

KHULNA POWER COMPANY LTD.

Annual Report 2010





ENGINE HALL
Khanjahan Ali Power Company Ltd.

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Registered Office

Landmark (3rd floor)
12-14 Gulshan North C/A
Gulshan - 2, Dhaka 1212
Phone : +88-02 8810932, 8810892,
8810868, 8824217, 8823940
Fax : +88-02 882 3989
Email : kpcl@khulnapower.com
Web : www.khulnapower.com

Power Plants

- 1. Khulna Power Company Ltd (KPCL) - 110 MW**
Goalpara, Khalishpur, Daulatpur
Khulna-9202
Phone : +88-041 763556-8
Fax : +88-041 760227
- 2. Khulna Power Company Unit II Ltd (KPC Unit II) - 115 MW**
Extended premises of KPCL
Goalpara, Khalishpur, Khulna.
- 3. Khanjahan Ali Power Company Ltd (KJAPCL) - 40 MW**
Noapara, Avaynagar, Jessore

Auditors

Rahman Rahman Huq
Member Firm of KPMG
9 Mohakhali C/A, Dhaka.

Legal Adviser

Mahmood Jabbar Khan
Barrister & Advocates
Summit Centre (6th floor)
18 Kawran Bazar C/A
Dhaka-1215

Main Bankers

Standard Chartered Bank
Citibank N.A.
BRAC Bank Limited
Dutch Bangla Bank Ltd
Pubali Bank Limited

Company Information

Background of KPCL

In 1997 the Bangladesh Power Development Board (BPDB) was faced with the challenge to ease a critically short power supply in the South Western Zone of Bangladesh. The electrical demand had been consistently higher than available capacity, and generation costs in the area had been very high due to the low efficiency of existing equipment and the heavy use of expensive, low-availability fuel. Bangladesh Power Development Board (BPDB) thus signed a Power Purchase Agreement (PPA) in 1997 with Khulna Power Company Ltd (KPCL) to set up a power plant at Khulna to alleviate the severe power crisis as a fast-track solution.



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Khulna Power Company Unit II Ltd.

Formation of KPCL

Khulna Power Company Ltd (KPCL) is the first Independent Power Producer (IPP) in the country, established under the Private Sector Power Generation Policy of Bangladesh. KPCL was incorporated on October 15, 1997 as a private limited company. On July 19, 2009 the company was converted into a public limited company. KPCL was formed with a paid up capital of BDT 2,085.93 million (US\$ 44.10 million) and the initial project cost was US\$ 96.07 million. KPCL commenced its full commercial operation on October 13, 1998 and since then, it has been supplying uninterrupted reliable power to the national grid. The formation of KPCL Project was initially sponsored by Summit Group and United Group along with their foreign partner El Paso Corporation (El Paso), USA, one of the world's largest and most diversified natural gas exploration and pipeline companies and Wärtsilä Corporation (Wärtsilä), Finland, a leading power plant manufacturer of the world. In 2008, El Paso, as part of its global repositioning strategy disposed of its shares in KPCL to Summit Group and United Group. Later in 2009 Wärtsilä's share was also acquired by Summit and United.

Khulna Power Company Ltd. has two subsidiary companies named as:

- I) KHULNA POWER COMPANY UNIT II LTD.; and
- II) KHANJAHAN ALI POWER COMPANY LTD.

Khulna Power Company Unit II Ltd

Khulna Power Company Unit II Ltd. (KPC Unit II) was formed on June 22, 2010 for setting up of 115 MW power plant under a contract with Bangladesh Power Development Board (BPDB) signed on June 23, 2010 for supplying electricity on rental basis initially for 5 years with a provision for extension of further terms by mutual agreement. The 99% shares of KPC Unit II are owned by KPCL. The plant is located at the extended premises of the KPCL plant at Khulna. The plant is currently on the test run and has been supplying electricity to the national grid since 1st week of May 2011. The plant is expected to be officially inaugurated and commence its commercial operation by the end of May 2011.

Khanjahan Ali Power Company Ltd.

Khanjahan Ali Power Company Ltd. (KJAPCL) was formed on July 19, 2010 for setting up of 40 MW power plant under a contract with Bangladesh Power Development Board (BPDB) signed on July 25, 2010 for supplying electricity on rental basis initially for 5 years with a provision for extension of further terms by mutual agreement. The 90% shares of KJAPCL are owned by KPCL. The plant is located at Noapara, Jessore. The plant is currently on the test run and has been supplying electricity to the national grid since 1st week of May 2011. The plant is expected to be officially inaugurated and commence its commercial operation by the end of May 2011.

Operation & maintenance (O&M) of KPCL plant and its subsidiary Units

The KPCL plant is operated and maintained by Wartsila Bangladesh Ltd., a 100% owned subsidiary of Wartsila OY, Finland; the manufacturer and EPC contractor of the plant under a long term O&M Agreement. A team of highly skilled professionals are engaged in the operations of the plant. The operational process has been developed and managed by the expert team. For any technical issue, the equipment manufacturer extends their support as and when needed. The management team at plant level is also professional and possesses requisite expertise to run the operations.

KPC Unit II and KJAPCL have also signed separate agreements with Wartsila Bangladesh Ltd. for Operation and Maintenance (O&M) of their respective 115 MW and 40 MW power plants.

KPCL POWER PLANT

LOCATION:

GOALPARA, KHALISHPUR, KHULNA

CAPACITY:

110 MW BARGE MOUNTED POWER PLANT

DESCRIPTION OF BARGES:

TWO FLOATING BARGES NAMED TIGER I AND TIGER III. NINE GENERATING UNITS ARE MOUNTED ON ONE BARGE AND TEN ON THE OTHER. THE BARGES SHIPPED AS DECK CARGO ON SUBMERSIBLE DRY TOW SHIP, ARE MOORED IN A CLOSED BASIN. EACH BARGE IS APPROXIMATELY 91 METRES LONG AND 24 METRES WIDE.

