenses	95,574,173	96,715,251
Interest Income	(3,763)	-
Depreciation	86,592,316	97,719,430
Prior period adjustment	-	-
Impairment Loss	-	-
Finance Costs	-	-
Exchange Gain	-	-
Employee Gratuity, Leave and welfare provisions	-	-
Changes in Working Capital		
(Increase)/Decrease in Prepayments	-	1,453,013
(Increase)/Decrease in Advances, Deposits & Receivables	3,148,646	(1,614,031)
Increase/(Decrease) in Provisions	(1,218)	2,658
Increase/(Decrease) in Current liabilities	35,647,786	82,354,167
Total Adjustments		
Net Cash flow from Operating Activities (A)	72,066,302	114,334,987
Cash Flow from Investing Activities		
(Acquisition)/ Disposal of Property, Plant and Equipment	3,477,000	-623,300
Decrease/ (Increase) in Capital Work in Progress	-	-
Decrease/ (Increase) in Investment	-	-
Interest Income	3,763	10,630
Net Cash Flow from Investing Activities (B)	3,480,763	(612,670)
Cash Flow from Financing Activities		
Increase/ (Decrease) in Capital	-	-
Increase/ (Decrease) in Share Application Money	-	-
Increase/ (Decrease) in Long Term Borrowings	19,920,004	(19,555,754)
Interest Paid	(95,574,173)	(96,715,251)
Net Cash Flow from Financing Activities (C)	(75,654,169)	(116,271,005)
Net Increase in Cash (A+B+C)	(107,104)	(2,548,688)
Cash at Beginning of the Year	532,857	3,092,176
Cash at the End of the Year	425,752	532,857

As per our report of even date

Sagar Nepal
Finance Officer

Bharat Lamichhane Thapa
Chief Executive Officer

Bhimsen Ghimire
Director

Dinesh Pd. Shrestha
Director

Batu Lamichhane
Director

Chitranjibi Karki
Director

Binod Sherchan
Director

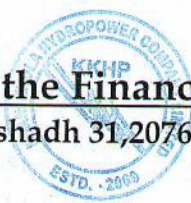
Bijay Man Sherchan
Chairman

Madan Kumar Niraula, FCA
Proprietor
Madan Niraula & Co.,
Chartered Accountants

Date:- 2076.09.24
Kathmandu, Nepal

Notes Forming Part of the Financial Statements

For the year ended Ashadh 31, 2076 (July 2019)



Investment

Schedule-2

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Mayakhola Hydropower Company	45,000,000.00	45,000,000.00
South Lalitpur Gramin Bidhyut Sahakari Ltd	8,000.00	8,000.00
Total	45,008,000.00	45,008,000.00

Advance & Deposits

Schedule-3

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Deposits	14,000.00	14,000.00
Advance - Civil Works	2,050,152.19	2,050,152.19
Advance - EM	197,207.00	197,207.00
Advance - Metal Works	321,751.63	321,751.63
Advance - Plant & Machinery	2,433,537.00	2,433,537.00
Advance - PSM	170,000.00	199,778.00
Advance - T/L & Switchward	2,950,000.00	2,950,000.00
Advance- Mr. Bharat L Thapa	1,600,000.00	-
LC Margin(EM) - KKHP	712,856.25	712,856.25
LC Margin(EM)-TTKHP	1,538,268.75	1,538,268.75
Mr. Mahesh Sharma	20,000.00	20,000.00
TDS Paid on Interest	546,380.14	547,974.52
Medical Expenses- Mahesh Dhakal	79,803.00	-
Nepal Electricity Authority	3,393,916.55	8,190,992.86
Total	16,027,872.51	19,176,518.20

Cash & Bank Balance

Schedule-4

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Apex Development Bank	76,891.23	76,891.23
Cash - Head Office	65,821.41	18,403.60
Cash- Site Office	25,000.00	-
Citizen Bank Nepal - Call	82,979.21	81,043.30
Civil Bank	15,634.04	245,606.35
Global IME Bank	10,690.74	16,106.46
Mega Bank Nepal	60,837.17	8,019.29
Prabhu Bank Nepal	87,898.58	86,786.32
Total	425,752.38	532,856.55





Share Capital

Schedule-5

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Authorized Capital		
50,00,000 Ordinary shares of NRs.100 each	500,000,000.00	500,000,000.00
Issued Capital		
4,657,143 Ordinary shares of NRs. 100 each	465,714,300.00	465,714,300.00
Paid Up Capital		
4,657,143 Ordinary shares of NRs. 100 each	465,714,300.00	465,714,300.00
Total	465,714,300.00	465,714,300.00

Retained earning

Schedule-6

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Opening balance	(285,170,470.15)	(122,874,969.03)
Profit/loss during this year	(148,891,638.14)	(162,295,501.12)
Total transferred to retained earnings	(434,062,108.29)	(285,170,470.15)

