

Annual Report 2000/01

INTERNATIONAL LEASING & FINANCE CO., LTD.
(A joint Venture with KDB Capital Corporation – Korea)

Report of FY 2000/2001 (2057/58 B.S.) presented by
The Chairman Mr. Siddheshwar Kumar Singh
On behalf of Board of Directors in
The Sixth Annual General Meeting

We humbly extend our hearties felicitations to His Majesty King Gyanendra Bir Bikram Shah Dev on His Majesty's accession to the throne of the kingdom of Nepal, and wish for His Majesty's good health, peace, progress & prosperity. May the everlasting golden era begin in our nation through His Majesty's kind & dynamic leadership.

We express our heartfelt sorrow & condolence on the untimely demise of His Majesty King Birendra Bir Bikram Shah Dev, Her Majesty Queen Aishwarya Rajya Laxmi Devi Shah, His Majesty King Dipendra Bir Bikram Shah Dev, His Royal Highness Prince Nirajan Bir Bikram Shah, Her Royal Highness Princess Shruti Rajya Laxmi Devi Rana and other members of the Royal Family. We pray to the almighty for the eternal peace of the departed souls. May our most beloved King & Queen remain in every Nepalese heart for the kindest love & care Their Majesties had showered on the nation.

Dear shareholders,

I touch the sense of being gratified for having this opportunity to welcome all of you once again to the sixth Annual General Meeting of **International Leasing & Finance Co., Ltd.** It's been indeed a great moment always for all of us to review the operations of our company sitting together in this annual assembly. Now, with a belief that all of you have gone through the audited financial results of the company, I would like to present the Board of Directors' report for this fiscal year.

Board of Directors

Undeniably, the credit of success of our company goes to all my colleagues on the Board who has always backed the operations of the company with their noteworthy contributions. It's their precious guidance, which has brought our company to today's stand.

Dear shareholders, there has been a change in the Board this year. Mr. Dambar Bahadur Malla, who was representing Asian Investment & Trading Company, has retired from the board. I would like to express my sincere appreciation to Mr. Mall for his invaluable contributions extended towards our company during his tenure. At the same time, I welcome Mr. Anjay Bahadur Shah in the Board.

Foreign Partners

Dear shareholders, I have the immense pleasure to announce our corporate association with International Finance Corporation (IFC), a subsidiary of World Bank Group. With the concerted efforts of all our staff members, Directors, Shareholders, our initial foreign partner KDB Capital Corporation (KDB) and all our well-wishers over the last 4 years, we have finally succeeded in bring IFC into our corporate structure. The formal agreements for IFC's participation in ILFC were signed between ILFC, IFC and KDB on January 24, 2001, and by this time, IFC has already made its investment of 1st phase according to the agreements and the remaining amount has been scheduled to be invested in the 2nd phase by December, 2001.

Because of this new & enhanced corporate structure of the company associated with both KDB Capital Corporation and International Finance Corporation, the credibility of our company too has surged up to the international standard levels.

Overview of Economies

Dear shareholders, while assessing the overall national economies of this fiscal year, it did not grow to our expectations & presumptions due to numerous factors & causes, despite the fact that our national economy recorded a growth rate of 6.2% which is around the same growth rate of the previous year. The economies of South-East Asia seemed to have revived to some extent from their financial crisis as some of the countries in this region recorded a growth rate of 7.9% in this year. But, the growth rate of developed countries went down, and as a consequence, Nepalese export business was adversely affected during the year. Consequently, the other sectors of the national economies also witnessed only a marginal growth due to reasons like instability in the Government, deteriorating situations in public security, and the unbelievable massacre of our late Royal Family members. As an impact of all these unfavorable happenings, the national economy of Nepal remained quite unsatisfactory this year.

Banking & Financial Sector

While reviewing the performance of banking & financial sector during the first 8 months of this fiscal year, the total liquid assets of the commercial banks rose by 9.1%, whereas the total deposit collection rose only by 8.4%. Accordingly, the credit flow from the banking system to the Government has increased by 9.7%.

On the positive growth side of the banking & financial sector, the total resources of commercial banks & finance companies have risen by 10.9% & 17.2% respectively. Likewise, the total credit and investment of commercial banks & finance companies have recorded the growth by 11.5% 24.8% respectively.

Business Challenges

As of mid April 2001, a total of 486 branches of commercial & Agricultural Development banks, 48 finance companies, 5 Rural Development banks with 28 regional offices & 165 branches, and many other financial intermediaries such as other Development banks, regularized and non-regularized cooperatives, and Domestic & International Non-Governmental Organizations (NGOs & INGOs) are operating in so many numbers.

On the other hand, factors like limited credit & investment opportunities, increasing unhealthy competitions among the financial intermediaries for survival, high dependency of finance companies on traditional resources form of deposits, and increasing level of non-performing assets (NPA) have made the forthcoming days of our company to be very tough & competitive.