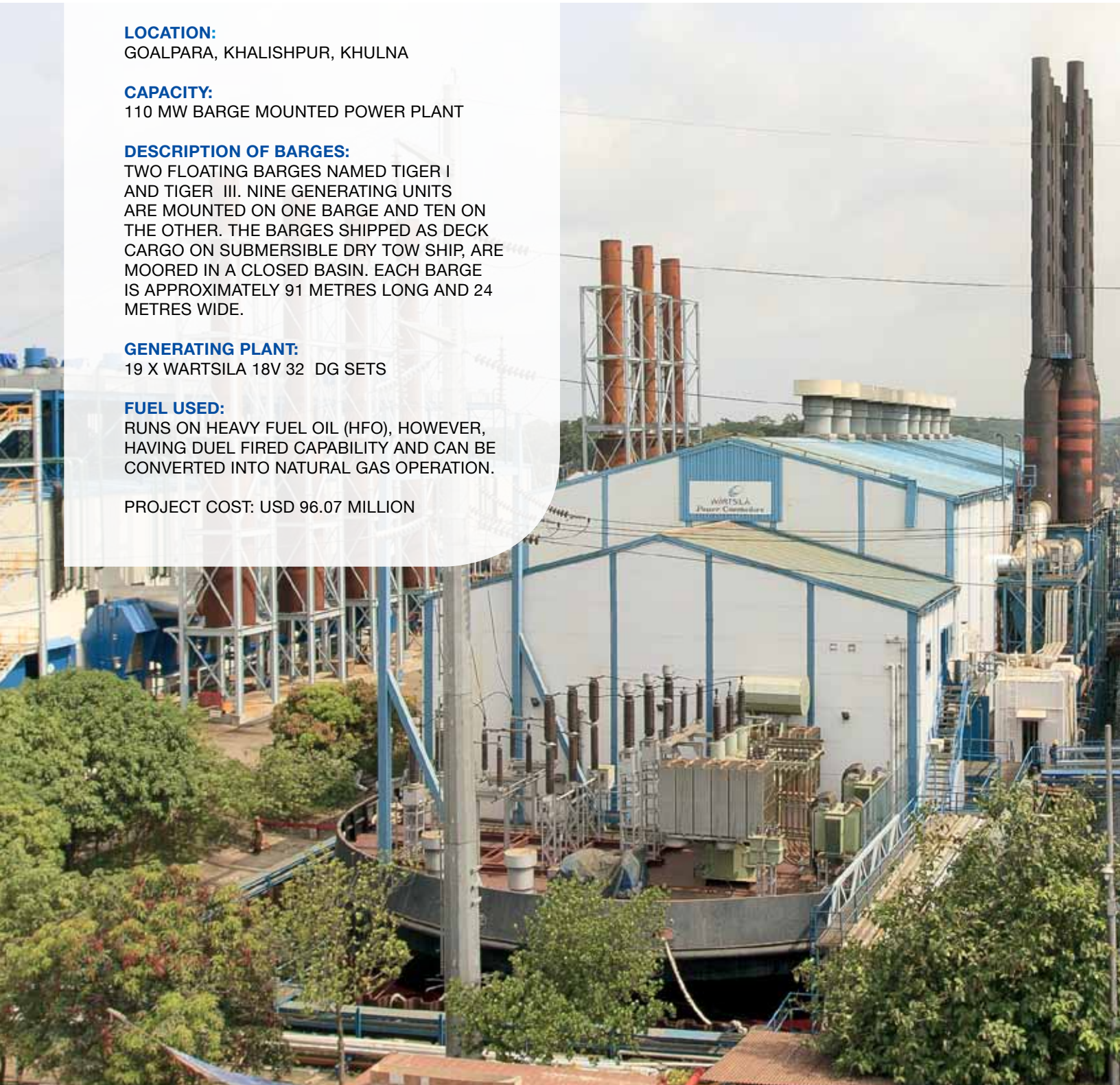
GENERATING PLANT:

19 X WARTSILA 18V 32 DG SETS

FUEL USED:

RUNS ON HEAVY FUEL OIL (HFO), HOWEVER, HAVING DUEL FIRED CAPABILITY AND CAN BE CONVERTED INTO NATURAL GAS OPERATION.

PROJECT COST: USD 96.07 MILLION





KPC UNIT II POWER PLANT

LOCATION:

EXTENDED PREMISES OF KPCL PLANT,
GOALPARA, KHALISHPUR, KHULNA

CAPACITY:

LAND BASED 115 MW POWER PLANT

GENERATING PLANT:

7X WARTSILA 18V46 DG SETS

FUEL USED:

HEAVY FUEL OIL (HFO)

ESTIMATED PROJECT COST:

USD 70 MILLION





KHANJAHAN ALI POWER PLANT

LOCATION:

NOAPARA, JESSORE

CAPACITY:

LAND BASED 40 MW POWER PLANT

GENERATING PLANT:

5 X WARTSILA 20V 32 DG SETS

FUEL USED:

HEAVY FUEL OIL (HFO)

ESTIMATED PROJECT COST:

USD 25 MILLION





THE SHAREHOLDERS

Summit Industrial & Mercantile Corporation (Pvt.) Ltd. (Summit) and United Enterprises & Co Ltd. (United) equally own a total 74.97% of 239,881,950 shares of Khulna Power Company Ltd. and 0.03% are owned by 14 individual sponsor shareholders. The rest of 25% shares are owned by the general investors.

SUMMIT INDUSTRIAL & MERCANTILE CORPORATION (PVT.) LIMITED SUMMIT GROUP

SUMMIT GROUP is one of the reputed local conglomerates of the country having interests in independent power generation, petroleum, shipping, real estate, inland container depot, financial services and communications infrastructure. The group sponsored the first independent 110 MW barge-mounted power plant KPCL in 1998 and since then has eight other power stations totaling 1800 MW in operation or implementation. The group is recognized as a major infrastructure-industry company of Bangladesh employing over 1,000 people.

Summit Industrial & Mercantile Corporation (Pvt.) Limited (SIMCL) is a holding company established in 1985 sponsoring fourteen different companies, ranging from shipping to power to communications. Four of its holdings, Summit Power Limited, Summit Alliance Port, Khulna Power Company Ltd. and Ocean Containers Ltd. are

publicly listed. Of these publicly listed companies, Summit Power Limited (SPL) accounts for 480 MW of electricity in Bangladesh. It has power plants located in various parts of Bangladesh mainly in the suburban industrial areas where there is the greatest need for electricity. SPL has grown many folds in the past 11 years resulting in increased efficiency and economies of scale. Major entities of Summit Group are as follows:

- Summit Power Limited
- Summit Communications Ltd
- Summit Alliance Port Ltd.
- Summit Shipping Ltd.
- United Summit Coastal Oil Ltd.
- Cosmopolitan Traders (Pvt.) Ltd
- Ocean Containers Ltd.



102 MW POWER PLANT, MADANGANJ





UNITED ENTERPRISES & CO. LTD – UNITED GROUP OF BANGLADESH

UNITED GROUP (UG) represents a collective of companies that together form one of the most diversified infrastructural based organizations in Bangladesh. By Allah's Grace, the Group has made forays into various social as well as commercial infrastructure projects that have a significant impact on the economy today.

Among the social infrastructure (SI) organizations in its holding, two key institutions stand out – United Hospital Ltd. and United International University. The former is currently one of the largest private sector multi-disciplinary hospitals in the country with a capacity to house over 450 patients of various categories. The latter, while being one of the newer private universities of the country, is quite often regarded as one of the top educational institutions of the country, especially in the fields of business and engineering.

The commercial infrastructure (CI) projects of the Group include those in the power generation division of the business, namely United Power Generation & Distribution Co. Ltd. (UPGD) and Khulna Power Co. Ltd. (KPCL). Both these power plants are considered to be some of the most efficient power generation plants in Bangladesh, while the latter, which was jointly developed with Summit Group and other multinational entities, holds the distinction of being the first IPP of the country. The Group is currently in the process of adding more power stations to their profile, including a 53 MW plant in Ashuganj, as well as purchasing significant stake in Westmont Power (Bangladesh) Ltd. Other CI ventures of the UG include a land port in Teknaf that sits in the scenic boundary between Bangladesh and Myanmar. It is being fully maintained and operated by the Group, causing a significant rise in revenue collection for the government. However, this company is a mere stepping stone for bigger plans in the future, when the Group intends to develop a fully comprehensive single jetty sea port opposite the Chittagong Port in the south-eastern region of the country. With facilities including container storage and handling, tank terminals and silos, efficient loading and unloading of vessels and capable cargo management techniques, we hope Insh'Allah that this port will become the "go-to" destination for relevant import and export corporations as well as shipping firms who seek a quick turnaround time.