Loans and Borrowings

Schedule-7

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Term loan	726,001,754.25	744,001,754.25
Term loan II	79,950,575.17	81,450,575.17
Bridge Gap Loan(Term loan III)	15,000,000.00	-
Working capital Loan	5,000,000.00	-
Bridge Gap loan(Citizen)	30,000,000.00	-
Total Long term Loan	855,952,329.42	825,452,329.4
Less: Installment of loan to be repaid within a period of one year	(29,801,754.25)	(19,221,758.63)
Total	826,150,575.17	806,230,570.79

Provisions

Schedule-8

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Previous Year provision	2,657.50	-
Current Tax	940.64	2,657.50
Less: TDS paid on interest	(2,158.77)	-
Total	1,439.37	2,657.50

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Trade and Other payables (Current liability)



Schedule-9

Particulars	As on 31stAsadh, 2076	As on 32ndAsadh, 2075
Account Payable	7,826.07	7,826.18
Retention Money	28,152,296.77	28,730,820.77
TDS Payable	1,800.00	-
Audit Fee and expense Payable	197,345.00	223,000.00
CIT Payable	86,840.00	36,400.00
IPO Refund	150,765.76	150765.76
Maya Khola Hydropower Company	18,000,000.00	12,000,000
Office Rent Payable	-	14,850.00
Payable to Kathmandu Capital	-	148,750.00
Pashupati Energy Development Company	69,600,000.00	49,000,000.00
Royalty Payable	35,502.00	1,254,357.00
Salary Payable	754,991.00	-
Loan to be repaid with in a period of one year	29,801,754.25	19,221,758.63
Total	146,789,120.85	110,788,528.34

Bank Overdraft

Schedule-10

Particulars	As on 31stAsadh, 2076	As on 32ndAsadh, 2075
Citizen Bank Limited	27,069,970.48	27,422,777.45
Total	27,069,970.48	27,422,777.45

Revenue

Schedule-11

Particulars	As on 31stAsadh, 2076	As on 32ndAsadh, 2075
Sales of Energy	62,560,240.29	68,928,350.32
Total	62,560,240.29	68,928,350.32



Administrative Expenses

Schedule-12

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Advertisement Expenses	26,178.00	13,668.00
Interest - Citizen	34,719,563.32	34,043,528.33
Interest - Civil	12,543,512.31	11,658,566.05
Interest - Global	25,033,665.72	24,786,038.35
Interest - Mega	23,277,432.12	26,227,118.61
Agency Fees	2,131,742.93	2,079,465.81
AGM Expenses	138,193.00	106,532.00
Annual Fees - CDS Nepal	120,000.00	20,000.00
Annual Fees - Nepse	50,000.00	-
Audit Fees & expenses	200,000.00	226,000.00
Bank Charges	6,720.00	1,490.00
Dashain Allowances	713,867.00	649,200.00
Refreshment & Promotion expenses	179,845.00	582,351.00
Medical Expenses	128,072.00	-
Office Rent - HO	376,050.00	364,500.00
Postages & Courier	415.00	415.00
Printing and Stationery	15,745.00	24,726.00
Rates & Taxes - HO	7,732.00	2,000.00
Renewal & Registration Fees	71,140.00	534,090.00
Repair and maintenance - Access Road	-	49,920.00
Repair and maintenance Civil Works and Others	1,186,842.00	736,715.00
RTS Expenses	180,194.00	-
Staff Salary	12,515,817.00	13,472,628.00
Telephone/Internet/Communication	205,278.00	246,148.00
Utility Expenses	40,339.00	46,604.00
Vehicle Fuel Expen.	274,219.00	275,317.00
Website Design Expenses	5,650.00	-
Insurance	2,767,783.38	4,758,171.95
Labour Charge	228,671.00	306,650.00
Site Operating Expenses	1,470,347.00	3,245,512.50
Site Visit Allowances -	196,178.00	234,404.00
Transmission Line & Switchyard Expenses	2,513,990.00	1,908,314.79
Transportation	26,800.00	162,000.00
Wages	5,000.00	6,400.00
Staff Quarter material	-	2,425.00
Nursery Expense	-	30,279.00
Board Meeting Allowance and expenses	42,500.00	38,233.00
Forest Lease Expenses	-	23,858.00
Kitchen Utensils	-	5,000.00
Power House Protection Expenses	92,055.00	3,763,724.05
Depreciation	86,592,316.38	97,719,429.69
Royalty Expense	1,888,308.00	2,163,274.00
Vehicle Rent	-	8,888.00
Corporate Social Responsibility	1,482,539.19	703,059.00
Office Clearing and maintenance	-	5,180.00
Total	211,454,700.35	231,231,824.13

Indirect Income

Schedule-13

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Interest Income	3,762.56	10,630.26
Total	3,762.56	10,630.26

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Property, Plant & Equipments
For the period ended 31st Asadh, 2076