But, I would like to assure all of you that we would adopt timely revised strategies to cope with all these future challenges, and achieve our goals.

Business Overview

The investment products of the company remained the same as in the previous years. The total resources mobilization and resources utilization of the company were recorded at NRs.608MM & NRs.505MM respectively. Likewise, the total deposit of NRs.483MM was redeemed and NRs.350MM was repaid on loans during the year. Thus, the total outstanding of loans & advances and deposit collection stood at NRs.506MM and NRs.488MM respectively at the end of the fiscal year, attaining the growth of 34.40%, 44.40%, and 108.60% on deposit, total loans & advances and leasing business respectively. The number of total depositors of the company has reached 644, an increase of 13.20% as compared to the previous year.

Results of Operations

Dear shareholders, I believe, all of you may be satisfied with the results of operations for this fiscal year as the company has recorded a net profit of NRs.14MM (increased by NRs.1MM) after the necessary tax adjustments. Of course, it is undoubtedly an outcome attained through the efficient management of cost of fund as well as the tight controlling over the administrative expenses of the company. For which, the credit must go to our staff members who have made this possible despite various constraints and high volume of our administrative expenses as compared to other similar finance companies.

As a result of this achievement, we have been able to announce the third dividend declaration to our shareholders. Our Board of Directors has recommended a cash dividend @ 18% on increased paid-up capital, which I believe, will certainly be endorsed by this assembly.

Financial Highlights

(Amount in NRs.)

| | <u>(A)</u> <u>FY 99/00</u> | <u>(B)</u> <u>FY 00/01</u> | <u>Ratio (B/A)</u> |
|---------------------------|-------------------------------|-------------------------------|--------------------|
| Total assets | 469 MM | 659 MM | 141% |
| Total deposit & borrowing | 363 MM | 510 MM | 141% |
| Total loan outstanding | 350 MM | 506 MM | 145% |
| Investments | 86 MM | 116 MM | 135% |
| Net worth | 65 MM | 90 MM | 139% |
| Net profit | 13 MM | 14 MM | 108% |

Future Plan

Dear shareholders, as far as I believe, we need to be more realistic in context of our business plan for the next fiscal year rather than being optimistic, considering the overall scenario of the country. The increasing level of uncertainty, political instability, deterioration of law & order, and worsening state of public security nationwide have compelled us to move ahead with increasing caution focusing upon a more flexible strategy to go in accordance with the changing situations.

However, to maintain the business result in accordance with the increases volume of paid-up capital, newly incorporated tie-up with IFC, and the initial public issue going to be announced during the fiscal year 2058/59 (2001/02), the company would put every possible effort thereto ensure secured long term returns on its shareholders' investment. Therefore, the company would try to promote its business with more intensity emphasizing on the soundness of its assets portfolio through all its investment decisions with highest level of accuracy and rationality. We can anticipate for improved results if the things go better to our presumptions.

Staff & Training

Dear shareholders, we have always regarded our staff members as the backbone of our company. The more skillful and professional staff holds even more significance within the organizational structure of the company. As I believe, the company on its part should always try to retain its existing & skillful staff rather than searching for new ones. On the same grounds, our company would give high priority to its staff members to develop their careers individually. For this, the company would put priority in providing its staff members with latest theoretical and practical training to enhance their efficiency. The

company would also endeavour to arrange training facilities from both of its foreign partners “KDB Capital Corporation” and “International Finance Corporation”. Likewise, availing of possible academic facilities for our staff members will also be initiated.

Vote of Thanks

On this occasion, I would like to express my sincere thanks to the Ministry of Finance, Nepal Rastra Bank, other related institutions and customers for their continued support & assistance. I would also like to thank the company’s joint venture partner “**KDB Capital Corporation**” for its continued technical and other assistance. Likewise, I would like to thank our new corporate partner “**International Finance Corporation**” for joining hands with us and look forward to a very fruitful relationship between us for our mutual benefits in the days to come.

Similarly, I would like to appreciate the sincerity and hard work of the company’s Managing Director & all other staff members and look forward to the similar support from all of them in the future too.

Finally, I would like to thank all the shareholders present for taking keen interest in the company’s activities.

Thank you.

Signed
Siddheshwar Kumar Singh
Chairman

T.R. Upadhyaya & Co.