The Group also co-owns a state of the art mixed-yarn spinning mill in Comilla which produces one of the highest rated yarn in the country. The mill has seen significant expansion over the years and employs over 2000 people in various departments.

Finally, the Group has also been blessed with the opportunity to develop one of the finest townships in the country in one of the most premium locations of Dhaka City. Under the banner of United City, this mini township will have world-class residential and commercial facilities that would be comparable Insh'Allah to the best localities in Asia.

In over three decades, United Group has come a long way to become a business house of your trust. It has the honor to be supported by a dedicated staff of over 4000 hard working individuals, over fifty percent of whom are professional executives. With the continued effort of all those involved, and the support of the valued clients, partners and customers, it hopes to become one of the finest institutions of the country in the future.

The key companies that the Group represents are as follows:

United Enterprises & Co. Ltd.

- United Property Solutions Ltd.
- United Hospital Ltd.
- United Power Generation & Distribution Co. Ltd.
- United International University Ltd.
- Neptune Land Development Ltd.
- NOVO Healthcare & Pharma Ltd.
- Comilla Spinning Mills Ltd.
- United Land Port Teknaf Ltd.
- United Polymers Ltd.
- Hafez Zamiruddin Fisheries Ltd.
- United Makkah Madina Travel & Assistance Co. Ltd.

Interior view of UPGD at DEPZ



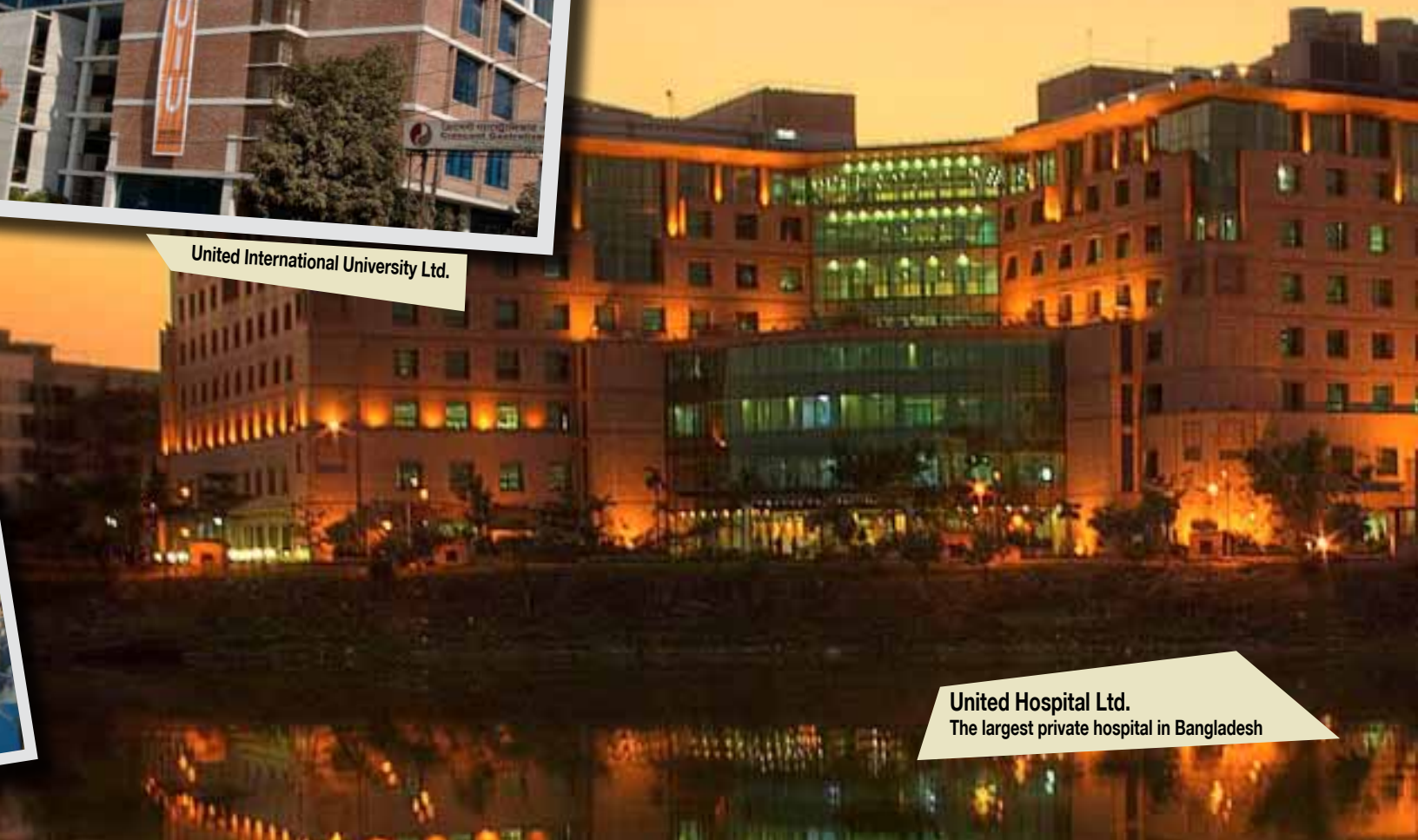
United Land Port Teknaf Ltd.



United Power Generation & Distribution Co. Ltd.



United International University Ltd.



United Hospital Ltd.
The largest private hospital in Bangladesh

Notice of the 13th Annual General Meeting

Notice is hereby given that the 13th Annual General Meeting of the Shareholders of Khulna Power Company Ltd. will be held on Sunday the 12th day of June, 2011, at Bashundhara Convention Center-2, Bashundhara R/A, Baridhara, Dhaka at 11.00 A.M to transact the following businesses:

Agenda:

1. To receive and adopt the Directors' Report and the audited financial statements for the year ended December 31, 2010 together with the auditors report thereon.
2. To declare dividend for the year 2010 as recommended by the Board of Directors.
3. To elect Directors in place of those retiring under Article-20(c) and Article-23(a) of the Company's Articles of Association.
4. To appoint auditors for the year 2011 and to fix their remuneration.

By order of the Board



M. Aminur Rahman, FCA
Company Secretary

Dhaka, May 21, 2011

Notes:

1. Shareholders whose names appeared at the record date i.e. May 12, 2011 in the Share Register of the Company or in the Depository Register on that date will be eligible to attend and vote in the Annual General Meeting and to receive dividend to be approved in the AGM.
2. Members entitled to attend and vote at the Annual General Meeting may appoint a Proxy to attend and vote on his/her behalf. The proxy form must be affixed with requisite revenue stamp and must be submitted to the Registered Office of the company not less than 48 hours before the time fixed for the Annual General Meeting.
3. Admission into the meeting venue will be allowed on production of the Attendance Slip attached with the Proxy Form.

PHOTOGRAPHS OF 12TH AGM



Message from the Chairman

Dear Owners of Khulna Power Company Ltd.,

Assalamu Alaikum.