Schedule-1

Particulars	Depreciation Rate	Written Down Value (WDV) As on 1 Shrawan 2075	Cost 2075/76		Depreciation 2075/76 For the Year	Written Down Value As on 31 Asadh 2076	Written Down Value As on 32 Asadh 2075
			Addition	Disposal/Adjustment			
Pool - A							
Land	5%	6,913,185				6,913,185	6,913,185.42
		4,840,010			242,001	4,598,010	4,840,010.48
Shed Construction & Compound Wall							
Access Road	5%	10,766,950			538,348	10,228,603	10,766,950.46
Civil Works-KKHP							
Headrace	5%	86,680,606			4,334,030	82,346,576	86,680,605.82
Head Pond - Khamsi	5%	7,702,899			385,145	7,317,754	7,702,899.00
Surge Tank	5%	13,709,161			685,458	13,023,703	13,709,160.95
Penstock Alignment	5%	3,482,646			174,132	3,308,513	3,482,645.56
Anchor Block	5%	4,566,022			228,301	4,337,721	4,566,022.31
Saddle Support	5%	763,138			38,157	724,981	763,138.36
Power House	5%	20,438,449			1,021,922	19,416,527	20,438,449.33
Tailrace and Rivertraining Works	5%	7,718,388			385,919	7,332,469	7,718,388.08
Civil Works-TTKHP							
Head Works	5%	81,381,536			4,069,077	77,312,459	81,381,535.71
Connecting Canal and Gravel Tap	5%	11,360,565			568,028	10,792,536	11,360,564.56
Desander Spillway & Aqueduct	5%	50,640,821			2,532,041	48,108,780	50,640,821.14
Headrace Alignment	5%	40,753,081			2,037,654	38,715,427	40,753,080.69
Anchor Block	5%	25,282,870			1,264,143	24,018,726	25,282,869.88
Saddle Supports & Protection Structure	5%	16,617,696			830,885	15,786,811	16,617,695.90
Valve House	5%	1,954,157			97,708	1,856,449	1,954,157.03
Penstock Alignment	5%	2,189,017			109,451	2,079,566	2,189,017.29
Powerhouse	5%	33,132,940			1,656,647	31,476,293	33,132,940.33
Tailrace and Rivertraining Works	5%	3,454,713			172,736	3,281,978	3,454,713.44
Tunnel & Forebay	5%	83,610,193			4,180,510	79,429,684	83,610,193.24
Hydromechanical KKHP	5%	98,672,984			4,933,649	93,739,335	98,672,984.42
Hydromechanical TTKHP	5%	104,449,646		3,477,000	5,048,632	95,924,014	104,449,645.90
Pool - B							
Office Equipments	25%	867,174			216,794	650,381	867,174.08
Computer & Accessories	25%	0			0	0	0.00
Furniture & Fixtures	25%	248,127			62,032	186,095	248,126.93
Pool - C							
Vehicle	20%	1,356,294			271,259	1,085,035	1,356,294.27
Pool - D							
Pool - D							
Electrification/Transmission Line & Switchyard	15%	34,043,685			5,106,553	28,937,132	34,043,684.65
Electromechanical Plant & Machinery -TTKHP	15%	205,528,759			30,829,314	174,699,445	205,528,759.27
Electromechanical Plant & Machinery -KKHP	15%	96,892,179			14,533,827	82,358,352	96,892,179.36
Other Assets	15%	253,095			37,964	215,131	253,095.28
Total		1,060,270,989		3,477,000	86,592,316	970,201,673	1,060,270,989



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

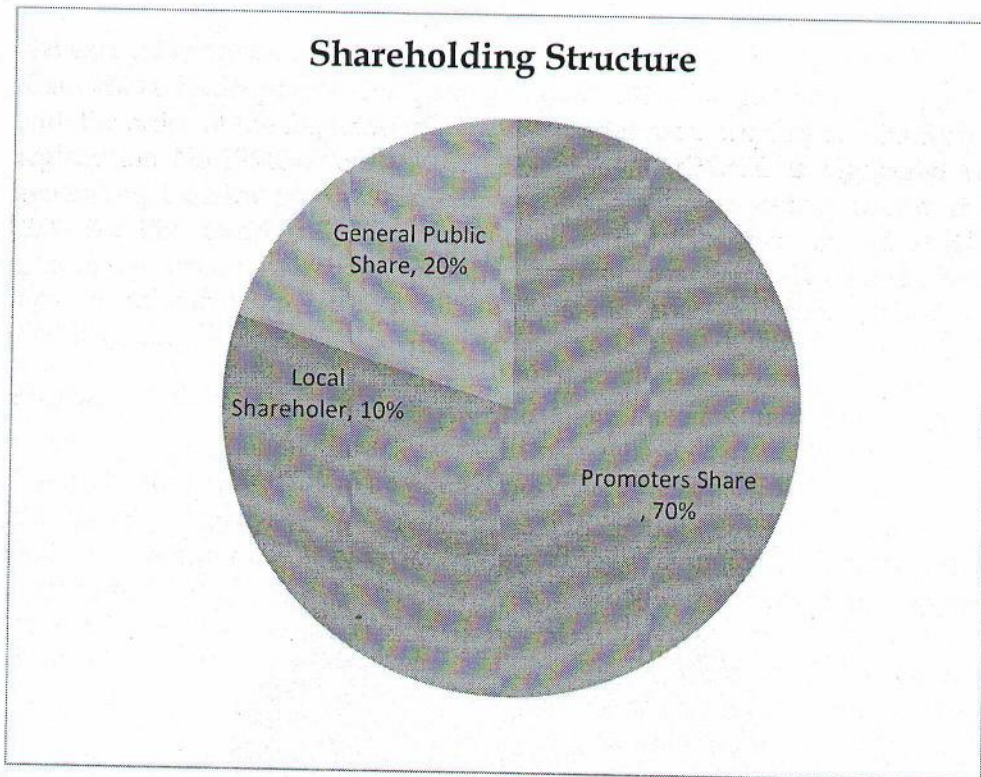
Khanikhola Hydropower Company Ltd.
Dhumbarahi-4, Kathmandu