Affiliated to **KPMG**

Kh-2-862, Baneshwore Height
Post Box No 4414
Kathmandu, Nepal

Telephone: 977(1) 472658, 495000
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Auditor's Report
To the Shareholders of
International Leasing and Finance Company

We have audited the attached balance sheet of International Leasing & Finance Co. Ltd, as at 15 July 2001, profit and loss account and the cash flow statement for the year ended on that date, annexed thereto, and report that:

- a) we have obtained information and explanations which, to the best of our knowledge and belief, where necessary for the purposes of our audit;
- b) the balance sheet, profit and loss account and the cash flow statement dealt with by this report are in agreement with the books of account maintained by the Company;
- c) in our opinion, proper books of account as required by the law have been kept by the Company so far as appears from the examination of the books;
- d) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes appearing thereon, give a true and fair view;
 - i) in the case of the balance sheet, of the state of affairs of the Company as at 15 July 2001;
 - ii) in the case of profit and loss account, of the profit for the year ended on that date; and
 - iii) in the case of cash flow statement, the cash flows for the year ended on that date.
- e) to the best of our information and according to the explanation given to us the board of directors or an employee of the Company have not acted contrary to legal provision relating to account or caused loss or damage to the company or committed fraud so far as appears from our examination of book; and
- f) in our opinion and according to the explanation given to us the business of the company was carried out within the purview of the Finance Company Act 2042 so far as appeared from our examination of books and adequate provision for non-performing loans were maintained as per the directives of Nepal Rastra Bank.

Signed
T R Upadhyaya
Senior Partner

Kathmandu
Date: 2 October 2001

BALANCE SHEET
AS AT ASADH 31, 2058 (JULY 15, 2001)

| Capital & liabilities | Schedules | Current year (NRs.) | Previous year (NRs.) |
|--|-----------|-----------------------|-----------------------|
| 1. Authorized capital (2,400,000 ordinary shares of Rs 100 each) | | 240,000,000.00 | 240,000,000.00 |
| Issued capital (1,200,000 ordinary shares of Rs 100 each) | | 120,000,000.00 | 120,000,000.00 |
| Paid up capital (644,200 ordinary shares of Rs 100 each) | | 64,420,000.00 | 45,000,000.00 |
| 2. Reserves | | | |
| a. General reserve | | 9,878,448.24 | 6,462,870.89 |
| b. Other reserves | 'A' | - | - |
| 3. Borrowing | | | |
| a. Nepal Rastra Bank | | - | - |
| b. Other banks & financial institutions | 'H' | 22,286,471.52 | - |
| 4. Deposits | 'B' | 487,706,987.02 | 362,902,046.52 |
| 5. Current liabilities & provisions | 'C' | 71,106,516.82 | 49,335,160.62 |
| 6. Profit & loss a/c | | 3,639,744.70 | 4,988,612.67 |
| Total capital & liabilities | | 659,038,168.30 | 468,688,690.70 |

| Contingent liabilities | Current year (NRs.) | Previous year (NRs.) |
|--|---------------------|----------------------|
| 1. Claim lodged but not accepted by the company | - | - |
| 2. Liabilities on guarantees issued | - | - |
| 3. Balance amount to be paid on investment of shares | - | - |
| 4. Underwriting of shares and debentures | 5,000,000.00 | - |
| 5. Lease rental payable on leased assets | - | - |

Signed
Anil Dhungel
Sr. Manager
Fin. & Adm.

Signed
Ashoke SJB Rana
Director

Signed
Anjay Bahadur Shah
Director

Place: Kathmandu
Date: October 2, 2001

BALANCE SHEET
AS AT ASADH 31, 2058 (JULY 15, 2001)

| Assets | Schedules | Current year (NRs.) | Previous Year (NRs.) |
|---|-----------|------------------------|-------------------------|
| 1. Cash balance (including cheques in hand of Rs. 1,400,585.00) | | 1,729,686.18 | 1,229,753.81 |
| 2. Bank balance | | | |
| a. Nepal Rastra Bank | | 12,380.27 | 10,250.00 |
| b. Other national banks | | | |
| Saving & current account | | 48,785.40 | 12,018,097.26 |
| Deposits | | - | - |
| 3. Investment | | | |
| a. HMG Bonds | | 90,500,000.00 | 85,500,000.00 |
| b. Shares & debenture of company | 'K' | 130,000.00 | 137,400.00 |
| c. Stock-in-trade | | - | - |
| d. Other investments | | 25,000,000.00 | - |
| 4. Loans & advances | 'D' & 'E' | 377,977,912.46 | 288,873,749.74 |
| 5. Fixed assets | 'F' | | |
| a. Leased assets | | 127,512,027.05 | 61,141,434.24 |
| b. Fixed assets (in house) | | 7,183,047.25 | 4,614,814.38 |
| 6. Other assets | 'G' | 28,944,329.69 | 14,908,326.94 |
| 7. Deferred expenses (Pre-operating expenses to the extent not written off) | | - | 254,864.33 |
| 8. Profit & loss a/c | | - | - |
| Total assets | | 659,038,168.30 | 468,688,690.70 |

Notes to the accounts given in schedule "M" forms an integral part of this statement.