Thank you for coming to the 13th Annual General Meeting of your Company. The recent decline in the general index of the Country's Stock Market has also affected price of the shares of your beloved company, Khulna Power Company Ltd. This plunge has been triggered by combination of factors beyond our control and has nothing to do with us. However, I feel it is my duty to inform that the recent allegations referred to in the report of the Probe Committee for Stock Market, that 'direct listing was allowed to Khulna Power Company Ltd. (KPCL) by SEC under special consideration' is contemplative, assumptive, unsubstantiated and not reflective of truth. Dear Shareholders, I would like to assure you that there was neither any irregularity done nor was the permission for direct listing obtained as a special consideration. I state the following facts for your perusal:

- Approval for taking the Company's shares to public through direct listing was obtained in the EGM held on July 19, 2009.
- Company then applied to both Dhaka/Chittagong Stock Exchange Limited on October 1, 2009 for direct listing of its shares in both the bourses under Dhaka/Chittagong Stock Exchange (Direct Listing) Regulations 2006.
- On 5th November 2009, in a meeting at the Finance Ministry, a decision was taken to amend the direct listing regulations whereby only companies fully owned by Government would be allowed to undertake direct listing.
- The decision of the Finance Ministry resulted in amendment of the Dhaka/Chittagong Exchange (Direct Listing) Regulation 2006 by a notification dated 5th January 2010.
- The Ministry of Finance by a circular dated 1st February 2010 issued by Deputy Secretary (Bank & Financial Institution Division) directed that all applications for direct listing made before 5th November 2009 will be considered for offloading of shares through direct listing under provisions then prevailing for the same.
- Since KPCL applied on October 1, 2009, naturally lawfully without any undue persuasion KPCL was listed.

It will be evident from the facts as above that SEC's permission for direct listing of KPCL shares was, in all fairness, as per the provisions of the regulations and not by special consideration.

Having said this, I am sad for the present debacle of the Capital Market that also affected the share price of KPCL, but I can assure you that Company's fundamental comprising operational, financial and other indicators are very strong and give us the confidence that your company is capable of continuing its operation consistently, with sustainable growth year on year, in foreseeable future. I therefore urge upon you to delve into the company fundamentals and then take your decision.

As you all know that the country is passing through a severe electricity crisis and the growth and development of our economy is seriously hampered due to the shortage of electricity. KPCL as the pioneer of the private sector power generation in the country has been playing a vital role in supplying much needed electricity. As I mentioned in my last year's deliberations that for having immense opportunity and potential in the sector, your company is striving its best to expand further to become one of the fastest growing company, to generate more and more electricity. You will be glad to know that meanwhile the installation work of 115 MW power plant (Implemented under the name Khulna Power Company Unit II Ltd [KPC Unit II], formed as a separate company required by BPDB and 99% shares of which are owned by KPCL) is complete and has already been supplying electricity to the national grid since first week of May 2011. Further you will be pleased to know that KPCL has bought 90% shareholdings of Khanjahan Ali Power Company Ltd (KJAPCL) in 2010, which is also setting a 40 MW power plant at Noapara, Jessore under a contract with BPDB. The construction of KJAPCL plant is also complete and has already been supplying electricity to the national grid under test run since first week of May 2011. Both the above power plants are expected to be officially inaugurated and start its commercial operation very soon. This has increased our capacity 2.5 times than earlier size and off course will enhance corresponding growth to our revenue and profitability in the coming years. We believe, your support, trust and confidence together with our experience, dedication and commitment will enable us to grow every year and to add value for our shareholders.

“

AS I MENTIONED IN MY LAST YEAR'S DELIBERATIONS THAT FOR HAVING IMMENSE OPPORTUNITY AND POTENTIAL IN THE SECTOR, YOUR COMPANY IS STRIVING ITS BEST TO EXPAND FURTHER TO BECOME ONE OF THE FASTEST GROWING COMPANY, TO GENERATE MORE AND MORE ELECTRICITY. YOU WILL BE GLAD TO KNOW THAT MEANWHILE THE INSTALLATION WORK OF 115 MW POWER PLANT (IMPLEMENTED UNDER THE NAME KHULNA POWER COMPANY UNIT II LTD [KPC UNIT II], FORMED AS A SEPARATE COMPANY REQUIRED BY BPDB AND 99% SHARES OF WHICH ARE OWNED BY KPCL) IS COMPLETE AND HAS ALREADY BEEN SUPPLYING ELECTRICITY TO THE NATIONAL GRID SINCE FIRST WEEK OF MAY 2011. FURTHER YOU WILL BE PLEASED TO KNOW THAT KPCL HAS BOUGHT 90% SHAREHOLDINGS OF KHANJAHAN ALI POWER COMPANY LTD (KJAPCL) IN 2010, WHICH IS ALSO SETTING A 40 MW POWER PLANT AT NOAPARA, JESSORE UNDER A CONTRACT WITH BPDB. THE CONSTRUCTION OF KJAPCL PLANT IS ALSO COMPLETE AND HAS ALREADY BEEN SUPPLYING ELECTRICITY TO THE NATIONAL GRID UNDER TEST RUN SINCE FIRST WEEK OF MAY 2011.

MUHAMMED AZIZ KHAN
CHAIRMAN

”

On the issue I would like to state that with this year's 20% Stock Dividend, if approved by you in the AGM, each one of you will be having 38% growth in your shares quantity since it has been listed only a year ago in March 2010 (15% Stock Dividend on 2009 Accounts declared in AGM held on June 24, 2010 and current year's 20% Stock Dividend).

I am very proud to be a shareholder of this great company of yours, I am much honored and privileged to be the founder Chairman of this great institution and I am most pleased that our company has been paying respectable dividend to its shareholders year on year. I am also excited at the future prospect of our great company which is providing more and more much needed electricity every year to our beloved country Bangladesh. Thus we are helping to strengthen its economy, create employment opportunity, to alleviate poverty and to materialize our dream to build long cherished "Golden Bengal (Bangladesh)".

I am sure as prudent responsible investors you will see the merit of your company through the opaque, sometimes irrational behavior of markets. You certainly own a great company and I hope to see you next year and each year, to be able to announce greater achievements of your company, Khulna Power Company Ltd.

Muhammed Aziz Khan
Chairman



MUHAMMED AZIZ KHAN
Chairman

Directors' Report to the Shareholders

FOR THE YEAR ENDED DECEMBER 31, 2010



HASAN MAHMOOD RAJA
Managing Director

Dear Shareholders,

Assalamua Alaikum Wa Rahmatullahe Wa Barakatuhu,

The Board of Directors of Khulna Power Company Ltd. (KPCL) welcomes you all in the 13th Annual General Meeting of the company. I would like to inform our valued shareholders at the outset that, by the Grace of the Almighty, the Management has successfully implemented a 140% increase in plant capacity over the last one year, with KPCL Unit II adding 115 MW and Khanjahan Ali adding 40 MW, therefore taking our output to a grand total of 265 MW. We have the pleasure in submitting the operational activities and audited financial statements of the company for the year ended December 31, 2010.

The Directors Report is prepared in compliance with the section 184 of the Companies Act 1994 and Securities and Exchange Commission's Notification no-SEC/CMRRCD/ 2006-158/ Admin/02-08 dated 20th February 2006.

SCENARIO OF THE POWER SECTOR

Power demand in Bangladesh is increasing at a very high rate and sufficient power plants were not set up during the last couple of years to cope up with the demand. As a result the country is now facing with severe power shortage. The gap between supply and demand is widening every day. The present generation capacity of the country is **4,600 MW** against maximum peak demand of approximately **6,200 MW**. The present Govt. has been putting very desperate efforts to mitigate the crisis. Your company, being pioneer in the private sector power generation, has been successfully supplying 110 MW power from its first unit of power plant since 1998. The Company is now fully set to have official inauguration of two other power plants of its subsidiary entities for a total of 155 MW very soon and in fact these two plants are already put on the test run and regularly supplying power to the national grid. The company with its total capacity of 265 MW power plants will be meeting approximately 40% power demand of the south-western region of the country.