A. Explanatory Notes FY 2018-19 (2075/76)

1. General Information of the Company

Khanikhola Hydropower Company Ltd.(KKHPCL)is registered as a public limited company with the office of the Registrar of company under the Company Act 2063 on 17th Aswin 2069.Its registration No.106404/069/070 dated 3-10-2012.KKHPCL is registered with an objective of generating 4362 kw phr.hydro electricity from its power station located at TungunThosne and 2000 Kw Phr. hydro electricity from another power station located at Khanikhola. The total generating capacity of this company is 6362 kw Phr. KKHPCL has reached a power purchase agreement with Nepal Electricity Authority wherein NEA has agreed to buy all generated electricity from KHHPCL at an agreed price.

Following is the shareholding structure of the company:



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

2. Statement of Compliance

The financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) to the extent applicable and as published by the Accounting Standards Board (ASB) - Nepal and is approved by the 64th Board of Director meeting held on 09 January 2020 (24 Poush 2076) and have been recommended for approval by shareholders in the 7th Annual General Meeting.

3. IFRIC 12 Considerations

The company has considered applicability of IFRIC 12 Service Concession Agreement, issued by International Accounting Standard Board (IASB) for preparation and presentation of financial statements. KKHPCL after due consideration has not applied IFRIC 12 while preparing these financial statements on the following grounds.

- i. The company sells electricity to Nepal Electricity Authority at price independent of the price charged by NEA to general public. NEA for the ultimate sale of electricity is bound by the rates determined by Electricity Tariff Commission set up by the government, whereas NEA purchases electricity on the basis of different commercial agreement with the power producers. Electricity Tariff Commission does not determine the rate at which NEA purchases or has to purchase from the power producers. There have been instances where the rates charged by NEA to the general public is lower than it paid to some of the power producers.
- ii. The license agreement with Department of Electricity Development (DoED) for KKHPCL does not obligate the company to sell electricity to NEA or any specific buyer.
- iii. The company does not receive any specific concession for the use of the natural resource. The company has to pay to the government for the use of the natural resources in the form of royalty.
- iv. The company under Power Purchase Agreement (PPA) sells energy to NEA and not directly to the general public.
- v. Though the project is to be transferred to the government at the end of the licence period the legal title of the project is with the company, including the control of access to the project site. In addition the company has right to pledge the assets as lien for availing finances from financial institutions.

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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

4. Basis of Preparation and Reporting Pronouncements

The Company has, for the preparation and presentation of financial statements, opted to adopt Nepal Financial Reporting Standards (NFRSs) from the erstwhile Nepal Accounting Standards (NASs) both pronounced by Accounting Standards Board (ASB) Nepal. NFRS was pronounced by ASB Nepal as effective on 13 September 2013. The regulatory requirement for the Company to adopt NFRS was from the financial year 2073/74 (2016-17), however the Company opted for adoption of NFRS as the basis of financial statement and prepared its first NFRS compliant financial statements in FY 2074/75.

NFRS conform, in material respect, to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

A number of new standards and amendments to the existing standards and interpretations have been issued by IASB after the pronouncements of NFRS with varying effective dates. Those only become applicable when ASB Nepal incorporates them within NFRS.

5. Accounting Convention

The Financial Statements have been prepared on a historical cost convention except for certain financial elements that have been measured at fair value, wherever NFRS requires or allowed such measurement. The fair values, wherever used, are discussed in relevant Notes.

The Financial Statements are prepared on accrual basis.

The Financial Statements have been prepared on a going concern basis. The company has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. However, with increased accumulated losses and significant deterioration on book net-worth has raised doubt on going concern of company.