As per our attached report of even date

Signed
Dong Hyuk Kim
MD & CEO

Signed
Siddheshwar K. Singh
Chairman

Signed
T.R. Upadhya
T.R. Upadhya & Co.
Chartered Accountants

**PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED ASADH 31, 2058
(JULY 16, 2000 TO JULY 15, 2001)**

| Income | Schedules | Current year (NRs.) | Previous year (NRs.) |
|--|------------------|--------------------------------|---------------------------------|
| 1. Interest income | | | |
| a. Loans & advances | | 54,073,790.37 | 53,321,735.61 |
| b. Investment | | 9,204,252.52 | 7,535,262.93 |
| 2. Other income | | | |
| a. Lease rental | | 50,608,648.34 | 27,779,423.45 |
| b. Merchant banking business | | - | - |
| c. Other | | - | - |
| 3. Dividend | | - | - |
| 4. Income from sale of stock-in-trade | | - | - |
| 5. Miscellaneous income | 'I' | 9,031,836.60 | 5,243,193.53 |
| Total income | | 122,918,527.83 | 93,879,615.52 |

Notes to the accounts given in schedule "M" forms an integral part of this statement.

Signed
Anil Dhungel
Sr. Manager
Fin. & Adm.

Signed
Ashoke SJB Rana
Director

Signed
Anjay Bahadur Shah
Director

Place: Kathmandu
Date: October 2, 2001

**PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED ASADH 31, 2058
(JULY 16, 2000 TO JULY 15, 2001)**

| Expenditure | Schedules | Current year (NRs.) | Previous year (NRs.) |
|--|-----------|------------------------|-------------------------|
| 6. Interest expenses on | | | |
| a. Deposit | | 41,431,021.05 | 37,895,628.90 |
| b. Borrowing | | 1,620,808.81 | 1,212,988.92 |
| 7. Staff expenses | | | |
| a. Salary & allowances | | 7,861,810.54 | 6,683,663.48 |
| b. Contribution to P.F. | | 209,233.10 | 178,629.52 |
| c. Staff welfare | | 202,227.00 | 194,117.00 |
| 8. Operating expenses | ‘J’ | 45,057,386.91 | 26,941,960.31 |
| 9. Provision for doubtful debts | | 4,597,542.14 | 908,949.19 |
| 10. Additional Provision on loan | ‘L’ | - | - |
| 11. Provision for loss on investment | | 26,000.00 | - |
| 12. Provision for staff bonus | | 2,165,763.40 | 1,898,985.72 |
| 13. Miscellaneous expenses (amortization) | | 254,864.33 | 873,821.04 |
| Total expenditure | | 103,426,657.28 | 76,788,744.08 |

| | | |
|--|----------------------|----------------------|
| 14. Profit / (loss) | 19,491,870.55 | 17,090,871.44 |
| 15. Provision for income tax | 5,829,561.17 | 4,396,099.50 |
| 16. Profit after tax | 13,662,309.38 | 12,694,771.94 |
| 17. Profit / (loss) as per last account | 4,988,612.67 | 4,467,533.72 |
| 18. Profit available for appropriation | 18,650,922.05 | 17,162,305.66 |
| 19. Appropriation | | |
| a. General reserve fund | 3,415,577.35 | 3,173,692.99 |
| b. Proposed dividend | 11,595,600.00 | 9,000,000.00 |
| d. Balance carried forward to balance sheet | 3,639,744.70 | 4,988,612.67 |