BUSINESS ACTIVITIES

The principal activity of your company is to generate electricity and to deliver the output to the national grid. The only customer of the company is the Bangladesh Power Development Board (BPDB). In this year, the company exported about 754.42 million Kwh of electricity and earned total revenue of Tk. 7,945.76 million as compared to 6,393.27 million in 2009.

FINANCIAL RESULTS

During the year 2010, the company has earned a consolidated net profit of Tk. 539.81 million. Directors of the company would like to report the company's financial results for the year ended December

31, 2010 with the recommendation for appropriation as follows:

Appropriation of profit	Figure in million
Consolidated net Profit for the year 2010	Tk. 539.81
Profit brought forward	76.11
Redemption of Preference Shares	(220.00)
	Tk. 395.92
Transfer from capital Redemption Reserve	220.00
	Tk.615.92
Available for appropriation to Ordinary Shareholders	
Appropriations:	
Proposed Dividend:	
Stock Dividend @ 20%	Tk. 479.76
Transferred to Retained Earning	Tk.136.16

DIVIDEND

Your Board recommends a final dividend of 20% for the year 2010 as Bonus Share i.e. 1 (One) share of Tk. 10 each for 5 (Five) shares held on the Record Date. This is subject to approval by the shareholders at the 13th Annual General Meeting.

DIRECTORS MEETING & ATTENDANCE

During the year ended December 31, 2010, the Board of Directors held 9 (Nine) meetings. Name of the Directors and the number of meetings attended by each are given below:

Name of Directors	Attended	
Mr. Muhammed Aziz Khan	09	
Mr. Hasan Mahmood Raja	09	
Mrs. Anjuman Aziz Khan	05	Resigned w.e.f 15th May 2011
Mr. Ahmed Ismail Hossain	08	
Mr. K.M. Ahsan Shamim	09	
Mr. Latif Khan	09	
Mr. Muhammad Farid Khan	05	
Mr. Jafer Ummeed Khan	09	
Mr. Faridur Rahman Khan	08	
Mr. Akhter Mahmud Rana	08	
Mr. Abul Kalam Azad	08	
Mrs. Ayesha Aziz Khan	08	
Mr. Moinuddin Hasan Rashid	08	
Ms. Adeeba Aziz Khan	04	

The Directors who could not attend the meetings were granted leave of absence

Directors' Report (Contd...)



ENGINE HALL
Khulna Power Company Ltd.

DIRECTORS' ELECTION & RE-APPOINTMENT

As per Article- 23(b) of the Articles of Association Mr. Muhammed Aziz Khan, Mr. Latif Khan, Mr. Ahmed Ismail Hossain and Mr. K.M.Ahsan Shamim shall retire in the 13th Annual General Meeting by rotation and, being eligible, offer themselves for re-election.

Mrs. Anjuman Aziz Khan resigned from the board on 15th May 2011 and the Board accepted her resignation w.e.f that date.

In exercise of the power vested in Article-20 (c) of the Articles of Association of the Company, the Board appointed Mr. Syed Fazlul Haque FCA as an Independent Director in the Board on 15th May 2011, in terms of SEC's notification no-SEC/CMRRCD/2006-158/ Admin/02-08 dated 20th February 2006. Mr. Syed Fazlul Haque will retire in the 13th Annual General Meeting and being eligible, offer himself for re-election.

AUDITORS

The present auditors Rahman Rahman Huq, Chartered Accountants, a member firm of KPMG, will retire at this Annual General Meeting and being eligible, offered themselves for re-appointment as auditors for the year 2011.

BUSINESS EXPANSION

Your company is on continuous look for opportunity to expand the company's operational capacity and business to add the value to the shareholders. As you are well aware, in the year 2010, Khulna Power Company Unit II Ltd., 99% owned subsidiary of KPCL signed a contract with Bangladesh Power Development Board (BPDB) for setting up of a 115 MW power plant in Khulna. KPCL has also bought the 90% shareholding of Khanjahan Ali Power Company Ltd. in 2010, which is setting up a 40 MW power plant at Noapara, Jessore under a contract with BPDB. The installation works of both the power plants are complete and expected to be officially inaugurated and start its commercial operation very soon. With the addition of these two new power plants, the total installed capacity of the Company has been enhanced to 265 MW, which is about 2.5 times higher than its earlier capacity. This tremendous growth of the Company within a span of one year bears testimony to the management's continuous efforts for the prosperity of the company. The Company is pursuing to expand to around 400 MW by year 2013.

BUSINESS RISK & UNCERTAINTIES

In the backdrop of huge shortage of power in the country, the provisions of the power purchase agreement guaranteeing 50% of the monthly capacity payment of KPCL and 100% of monthly capacity rental payment of Khulna Power Company Unit II Ltd. and Khanjahan Ali Power Company Ltd., minimizes the risk of non-utilization of the capacity of the plant.

The payment of tariff by BPDB within the specified time is secured

under the provisions of the agreement for which Letter of Credit has been issued by BPDB for two months' minimum guaranteed payment. Additionally, GoB through the Implementation Agreement provides sovereign guarantee with regard to payments which mitigates risk of any non-payments.

The Company is operated by the plant manufacturer, Wärtsilä, the leading power plant manufacturer and plant operator in the world. Wärtsilä is technologically advanced enough to keep KPCL plant out of any technology related risk. Moreover, the provision of Operation & Maintenance Agreement with Wartsila covers all risk of incurring any liquidated damage due to the non-performance of the plant as per the requirement of BPDB.

The availability of all sorts of spare parts is ensured under the Operation & Maintenance Agreement with Wartsila. Wärtsilä maintains sufficient spares parts inventory for smooth operation of KPCL plants. In addition, KPCL maintains safety spare parts stock of US\$ 4 million.

Heavy Fuel Oil (HFO) is used as basic raw material for the operation of the KPCL plant. Kuo Oil Pte Ltd., Singapore has been supplying Heavy Fuel Oil (HFO) to the Company through USCOL under the Fuel Supply Agreement and the risk of price fluctuation in the global oil market is mitigated by the very Fuel Tariff structure which is based on fuel cost as a Pass Through item. Moreover, KPCL can source HFO from other sources if Kuo Oil is unable to supply.

The company has prudent insurance coverage which covers all risks package including Fire, Machinery Breakdown, Business Interruption and Third Party Liability etc.

GOING CONCERN

While approving the financial statements, Directors have made appropriate enquiries and analyzed the significant financial, operating as well as other indicators for enabling them to understand the ability of the company to continue its operations for a foreseeable period. Directors are convinced and have a reasonable expectation that the company has adequate resources and legal instruments to continue its operation consistently for the foreseeable future. Therefore the company adopted the going concern basis in preparing these financial statements.

CORPORATE GOVERNANCE

Corporate Governance is the system through which companies are directed, guided and controlled by the Board, keeping in view its accountability to the shareholders. Your company strives to maintain full compliance with the laws, rules and regulations that govern our business and to uphold the highest standards.

CORPORATE SOCIAL RESPONSIBILITY

As a part of the ongoing commitment to the society and environment

Directors' Report (Contd...)