6. Presentations

• Presentation Currency

The Company operate within the jurisdiction of Nepal. Nepalese Rupees (NRs) is the presentation and functional currency of the Company. Accordingly, the Financial Statements are prepared and presented in Nepalese Rupees and rounded off to the nearest Rupee.

• Rearrangement and Reclassification

The figures for previous years are rearranged, reclassified and/or restated as per NFRS wherever necessary for the purpose of facilitating comparison. Appropriate disclosures are made wherever necessary.

• Statement of Financial Position

The elements of Statement of Financial Position other than equity are presented in order of their permanency by considering non-current and current nature that are further detailed in relevant sections.



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

• **Statement of Profit or Loss and Other Comprehensive Income**

The elements of Statement of Profit or Loss and Other Comprehensive Income has been prepared using classification 'by function' method. The details of revenue, expenses, income, gains and/ or losses have been disclosed in the relevant section of this note.

Earnings per share have been disclosed in the face of 'Statement of Profit or Loss and Other Comprehensive Income' in accordance with the NAS 33.

• **Statement of Cash Flows**

The statement of Cash Flows has been prepared using indirect method and the activities has been grouped under three major categories (Cash flows from operating activities, Cash flows from investing activities and Cash Flows from financing activities) in accordance with NAS 07.

• **Statements of Changes in Equity**

The Statements of Changes in Equity has been prepared disclosing changes in each elements of equity.

7. **Accounting Policies and Accounting Estimates**

Accounting Polices

The Company, under NFRS, is required to apply accounting policies to most appropriately suit its circumstances and operating environment. The preparation of Financial Statements in conformity with the Policy requires management to make judgments, estimates and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Specific accounting policies have been included in the relevant notes for each item of the Financial Statements. The effect and nature of the changes, if any, have been disclosed.

Accounting Estimates

The preparation of Financial Statements in line with NFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of Financial Statements and the reported amounts of revenue and expenses during the reporting period.

Management has applied estimation in preparing and presenting the Financial Statements. The estimates and the underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the period in which the estimates are revised, if the revisions affect only that period; they are recognised in the period of revision and the future periods if the revisions affect both current and future periods.

Specific accounting estimates have been included in the relevant section of the notes wherever the estimates have been applied along with the nature and effect of changes of accounting estimates, if any.



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B. Elements of Financial Statement

1. Property, Plant and Equipment

Property, Plant and Equipment (PPE) are those tangible assets used for generation and supply of energy, for administrative purpose or for rentals to others. These are recognised as PPE, if and only if it is probable that future (i.e. for more than one accounting period) economic benefits associated with the items will flow to the Company; and the cost of the item can be measured reliably.

PPE are stated in the SFP at their cost less accumulated depreciation and accumulated impairment losses, if applicable.

• Cost

The initial cost of PPEs includes purchase price and directly attributable cost to bringing the asset to the location and conditions necessary for it to be capable of operating in the manner intended by management. Subsequent costs that do not qualify the recognition criteria under NAS 16 are expensed as and when incurred.

NAS 16 and IFRIC 1 require cost of PPE to include the estimated cost for dismantling and removal of the assets and restoring the site on which they are located. Management perceives that such costs are difficult to estimate and considering the past practice the amount of such costs will not be material to affect the economic decision of the user as a result of such non-inclusion. Therefore, asset retirement obligation has not been recognised.

• Depreciation

The management has estimated that the cost equals depreciable amount of the asset and thus the cost is systematically allocated based on the expected useful life of an asset. Items of property, plant and equipment are depreciated in full in the year of acquisition.

If an item of PPE consists of several significant components with different estimated useful lives and if the cost of each component can be measured reliably, those components are depreciated separately over their individual useful lives.

The residual values, useful lives and the depreciation methods of assets are reviewed at least annually, and if expectations differ from previous estimates, changes are made in the estimates and are accounted for as a change in accounting estimates in accordance with NAS 8.

If the management considers the assets have an indefinite useful life, no amortisation / depreciation is charged.

• De-recognition

Assets that have been decommissioned or identified as damaged beyond economic repair or rendered useless due to obsolescence, are derecognised whenever identified. On disposal of an item of PPE or when no economic benefits are expected from its use or disposal, the carrying amount of an item is derecognised. The gain or loss arising from the disposal of an item of PPE is the difference between net disposal proceeds, if any, and the carrying amount of that item and is recognised in the Statement of Profit or Loss.



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

1.1 Change in Classification, Useful Lives and Depreciation Method

• Re-classification

Assets have been reclassified wherever required for compliance with NFRS. Capital work in progress, are assets that are in the process of construction or installation have been reported under PPE without charging depreciation. These were previously being shown separately from property plant and equipment.

The Company used to carry the costs of access road as a separate component of PPE even though direct control and ownership of such road is not with the Company. However, under the provisions of NFRS, costs that are directly attributable to bringing asset to the location and condition necessary for it to be capable of operating in manner intended are to be included in the cost of PPE. Therefore, once the project is completed and depreciation on project assets is started, the cost of access road will be systematically apportioned to the assets at the generation site as directly attributable costs.