As per our attached report of even date

Signed
Dong Hyuk Kim
MD & CEO

Signed
Siddheshwar K. Singh
Chairman

Signed
T.R. Upadhya
T.R. Upadhya & Co.
Chartered Accountants

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JULY 15, 2001**

| Particulars | Current year (NRs.) | Previous year (NRs.) |
|--|------------------------|-------------------------|
| Cash flow from operating activities: | | |
| Profit & loss account | 13,662,309.38 | 12,694,771.94 |
| Adjustment: | | |
| Depreciation on leased assets | 32,116,669.41 | 15,745,527.27 |
| Depreciation on fixed assets | 1,055,528.74 | 807,701.71 |
| Amortization | 254,864.33 | 873,821.04 |
| Provision for doubtful debts | 4,597,542.14 | 908,949.19 |
| Provision for loss on investment | 26,000.00 | - |
| Provision for staff bonus | 2,165,763.40 | 1,898,985.72 |
| Provision for income tax | 5,829,561.17 | 4,396,099.50 |
| Operating cash | 59,708,238.57 | 37,325,856.37 |
| Increase / (decrease) in borrowings | 22,286,471.52 | (34,440,837.55) |
| Increase / (decrease) in deposit | 124,804,940.50 | 48,543,416.72 |
| Increase / (decrease) in current liabilities | 4,918,732.80 | 2,890,649.99 |
| Increase / (decrease) in interest suspense | 7,933,241.91 | 4,017,944.89 |
| (Increase) / decrease in loan disbursement | (89,104,162.72) | (10,058,322.41) |
| (Increase) / decrease in lease financing | (98,487,262.22) | (35,521,407.76) |
| (Increase) / decrease in other assets | (14,036,002.75) | (4,953,185.59) |
| Bonus payment | (1,898,985.72) | (1,277,080.71) |
| Dividend payment | (9,000,000.00) | (5,400,000.00) |
| Payment of income tax (1999/00) | (4,396,099.50) | (1,078,505.92) |
| Net cash from operating activities | 2,729,112.39 | 48,528.03 |
| Cash flow from investing activities | | |
| Investment in shares | 7,400.00 | (3,400.00) |
| Investment in govt. bonds | (5,000,000.00) | 5,000,000.00 |
| Purchase of fixed assets | (4,618,835.50) | (355,434.90) |
| Investment in time deposit | (25,000,000.00) | 7,000,000.00 |
| Proceeds from sale of fixed assets | 995,073.89 | - |
| Net cash used in investing activities | (33,616,361.61) | 11,641,165.10 |
| Increase in share capital | 19,420,000.00 | - |
| Net increase in cash | (11,467,249.22) | 11,689,693.13 |
| Cash at the beginning of the year | 13,258,101.07 | 1,568,407.94 |
| Cash at the end of the year | 1,790,851.85 | 13,258,101.07 |

Note: Cash comprises cash, bank balances and cheques in hand.
Notes to the accounts given in schedule "M" form an integral part of this statement

As per our attached report of
even date

Signed
Anil Dhungel
Sr. Manager
Fin. & Adm.

Signed
Ashoke SJB Rana
Director

Signed
T.R. Upadhya
T.R. Upadhya & Co.
Chartered Accountants

Signed
Siddheshwar K. Singh
Chairman

Signed
Dong Hyuk Kim
MD & CEO

Signed
Anjay Bahadur Shah
Director

Place: Kathmandu
Date: October 2, 2001

**SCHEDULES RELATED TO BALANCE SHEET
AS AT JULY 15, 2001**

Schedule 'A'

OTHER RESERVES

| S.No. | Particulars | Current Year (NRs.) | Previous Year (NRs.) |
|--------------|--------------------|----------------------------|-----------------------------|
| 1. | Capital reserve | - | - |
| 2. | Staff welfare fund | - | - |
| 3. | Others | - | - |
| | Total | - | - |

Schedule 'B'

DETAILS OF DEPOSITS

| S.No. | Particulars | A/C No. | Current Year (NRs.) | Previous Year (NRs.) |
|--------------|--------------------|----------------|----------------------------|-----------------------------|
| 1 | 3 Months | 10 | 31,012,025.00 | 11,369,902.00 |
| 2 | 6 Months | 9 | 8,926,875.00 | 308,796.00 |
| 3 | 9 Months | - | - | 50,000.00 |
| 4 | 1 Year | 195 | 91,433,936.00 | 101,830,186.00 |
| 5 | 2 Years | 161 | 281,549,604.00 | 179,957,752.00 |
| 6 | 3 Years | 106 | 27,186,855.00 | 59,250,837.52 |
| 7 | 4 Years | 6 | 1,141,780.00 | 1,166,780.00 |
| 8 | 5 Years | 157 | 14,949,793.00 | 8,967,793.00 |
| | Total | 644 | 487,706,987.02 | 362,902,046.52 |

DETAILS OF DEPOSIT SCHEMES

| S.No. | Particulars | A/c No. | Current year (NRs.) | Previous year (NRs.) |
|--------------|---------------------|----------------|----------------------------|-----------------------------|
| 1 | Fixed deposits | 179 | 270,923,874.00 | 201,320,300.00 |
| 2 | Cumulative deposits | 370 | 184,556,746.00 | 126,500,307.00 |
| 3 | Recurring deposits | 30 | 720,248.00 | 1,229,302.00 |
| 4 | Special deposits | 65 | 31,506,119.02 | 33,852,137.52 |
| | Total | 644 | 487,706,987.02 | 362852,137.52 |

Schedule 'C'