COMMISSIONING EXPERTS AT WORK

in which the company conducts its business, KPCL continues to perform its obligations. As in the previous years, the company remains committed to support the following CSR activities that included:

- KPCL distributed school dress, text books, copies, pen and educational materials to the students of Khalishpur Primary and High School at Khalishpur, Khulna.
- KPCL contributed monthly stipend and other educational expenses of a visually disabled student in prosecuting his study at the post graduate level in Dhaka University. This he has been employed in a private firm. This may be mentioned that KPCL has been supporting this student from his school level since 1998.

HUMAN RESOURCE MANAGEMENT

Your company recognizes that people are the most important resource and key to success of any organization. To develop and equip the employees with key skills, the company places great emphasis on the development of its people and hence regular courses and workshops are arranged at regular interval for their training and updating knowledge on the respective functional areas.

STATUS OF COMPLIANCE

In accordance with the requirement stipulated in condition No. 5.00 of the Securities and Exchange Commission's Notification No. SEC-CMRRCD/2006-158/Admin/02-08 dated February 20, 2006 Corporate Governance Compliance Report is attached in the Annexure-1

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- a. The Financial Statements prepared by the management of the Company present fairly its State of Affairs, the result of its Operations, Cash Flows and Changes in Equity.
- b. Proper Books of Accounts have been maintained.
- c. Appropriate Accounting policies have been consistently applied in preparation of the Financial Statements and that the accounting estimates are based on reasonable and prudent judgment.
- d. International Financial Reporting Standards (IFRS), as applicable in Bangladesh have been followed in the preparation of the Financial Statements.
- e. The company maintains a sound Internal Control System which gives reasonable assurance against any material misstatement of loss. The Internal Control System is regularly reviewed by the management.
- f. There are no significant doubts upon the company's ability as a going concern.
- g. Significant deviations from the last year's operating results of the company, if any, have been highlighted under the headings Appropriation of profit, Financial Performance herein before.

SHAREHOLDING INFORMATION

The shareholding information as at December 31, 2010 with other related information are set out in Annexure-2.

KEY OPERATING & FINANCIAL DATA

The summarized key data for the last five years is set out in Annexure-3

ACKNOWLEDGEMENT

Your Board of Directors would like to place on record its deep gratitude to the honorable shareholders for their cooperation and support towards the business of the company. Your faith in us enables us to move forward.

The Board would like to express their grateful appreciation for the whole hearted support, co-operation and guidance extended by the Bangladesh Power Development Board (BPDB), the only customer of the company. The Board also expresses their heartfelt thanks to Power Division, MPEMR, Government of Bangladesh, National Board of Revenue, Banks & financial institutions, Securities and Exchange Commission, Dhaka Stock exchanges Ltd., Chittagong Exchange Ltd. Central Depository Bangladesh Ltd. for their extensive support and co-operation.

Your Directors also wish to express their thanks to the employees of the company at all levels for their team spirit, hard work and dedicated services towards the growth and progress of the company.

We look forward to even better days in future.

On behalf of the Board of Directors

Hasan Mahmood Raja
Managing Director

Compliance Report on SEC's Notification

Annexure-1

Status of compliance with the conditions Notification No-SEC/CMRRCD/2006 – 158/Admin/02-08 dated February 20, 2006 issued under section 2CC of the Securities & Exchange Ordinance 1969.

Condition	Title	Compliance Status		Explanation for non-compliance with the condition
		Complied	non-Complied	
1.1	Board's Size	√		
1.2 (i)	Independent Directors	√		
1.2 (ii)	Appointment of Independent Non-shareholder Director	√		
1.3	Chairman and Chief Executive	√		
1.4	Director's report to include declarations on:			
	a. Fairness of State of the Affairs	√		
	b. Keeping proper Books of Accounts	√		
	c. Consistent application of Accounting Policies in preparation of Financial Statements	√		
	d. Observance of Bangladesh Accounting Standard (BAS)	√		
	e. Soundness and efficiency of Internal Control	√		
	f. Ability of Khulna Power Company Ltd.to continue as a going concern	√		
	g. Significant deviations from last year in operating result	√		
	h. Presentation of key Operating and Financial data for last three years	√		
	i. Declaration of Dividend	√		
	j. Number of Board meeting held during the year and attendance by each Director	√		
	k. Shareholding pattern	√		
2.1	Appointment of CFO and Company Secretary in the Board meeting	√		CFO is the company Secretary
2.2	Attendance of CFO and Company Secretary in the Board meeting	√		
3.0	Audit Committee		√	
3.1	i. Composition of audit Committee		√	
	ii. Audit Committee Members Appointment		√	
	iii. Filling of casual vacancy in Audit Committee		√	
3.2	i. Chairman of Audit Committee		√	
	ii. Audit Committee Chairman's Qualification		√	
3.3.1	i. reporting to the Board of Directors		√	
	ii. Report on:			
	a. Conflicts of interests			No such incident arose
	b. Suspected materials defect in the internal control system			No such incident arose
	c. Suspected infringement of laws			No such incident arose
	d. Any other matter			No such incident arose
3.3.2	Reporting to the Authorities			No such incident arose
3.4	Reporting to the Shareholders			No such incident arose
4.0	Statutory Auditors not to engage in:			
	a. Appraisal or valuation services	√		
	b. Financial Information system design and implementation	√		
	c. Book keeping or other services related to Financial Statements	√		
	d. Broker – dealer services	√		
	e. Actuarial services	√		
	f. Internal audit services	√		
	g. Any other services that the audit Committee determines	√		

Shareholding Information

as at 31 December 2010

Annexure-2

Name of Shareholders	No. of Shares	% of Shareholding
A) Parent Company:		
1. Summit Industrial & Mercantile Corporation (Pvt.) Ltd. (incorporated in Bangladesh)	89,925,543	37.4874%
2. United Enterprises & Co. Ltd. (incorporated in Bangladesh)	89,925,543	37.4874%
B) Board of Directors:		
1. Muhammed Aziz Khan, Chairman	4,312	0.0018%
2. Hasan Mahmood Raja, Managing Director	4,312	0.0018%
3. Anjuman Aziz Khan, Director	4,312	0.0018%
4. Latif Khan, Director	4,312	0.0018%
5. Muhammad Farid Khan, Director	4,312	0.0018%
6. Jafer Ummeed Khan, Director	4,312	0.0018%
7. Ayesha Aziz Khan, Director	4,312	0.0018%
8. Adeeba Aziz Khan, Director	4,312	0.0018%
9. Ahmed Ismail Hossain, Director	4,312	0.0018%
10. K.M. Ahsan Shamim, Director	4,312	0.0018%
11. Akhter Mahmud Rana, Director	4,312	0.0018%
12. Faridur Rahman Khan, Director	4,312	0.0018%
13. Abul Kalam Azad, Director	4,312	0.0018%
14. Moinuddin Hasan Rashid, Director	4,312	0.0018%
C) General Investors	59,970,496	25.0000%
D) Shares of Project Director, Financial Controller, Company Secretary, Head of Internal Audit and their spouses	-	-
E) Shares of Executives	-	-
	239,881,950	100.00%

10% and above shareholding

Name of Shareholders	No. of Shares	% of Shareholding
1. Summit Industrial & Mercantile Corporation (Pvt.) Ltd.	89,925,543	37.4874%
2. United Enterprises & Company Ltd.	89,925,543	37.4874%