• Estimation of Useful Lives and Depreciation Method used

The useful life of assets has been reassessed and adjusted as at the date of opening NFRS SFP. Depreciation method has been selected considering the pattern of inflow of economic benefits to the organization and thereby depreciated using Diminishing Balance Method (DBM).

The Project is still in construction and, therefore, the depreciation on Project assets has not been started and estimation of life of project assets is not viable.

However, the Company has estimated the life of completed assets of as follows:

Assets	Useful Life	Depreciation Rate	Depreciation Method
Land	-	-	-
Civil Works	20	5%	DBM
Office Equipment	4	25%	DBM
Computer & Accessories	4	25%	DBM
Furniture & Fixtures	4	25%	DBM
Vehicle	5	20%	DBM
Electrification/Transmission Line & Switchyard	7	15%	DBM
Electromechanical Plant & Machinery	7	15%	DBM

2. Investment

The investment made by the company as at the end of the Financial Year 2075/76 amounts to NRs. 45,008,000.00.

Fair value of the investment is taken as its par value since its unavailability of relevant information. Following is the detail of the investment.

Particulars	Amount (NRs.)
Mayakhola Hydropower Company	45,000,000.00
South Lalitpur GraminBidhyut Sahakari Ltd.	8,000.00
Total	45,008,000.00



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

3. Advance and Deposits

Advances and deposits mainly consist of the advance provided to the contractors and advance tax. Following is the detail of advances and deposits:

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Deposits	14,000.00	14,000.00
Advance - Civil Works	2,050,152.19	2,050,152.19
Advance - EM	197,207.00	197,207.00
Advance - Metal Works	321,751.63	321,751.63
Advance - Plant & Machinery	2,433,537.00	2,433,537.00
Advance - PSM	170,000.00	199,778.00
Advance - T/L & Switchward	2,950,000.00	2,950,000.00
Advance- Mr. Bharat L Thapa	1,600,000.00	-
LC Margin(EM) - KKHP	712,856.25	712,856.25
LC Margin(EM)-TTKHP	1,538,268.75	1,538,268.75
Mr. Mahesh Sharma	20,000.00	20,000.00
TDS Paid on Interest	546,380.14	547,974.52
Medical Expenses- Mahesh Dhakal	79,803.00	-
Nepal Electricity Authority	3,393,916.55	8,190,992.86
Total	16,027,872.51	19,176,518.20

4. Cash and Cash Equivalent

Cash and cash equivalents include deposits account balances maintained with banks and financial institutions. These enable the Company to meet its short-term liquidity requirements. The carrying amount of cash and cash equivalents approximates their fair value. They are readily convertible to known amount of cash and are subject to insignificant risk of change in value. These balances have been used as Cash and Cash Equivalents for the presentation of Statement of Cash Flows as well.

Particulars	As on 31st Ashadh, 2076	As on 32nd Ashadh, 2075
Apex Development Bank	76,891.23	76,891.23
Cash - Head Office	65,821.41	18,403.60
Cash- Site Office	25,000.00	-
Citizen Bank Nepal - Call	82,979.21	81,043.30
Civil Bank	15,634.04	245,606.35
Global IME Bank	10,690.74	16,106.46
Mega Bank Nepal	60,837.17	8,019.29
Prabhu Bank Nepal	87,898.58	86,786.32
Total	425,752.38	532,856.55



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

5. Share Capital

The company's registered share capital structure is as follows:

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Authorized Capital (50,00,000 Ordinary shares of NRs.100 each)	500,000,000.00	500,000,000.00
Issued Capital (46,57,143 Ordinary shares of NRs.100 each)	465,714,300.00	465,714,300.00
Paid Up Capital (46,57,143 Ordinary shares of NRs.100 each)	465,714,300.00	465,714,300.00

6. Retained Earnings

The details of the retained earnings are as given below:

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Opening balance	(285,170,470.15)	(122,874,969.03)
Profit/loss during this year	(148,891,638.14)	(162,295,501.12)
Total transferred to retained earnings	(434,062,108.29)	(285,170,470.15)

7. Long Term Loan

KKHPCL has obtained long term loan (Consortium loan) for project construction from Citizens Bank, Civil Bank, Global IME Bank and Mega Bank Ltd. Following is the detail of long term loan:

Particulars	As on 31st Ashadh, 2076	As on 32nd Ashadh, 2075
Term loan	726,001,754.25	744,001,754.25
Term loan II	79,950,575.17	81,450,575.17
Bridge Gap Loan(Term loan III)	15,000,000.00	-
Working capital Loan	5,000,000.00	-
Bridge Gap loan(Citizen)	30,000,000.00	-
Total Long term Loan	855,952,329.42	825,452,329.4
Less: Installment of loan to be repaid within a period of one year, (classified as current liability)	(29,801,754.25)	(19,221,758.63)
Total	826,150,575.17	806,230,570.79