CURRENT LIABILITIES & PROVISIONS

| S.No. | Particulars | Current Year (NRs.) | Previous Year (NRs.) |
|-------|---------------------------------|----------------------|----------------------|
| 1. | Current liabilities | | |
| | a. Sundry creditors | 3,134,517.02 | 2,541,725.55 |
| | b. Interest payable on deposits | 15,086,269.59 | 9,416,330.74 |
| | c. Tax deducted at source | 12,025.36 | 9,958.88 |
| | d. Key money | 5,797,013.00 | 7,143,077.00 |
| 2. | Provisions | | 10,490,607.05 |
| | a. Doubtful debts | 15,088,149.19 | - |
| | b. Loss on investment | 26,000.00 | 1,898,985.72 |
| | c. Staff bonus | 2,165,763.40 | 4,438,376.18 |
| | d. Interest suspense | 12,371,618.09 | 4,396,099.50 |
| | e. Income tax | 5,829,561.17 | 9,000,000.00 |
| | f. Proposed dividend (18.00%) | 11,595,600.00 | |
| | Total | 71,106,516.82 | 49,335,160.62 |

Schedule 'D'

LOANS & ADVANCES

| S.No. | Particulars | Current Year (NRs.) | Previous Year (NRs.) |
|-------|----------------------------|-----------------------|-----------------------|
| 1. | Hire purchase loan | 190,500,748.07 | 68,486,104.49 |
| 2. | Housing loan | 63,241,779.88 | 64,208,178.09 |
| 3. | Term loan | 120,311,360.37 | 143,032,715.60 |
| 4. | Loan against fixed deposit | 3,924,024.14 | 13,146,751.56 |
| | Total | 505,489,939.51 | 288,873,749.74 |

Schedule 'E'

CLASSIFICATION OF LOANS, ADVANCES & PROVISIONS

| S.No. | Particulars | Current Year (NRs.) | Previous Year (NRs.) |
|----------|--|-----------------------|-----------------------|
| A | Loans & advances | | |
| 1 | Good | 362,713,492.12 | 274,295,699.97 |
| 2 | Indicative of substandard | 11,408,740.19 | 11,789,380.59 |
| 3 | Substandard | 636,946.42 | 753,106.13 |
| 4 | Doubtful | 380,728.00 | - |
| 5 | Bad | 2,838,005.73 | 2,035,563.05 |
| | Total loans | 377,977,912.46 | 288,873,749.74 |
| B | Provision for doubtful debts (including provision for lease rental) | | |
| 1 | Good | 11,319,481.21 | 7,652,669.73 |
| 2 | Indicative of substandard | 576,554.75 | 614,097.74 |
| 3 | Substandard | 159,236.61 | 188,276.53 |
| 4 | Doubtful | 194,870.89 | - |
| 5 | Bad | 2,838,005.73 | 2,035,563.05 |
| | Total provisions | 15,088,149.19 | 10,490,607.05 |

Schedule 'F'

FIXED ASSETS AS AT JULY 15, 2001

(In NRs.)

| Particulars | | A. Fixed assets | | | | | B. Leased assets | | |
|---------------------|-----------------------------|----------------------|------------------|--------------|--------------|----------------------|------------------|-----------------------------|-----------------------|
| | | Furniture & fixtures | Office equipment | Vehicle | Computer | Total | Vehicle | Plant machinery & equipment | Total |
| Gross block | Balance as at July 16, 2000 | 2,193,372.90 | 1,201,478.99 | 4,353,560.00 | 1,250,545.00 | 8,998,956.89 | 29,384,264.00 | 48,710,757.20 | 78,095,021.20 |
| | Addition during the year | 87,580.00 | - | 4,028,000.00 | 503,255.50 | 4,618,835.50 | 84,845,000.00 | 19,175,000.00 | 104,020,000.00 |
| | Deduction during the year | - | - | 2,280,000.00 | 130,196.00 | 2,410,196.00 | 17,419,264.00 | 12,852,635.00 | 30,271,899.00 |
| | Cost as at July 16, 2001 | 2,280,952.90 | 1,201,478.99 | 6,101,560.00 | 1,623,604.50 | 11,207,596.39 | 96,810,000.00 | 55,033,122.20 | 151,843,122.20 |
| Depreciation | Balance as at July 16, 2000 | 959,146.76 | 374,403.59 | 2,322,845.99 | 727,746.17 | 4,384,142.51 | 13,052,998.29 | 3,900,588.67 | 16,953,586.96 |
| | Addition during the year | 183,861.54 | 124,356.98 | 584,358.79 | 162,951.43 | 1,055,528.74 | 17,855,503.08 | 14,261,166.33 | 32,116,669.41 |
| | Deduction during the year | - | - | 1,322,681.61 | 92,440.50 | 1,415,122.11 | 20,596,092.99 | 4,143,068.23 | 24,739,161.22 |
| | Total upto July 15, 2001 | 1,143,008.30 | 498,760.57 | 1,584,523.17 | 798,257.10 | 4,024,549.14 | 10,312,408.38 | 14,018,686.77 | 24,331,095.15 |
| Net block | As at July 15, 2001 | 1,137,944.60 | 702,718.42 | 4,517,036.83 | 825,347.40 | 7,183,047.25 | 86,497,591.62 | 41,014,435.43 | 127,512,027.05 |
| | As at July 15, 2000 | 1,234,226.14 | 827,075.40 | 2,030,714.01 | 522,798.83 | 4,614,814.38 | 16,331,265.71 | 44,810,168.53 | 61,141,434.24 |