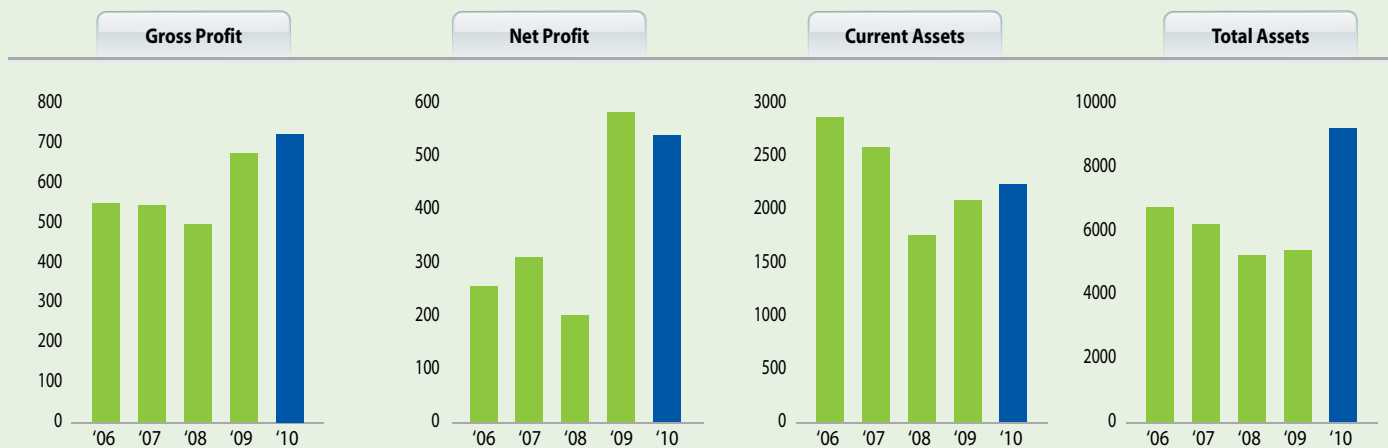
Financial Highlights

Annexure-3

	2010	2009 (Restated)	2008 (Restated)	2007	2006
Operating data (Taka in million)					
Revenue	7,945.76	6,393.27	8,160.42	5,698.21	6,311.06
Cost of Sales	7,222.67	5,718.43	7,664.82	5,154.66	5,762.52
Gross Profit	723.09	674.84	495.61	543.55	548.54
General & Admin. Expenses.....	78.68	64.08	61.50	101.43	92.38
Finance Expenses	120.80	130.92	248.81	156.99	200.69
Net profit.....	539.81	582.65	201.62	309.18	256.19
Balance Sheet data (Taka in million)					
Paid-up Capital	2,398.82	2,085.93	2,085.93	2,085.93	2,085.93
Shareholders' Equity	3,014.74	2,683.52	2,309.47	3,307.84	2,998.67
Total Debt (Non-current Liabilities)	671.05	890.89	1,185.10	923.22	1,244.41
Current Assets.....	2,235.43	2,084.76	1,758.91	2,580.87	2,872.13
Current Liabilities.....	5,514.39	1,817.48	1,727.62	1,985.31	2,487.55
Total Assets	9,202.59	5,391.90	5,222.19	6,216.38	6,730.62
Total Liabilities	6,185.44	2,708.37	2,912.72	2,908.53	3,731.96
Financial Ratios					
Gross Profit Ratio (%).....	9.10	10.56	6.07	9.54	8.69
Net Profit Ratio (%).....	6.79	9.11	2.47	5.43	4.06
Return on Assets (%)	5.87	10.81	3.86	4.97	3.81
Debt Equity Ratio	0.29	0.41	0.52	0.37	0.52
Other Data					
Earnings Per Share (Tk)*.....	2.25	2.79	N/A	N/A	N/A
Earnings Per Share (Tk) -Class-A Shares**	-	-	87.62	141.27	110.47
Earnings Per Share (Tk) -Class-B Shares**	-	-	3,141,140.50	2,416,861.00	N/A
Dividend (%).....	20.00	25.00	10.00	57.53	-
Total Number of Ordinary Shares Outstanding*	239,881,950	208,593,000	2,085,930	2,085,930	2,085,930
Total Number of Free Float Shares.....	239,881,950	208,593,000	2,085,930	2,085,930	2,085,930

* On 19 July 2009, Class-A and Class-B shares were converted to a single class of ordinary shares. Par value of the new ordinary shares has been changed to Tk 10 from Tk 1,000.

** Class-B ordinary shares were only entitled to a certain amount of dividend provided an annual declaration of dividend was made. Since no declaration of dividend was made for those years, no entitlement to dividend arose for those years. As a result no EPS is calculated for these years.



* all figures are in million Taka

Short Biography of the Directors



MUHAMMED AZIZ KHAN
Chairman

Mr. Muhammed Aziz Khan, a renowned and pioneering leading business personality in power sector of Bangladesh. After graduation Mr. Khan did his MBA in 1980 from the Institute of Business Administration (IBA), University of Dhaka. Mr. Khan has established himself as a dynamic and pro-active entrepreneur who has built Summit Group-recognized as the largest infrastructure Industrial organization of Bangladesh. Mr. Khan has helped to formulate the Private Sector Power Generation Policy of Bangladesh. He has 36 years of business experience, setting up country's first Inland Container Depot (ICD)-"Ocean Container Ltd", First Tanks Terminal- "Summit United Tanks Terminal", now known as "South Eastern Tanks Terminal". Mr. Khan was the Founder President of Bangladesh Energy Companies Association (BECA), which is formed to represent and to promote the interests of private sector business organizations engaged in the energy sector.

Mr. Khan has set up "Siraj Khaleda Trust"- a social wing of Summit Group, which is setting up 200 beds for medical services on charitable basis in Dhaka Cantonment. He enthusiastically takes part & contributes to social activities such as to help to acid burn and drug victims to mention a few amongst host of other activities.



HASAN MAHMOOD RAJA
Managing Director

Born in 1957, Mr. Hasan Mahmood Raja has completed Bachelor of Commerce. He was associated with different companies of United Group since 1978. He is the Chairman and Managing Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more as well as the Chairman, Board of Governors (BoG) of United International University.



MRS. ANJUMAN AZIZ KHAN
Director

Mrs. Anjuman Aziz Khan, wife of Mr. Muhammed Aziz Khan has 22 years of business experience in Summit. Mrs. Khan is a member of Siraj Khaleda Trust- a social wing of Summit Group, which is setting up 200 beds for medical services on charitable basis in Dhaka Cantonment. She enthusiastically takes part & contributes to social activities such as "Assistance of Blind Children" and "women's entrepreneurship development".

Short Biography of the Directors (Contd...)



AHMED ISMAIL HOSSAIN
Director

Born in 1956, Mr. Ahmed Ismail Hossain has completed BSS and MSS, International Relations, University of Dhaka. He is the Vice Chairman of United Hospital and Managing Director of Comilla Spinning Mills Limited, United Rotospin Ltd. and Novo Healthcare and Pharma Ltd. He is the Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more. He is also a Member, Board of Governors (BoG) of United International University.



K. M. AHSAN SHAMIM
Director

Born in 1957, Mr. Khandaker Moinul Ahsan Shamim has completed Bachelor of Commerce. He is the Managing Director of Hafez Zamiruddin Fisheries Ltd. and United Polymer Ltd., He is the Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more. He is also a Member, Board of Governors (BoG) of United International University.