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

8. Provisions

It includes the amount of contract work which has already been completed but bill has been not submitted/ approved. Current tax provision is also included under it. Following is the detail:

Particulars	As on 31stAsadh, 2076	As on 32ndAsadh, 2075
Income Tax Provision of Previous Year	2,657.50	-
Current Tax Provision	940.64	2,657.50
Less: TDS paid on interest	(2,158.77)	-
Total	1,439.37	2,657.50

9. Trade and Other Payables

Trade and other payables mainly consist of amounts the Company owes to suppliers and government authority that have been invoiced or are accrued. These also include taxes due in relation to the Company's role as an employer. These amounts have been initially recognized at cost and it is continued at cost as it fairly represents the value to be paid. Following is the detail of trade and other payables:

Particulars	As on 31stAsadh, 2076	As on 32ndAsadh, 2075
Account Payable	7,826.07	7,826.18
Retention Money	28,152,296.77	28,730,820.77
TDS Payable	1,800.00	-
Audit Fee and expense Payable	197,345.00	223,000.00
CIT Payable	86,840.00	36,400.00
IPO Refund	150,765.76	150,765.76
Maya Khola Hydropower Company	18,000,000.00	12,000,000
Office Rent Payable	-	14,850.00
Payable to Kathmandu Capital	-	148,750.00
Pashupati Energy Development Company	69,600,000.00	49,000,000.00
Royalty Payable	35,502.00	1,254,357.00
Salary Payable	754,991.00	-
Loan to be repaid within a period of one year	29,801,754.25	19,221,758.63
Total	146,789,120.85	110,788,528.34





Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

10. Overdraft

It includes the overdraft facility utilized by the company from the Citizen Bank Limited. The detail regarding the same is given below.

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Citizen Bank Limited	27,069,970.48	27,422,777.45
Total	27,069,970.48	27,422,777.45

11. Revenue from Sale of Electricity

The company has started the generation of electricity since FY 2073/74. It has been selling electricity to NEA and billing has been done as agreed on PPA.

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Sales of Energy	62,560,240.29	68,928,350.32
Total	62,560,240.29	68,928,350.32

12. Administrative Expenses

Expenses incurred to run day to day activities are booked under administrative expenses. Following is the detail of the administrative expenses.

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Advertisement Expenses	26,178.00	13,668.00
Interest - Citizen	34,719,563.32	34,043,528.33
Interest - Civil	12,543,512.31	11,658,566.05
Interest - Global	25,033,665.72	24,786,038.35
Interest - Mega	23,277,432.12	26,227,118.61
Agency Fees	2,131,742.93	2,079,465.81
AGM Expenses	138,193.00	106,532.00
Annual Fees - CDS Nepal	120,000.00	20,000.00



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

Annual Fees - Nepse	50,000.00	-
Audit Fees & expenses	200,000.00	226,000.00
Bank Charges	6,720.00	1,490.00
Dashain Allowances	713,867.00	649,200.00
Refreshment & Promotion expenses	179,845.00	582,351.00
Medical Expenses	128,072.00	-
Office Rent - HO	376,050.00	364,500.00
Postages & Courier	415.00	415.00
Printing and Stationery	15,745.00	24,726.00
Rates & Taxes - HO	7,732.00	2,000.00
Renewal & Registration Fees	71,140.00	534,090.00
Repair and maintenance - Access Road	-	49,920.00
Repair and maintenance Civil Works and Others	1,186,842.00	736,715.00
RTS Expenses	180,194.00	
Staff Salary	12,515,817.00	13,472,628.00
Telephone/Internet/Communication	205,278.00	246,148.00
Utility Expenses	40,339.00	46,604.00
Vehicle Fuel Expen.	274,219.00	275,317.00
Website Design Expenses	5,650.00	-
Insurance	2,767,783.38	4,758,171.95
Labour Charge	228,671.00	306,650.00



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

Site Operating Expenses	1,470,347.00	3,245,512.50
Site Visit Allowances -	196,178.00	234,404.00
Transmission Line & Switchyard Expenses	2,513,990.00	1,908,314.79
Transportation	26,800.00	162,000.00
Wages	5,000.00	6,400.00
Staff Quarter material	-	2,425.00
Nursery Expense	-	30,279.00
Board Meeting Allowance and expenses	42,500.00	38,233.00
Forest Lease Expenses	-	23,858.00
Kitchen Utensils	-	5,000.00
Power House Protection Expenses	92,055.00	3,763,724.05
Depreciation	86,592,316.38	97,719,429.69
Royalty Expense	1,888,308.00	2,163,274.00
Vehicle Rent	-	8,888.00
Corporate Social Responsibility	1,482,539.19	703,059.00
Office Clearing and maintenance	-	5,180.00
Total	211,454,700.35	231,231,824.13

13. Interest Income

It includes the interest income earned by the company on call deposits. Following is the detail:

Particulars	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Interest Income	3,762.56	10,630.26
Total	3,762.56	10,630.26



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Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

14. Non- Controlling Interest

Non- controlling interest (NCI) is the portion of equity ownership in a subsidiary not attributable to the parent company, which has a controlling interest (greater than 50% but less than 100%) and consolidates the subsidiary's financial results with its own.