Schedule 'G'

OTHER ASSETS

| S.No. | Particulars | Current year (NRs.) | Previous year (NRs.) |
|-------|--------------------------------------|----------------------|----------------------|
| 1 | Interest receivable on loan | 15,022,793.43 | 7,528,681.86 |
| 2 | Interest receivable on investment | 1,550,818.50 | 682,000.00 |
| 3 | Staff advances | 343,343.50 | 323,238.50 |
| 4 | Sundry debtors | 319,619.62 | 100,902.19 |
| 5 | Deposits | 141,725.00 | 144,725.00 |
| 6 | Advance payment | 816,462.71 | 783,889.32 |
| 7 | Advance income tax | 5,342,296.93 | 2,495,703.07 |
| 8 | Security deposits against income tax | 3,992,255.00 | - |
| 9 | Non – banking assets | 1,415,015.00 | 2,849,187.00 |
| | Total | 28,944,329.69 | 14,908,326.94 |

Schedule 'H'

BORROWING

| S.No. | Particulars | Current Year (NRs.) | Previous Year (NRs.) |
|----------|-----------------------------------|----------------------|----------------------|
| A | <u>Secured borrowing</u> | | |
| | Commercial banks | | |
| 1 | a. Overdraft | 22,286,471.51 | - |
| | b. Demand loan | - | - |
| 2 | Financial institutions | - | - |
| 3 | Debentures | - | - |
| 4 | Others | - | - |
| B | <u>Unsecured borrowing</u> | | |
| 1 | Commercial banks | - | - |
| 2 | Financial institutions | - | - |
| | Total | 22,286,471.51 | - |

Schedule 'I'

MISCELLANEOUS INCOME

| S.No. | Particulars | Current years (NRs.) | Previous year (NRs.) |
|-------|--------------------------------|----------------------|----------------------|
| 1 | Service charges | 1,742,133.99 | 1,263,528.53 |
| 2 | Management fees | 6,997,021.00 | 3,979,665.00 |
| 3 | Profit on sale of fixed assets | 292,681.61 | - |
| | Total | 9,031,836.60 | 5,243,193.53 |

Schedule 'J'

OFFICE OPERATING EXPENSES

| S.No. | Particulars | Current years (NRs.) | Previous year (NRs.) |
|-------|-----------------------------------|----------------------|----------------------|
| 1 | House rent | 1,843,200.00 | 1,821,664.00 |
| 2 | Water, lighting & heating | 229,390.54 | 193,524.61 |
| 3 | Repair & maintenance | 345,039.80 | 386,676.44 |
| 4 | Insurance | 62,712.07 | 44,538.46 |
| 5 | Postage, telex & telephone | 809,067.55 | 836,636.85 |
| 6 | Office E & F (non capitalized) | 12,250.00 | 11,900.00 |
| 7 | Traveling & transportation | 468,273.95 | 329,667.73 |
| 8 | Printing & stationery | 167,679.48 | 154,677.00 |
| 9 | Books & periodicals | 3,860.00 | 7,119.00 |
| 10 | Advertisement | 523,985.80 | 408,854.00 |
| 11 | Subscription | 42,143.00 | 12,370.00 |
| 12 | Registration fee | 43,400.04 | 63,620.04 |
| 13 | Donation & gifts | 57,760.00 | 48,000.00 |
| 14 | Fuel & lubricants | 402,156.90 | 335,726.04 |
| 15 | Office supplies | 79,359.01 | 55,531.25 |
| 16 | Entertainment expenses | 297,975.28 | 262,612.38 |
| 17 | Business promotion | 224,384.94 | 48,000.00 |
| 18 | Management fee | 4,254,000.24 | 2,790,666.66 |
| 19 | Board meeting fee & expenses | 60,000.00 | 29,230.00 |
| 20 | Audit fee & expenses | 89,571.79 | 71,399.50 |
| 21 | Legal & consulting expenses | 141,000.00 | 881,450.00 |
| 22 | Bank charges | 4,056.64 | 3,038.22 |
| 23 | Taxes & duties | 57,116.00 | 65,774.60 |
| 24 | Incidental expenses of expatriate | 1,262,870.07 | 1,303,178.20 |
| 25 | Training expenses | 222,851.50 | 81,619.85 |
| 26 | Depreciation (in house assets) | 1,055,528.74 | 807,701.71 |
| 27 | Depreciation (leased assets) | 32,116,669.41 | 15,745,527.27 |
| 28 | Sundries | 102,147.00 | 84,280.50 |
| 29 | General meeting expenses | 78,937.16 | 56,976.00 |
| | Total | 45,057,386.91 | 26,941,960.31 |

Schedule 'K'

INVESTMENT IN SHARES & DEBENTURES

| S.No. | Particulars | Cost Price (NRs.) | Market Price (NRs.) |
|-------|--|-------------------|---------------------|
| 1 | Investment in shares 1300, 18% cumulative redeemable preference shares Of Rs. 100 each of Taragaon Regency Hotel Ltd. | 130,000.00 | 104,000.00 |
| 2 | Investment in debentures | - | - |
| | Total | 130,000.00 | 104,000.00 |

Schedule 'L'

ADDITIONAL PROVISION ON LOAN

| S.No. | Particulars | Amount | | Provision for doubtful debts | |
|-------|---|---------------------|----------------------|------------------------------|----------------------|
| | | Current year (NRs.) | Previous year (NRs.) | Current year (NRs.) | Previous year (NRs.) |
| 1 | Excess loan disbursed (in terms of single client limit) | - | - | - | - |
| 2 | Excess loan disbursed (in terms of sectoral limit) | - | - | - | - |
| 3 | Excess loan disbursed (in terms of sub sectoral limit) | - | - | - | - |
| 4 | Others | - | - | - | - |
| | Total | - | - | - | - |

DETAILS OF LEASE RENTAL OUTSTANDING

| S.No. | Particulars | Current years (NRs.) | Previous year (NRs.) |
|-------|-----------------------------|-----------------------|----------------------|
| 1 | Vehicles | 92,755,180.00 | 14,940,347.28 |
| 2 | Plant machinery & equipment | 31,150,975.46 | 33,637,183.60 |
| | Total | 123,906,155.46 | 48,577,530.88 |

CLASSIFICATION OF LEASE RENTAL OUTSTANDING

| S.No. | Particulars | Current years (NRs.) | Previous year (NRs.) |
|-------|---------------------------|-----------------------|----------------------|
| 1 | Good | 123,897,141.68 | 48,084,956.60 |
| 2 | Indicative of substandard | 122,354.90 | 492,574.28 |
| 3 | Substandard | - | - |
| 4 | Doubtful | 9,013.78 | - |
| 5 | Bad | - | - |
| | Total | 123,906,155.46 | 48,577,530.88 |

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNT
AS AT JULY 15, 2001 (ASADH 31, 2058)**

1. Significant Accounting Policies

i) Basis of preparation

The financial statements have been prepared in conformity with the generally accepted accounting principles in Nepal (except where stated to the contrary) and other pronouncement to conform to the Company Act, 2053, Finance Company Act, 2042 and the directives of Nepal Rastra Bank.

ii) Interest income

Interest income on loans and advances are recognized as incomes on accrual basis except interest received after three months of due date which are recognized on cash basis.

Interest income on investment is accounted for on accrual basis.

iii) Interest expense

Interest on deposits and borrowings from other banks are accounted for on accrual basis.

iv) Loans and advances

Loans and advances are subject to regular scrutiny and classified in accordance with the directives issued by Nepal Rastra Bank.

v) Loan loss provision

General Provisions are maintained for losses which, although not specifically identified, are known from experience to be inherent in any asset portfolio. The level of general provision is determined from 1% to 100% on the basis of classification of loans and advances and lease rentals in accordance with the directives of Nepal Rastra Bank.

vi) Investments

Investments in HMG Bonds are those, which the Company purchased with the positive intent and ability to hold until maturity. Such securities are recorded at cost.

HMG Bonds amounting to NRs. 40 million have been pledged with banks against secured loans.

vii) Fixed assets

Fixed assets are carried at cost less depreciation.

Assets are depreciated at the rates prescribed by Income Tax Rules, 2039 using the written down value method.

Equipment, furniture & fixtures with a unit value of NRs. 5,000.00 or less are expended off in the year of purchase.

viii) Leased assets

Leased assets are shown at cost less depreciation.

Leased assets are depreciated at rates prescribed by Income Tax Rules, 2039 using the written down value method over the lease term.

ix) Pre-operating expenses

The pre-operating expenses are amortized over a period of five years.

2. Provision for taxation

During the year, company has provided NRs. 5,829,561.17 for income tax after adjustments as per the Income Tax Act, 2031.

The income tax office has completed the final tax assessment for the fiscal year 1995/96 to 1999/00 and raised an additional demand of NRs. 7.7 Million as certain expenses have not been allowed as deductible expenses. The company has contested the demand of the tax office as not taxable and appealed with the Revenue Tribunal. Pending decision of the Revenue Tribunal, no provision has been made there against.

3. Others

Where necessary, amounts shown for the previous years have been reclassified to facilitate comparison.