Company has not any subsidiaries company.

15. Deferred Tax Liability and Current Tax

The deferred tax liability represents a future tax payment a company is expected to make to tax authority in the future as a result of temporary taxable differences. As a company enjoys a tax holiday for a period of 10 years, deferred tax liability is not considered during this period.

Current tax represents the amount payable to tax authority as a result of gain during the respective period. Hydropower Company enjoys tax exemption for gain generated from operating activities; however, tax is applicable for the income generated from non-operating activities. During FY 2075/76, company has an interest income of NRs. 3,762.56 and accordingly company is liable for current tax amounting NRs. 941.

16. Employee Bonus

As per the bonus act, 2030, 10% of the profit shall be allocated for the employee as a bonus. Since the company has operating in loss, no such bonus provision has been made.

17. Inventory

Inventories are carried at the lower of cost or net realisable value (NRV). Cost comprises of all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using First in First out (FIFO) method.

Company has not any inventory at the end of FY 2075/76.



18. Trade Receivables

It includes the amount to be received by the company in the ordinary course of business. Company has no such trade receivable in this financial year.



C. Other disclosures

1. Earnings per Share (EPS)

Earnings per share have been disclosed on the face of 'Statement of Profit or Loss and Other Comprehensive Income' in accordance with the NAS 33.

EPS	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Basic	(32.00)	(35.00)
Diluted	(32.00)	(35.00)

2. Operating Segment

NFRS 8 Operating Segments requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers.

The Company has only one reportable operating segment (both in terms of geography and products) and therefore, identification, classification and disclosure of separate reportable operating segments in accordance with NFRS 8 is not disclosed separately.

3. Interim Reports

Interim reports have been publicly reported in accordance with the requirement of Securities Board of Nepal (SEBON) and Nepal Stock Exchange Ltd. (NEPSE). These requirements are materially aligned with the requirements of NAS 34.

4. Related Parties

The Company identifies the following as its related parties:

- Pashupati Energy Development Company holds the 36.26% of shares.

Particulars	Amount (NRs.)
Opening advance from Pashupati Energy	49,000,000.00
Payment of advance during the period	(750,000.00)
Advance taken during the period	21,350,000.00
Closing advance from Pashupati Energy	69,600,000.00





Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

- The company has invested in the Shares of Mayakhola Hydropower Company:

Investments	As on 31st Asadh, 2076	As on 32nd Asadh, 2075
Mayakhola Hydropower Company	45,000,000.00	45,000,000.00
South Lalitpur Gramin Bidhyut Sahakari Ltd	8,000.00	8,000.00
Total	45,008,000.00	45,008,000.00

The Company has not entered into any related party transaction except those mentioned above.

5. Contingent Liabilities and Commitments

Contingent Liabilities

A contingent liability is identified as follows:

(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) A present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

The Company discloses contingent liabilities unless the possibility of an outflow of resources embodying economic benefits is remote.

Company has no any contingent liability during this period.

6. Compensation Claim made with NEA

The company has made a claim with Nepal Electricity Authority regarding compensation of energy loss (refer Chalani no. KKHPCL/115/2076/77 dated 10th Shrawan 2076). Till the end of FY 2075/76, the company has incurred Spill energy loss amounting to NRs. 35,795,640.30 KWH and NRs. 20,084,546.54 KWH of Tungun- Thosen Hydropower Project & Khanikhola Hydropower Project respectively and total compensation claimed amounts to NRs. 299,287,705.36.

Following is the detail of compensation claimed by the company from NEA for up to Ashadh end, 2076:

Tungun-Thosne Hydropower Project	Claim Amount (NRs.)	Khanikhola Hydropower Project	Claim Amount (NRs.)	Grand Total (NRs.)





Notes to Accounts- 2075/76
Khanikhola Hydropower Company Ltd.

Year 2073 (COD Date 2073.07.09) Upto 2073 Chaitra end	24,134,054.06	Year 2073 (COD Date 2073.08.20) Upto 2073 Chaitra end	11,154,436.80	35,288,490.86
Year 2074 Baisakh to 2074 Chaitra	66,998,586.90	Year 2074 (Baisakh to 2074 Chaitra)	47,138,164.38	114,136,751.28
Year 2075 Baisakh to 2075 Ashadh	20,169,792.76	Year 2075 (Baisakh to 2075 Ashadh)	9,554,350.26	29,724,143.02
From 2075 Shrawan to 2076 Asadha	81,578,383.77	From 2075 Shrawan to 2076 Asadha	38,559,934.43	120,138,320.20
Total	192,880,817.49	Total	106,406,887.87	299,287,705.36