MD. LATIF KHAN
Director

Mr. Md. Latif Khan was born 1958 in Dhaka. He pursued BA in Public Administration at Dhaka University, and subsequently left for higher studies to the U.S. in 1981. There, he worked for over 15 years in the financial sector. He was a stockbroker and a financial analyst at Prudential Insurance of America where he received numerous sales achievement awards. He also worked as a Financial Officer at Wells Fargo Bank in California. He returned to Bangladesh in 1997 and thereof joined Summit Group as the Managing Director of Summit Shipping Limited. Mr. Khan has established himself as a sound and dynamic businessman of the country.



MUHAMMAD FARID KHAN
Director

Mr. Md. Farid Khan was born in 1960. Mr. Khan is a business graduate from Dhaka University. He is involved in business since 1980. He started his business career with trading in plastic compound, fertilizer and other commodities. He was an integral part of the team that pioneered export of molasses and fertilizer from Bangladesh. Mr. Farid Khan has proved to be an entrepreneur with special skills in the development of new projects. He was solely instrumental in setting up Liquefied Petroleum Gas (LPG) project and Tanks Terminal in Mongla.



JAFER UMMEED KHAN
Director

Mr. Jafer Ummeed Khan was born on 10th May 1957. After completing his studies in the United Kingdom, he joined Summit Group in 1987. He spearheaded the development and expansion of Summit Group, particularly of Summit Industrial and Mercantile Corporation (Pvt.) Ltd. and later of Summit Power Limited. Because of his contribution in the power sector, Mr. Jafer Ummeed Khan was also unanimously elected as the Vice President of Bangladesh Energy Companies Association, which post Mr. Khan is holding till date.



FARIDUR RAHMAN KHAN
Director

Born in 1955, Mr. Faridur Rahman Khan has completed Bachelor of Science. He is the Managing Director of United Hospital and Neptune Properties Ltd. He is the Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more. He is also a Member, Board of Governors (BoG) of United International University.

Short Biography of the Directors (Contd...)



AKHTER MAHMUD RANA
Director

Born in 1960, Mr. Akhter Mahmud Rana has completed 'A' Level. He is the Managing Director of United Elevator World Ltd. He is the Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more. He is also a Member, Board of Governors (BoG) of United International University.



ABUL KALAM AZAD
Director

Born in 1955, Mr. Abul Kalam Azad has completed Bachelor of Science. He is the Managing Director of Neptune Land Development Ltd. and United Land Port Teknaf Ltd. He is the Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more. He is also a Member, Board of Governors (BoG) of United International University.



AYESHA AZIZ KHAN
Director

Born in 1981, Ms. Ayesha Aziz Khan completed her graduation in Economics and Business from the University College of London (UCL) in 2002 and Masters in Business Administration (MBA) from the Columbia University, New York, USA. Presently Ms. Khan holds the position of Director in several companies of Summit Group. Ms. Khan has extensive experience in power sector of the country specifically in financial management for power generation companies, infrastructure finance and structured finance. In her career, she has financed multiple power projects, which includes - Summit Uttaranchal Power Company Limited (SUPCL) Summit Purbanchal Power Company Limited (SPPCL), Summit Narayanganj Power Limited and Summit Power Limited (SPL).

Her career as Director Finance of Summit Power Limited has been enriched due to her expertise in building client & partner relationships and take ownership of deal shaping and contract negotiations, reporting to the Board in the preparation of budgets and financial reports, including income statements, balance sheets, tax returns and reports for Government regulatory agencies, contributing the achievement of the company objectives by providing advice and guidance on financial strategy, overseeing all accounting procedures and systems used by the Company, meeting with the Board of Directors regularly to keep them informed and to offer direction, reviewing reports and analyze projections of sales and income against actual figures and suggests methods of improving the planning processes, assessing the long term financial trends and review prospects for future growth of income in conjunction with the Board, ensuring the Company meets its financial and legal responsibilities. She is a valuable member of SAARC Chamber of Commerce and Industry, Federation of Bangladesh Chamber of Commerce & Industry (FBCCI), Prime Minister's business delegation to India & United States of America.



MOINUDDIN HASAN RASHID
Director

Born in 1982, Mr. Moinuddin Hasan Rashid has completed B. Sc. Engineer (Electrical & Electronics), London, UK. He is the Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more. He is also a Member, Board of Governors (BoG) of United International University.



ADEEBA AZIZ KHAN
Director

Ms. Adeeba Aziz Khan is an Advocate, a Barrister by profession. She completed her Bar Vocational Course from Inns of Court School of Law, UK in 2005. She worked with Dr. Kamal Hossain & Associates, Bangladesh and later with Drew & Napier LLC, Singapore as an International Lawyer. On a sabbatical leave she completed her Masters in Law and is currently pursuing her PhD in London.



SYED FAZLUL HAQUE, FCA
Director

A Chartered Accountant by profession, Syed Fazlul Haque FCA, started his career as Partner of A Qasem & Co., Chartered Accountants in mid 1971. In April 1975 he moved to executive career by joining Biman Bangladesh Airlines, as its Controller of Accounts and since then his long varied career included increasingly higher positions in different local and multinational organizations. Leaving Biman in May 1978, Mr. Haque went to Libya to serve in Ammonia Plant, Benghazi for a short span of two years. On return, Mr. Haque joined Burmah Eastern Limited (now Padma Oil Co. Ltd.) in January 1981 as Finance Manager & Company Secretary and was promoted as CEO of the Company in September 1991. Mr. Haque left Padma in January 1993 to join Glaxo Bangladesh as Finance Director where he was made Managing Director of the Company in August 1997. Mr. Haque served the company (subsequently renamed as GlaxoSmithKline Bangladesh after merger with Smithkline Beecham in November 2000) until he retired on 31st December 2002.

During the tenure of his long career, Mr. Haque served as committee member of Metropolitan Chamber of Commerce & Industries, Foreign Chamber of Commerce & Industries and Bangladesh Employers Federation. Mr. Haque is married to Rebecca and they are blessed with one daughter and a son.



EXHAUST PIPES
Khanjahan Ali Power Company Ltd.

Senior Management Team



HASAN MAHMOOD RAJA
Managing Director

Born in 1957, Mr. Hasan Mahmood Raja has completed Bachelor of Commerce. He was associated with different companies of United Group since 1978. He is the Chairman and Managing Director of United Enterprises & Co. Ltd., United Power Generation and Distribution Company Ltd., United Hospital Ltd. and many more as well as the Chairman, Board of Governors (BoG) of United International University.



MD. ABDUR RAHIM
Chief Operating Officer

Mr. Md. Abdur Rahim was born on 01 January 1947. He obtained B. Sc in Marine Engineering from the Merchant Marine University College of Rijeka, Yugoslavia in 1968. He worked on board various vessels of DDG "Hansa" Lines of West Germany upto 1975. Afterwards, he worked in Bangladesh Steel & Engineering Corporation in various capacities from 1976 to 1993 starting as Deputy Chief Engineer. He was the General Manager of Khulna Shipyard Ltd from 1982 to 1987 and the Managing Director of Dockyard & Engineering Works Ltd. Narayangonj from 1987 to 1993. He served on deputation as Technical Director in Bangladesh Shipping Corporation and Bangladesh Inland Water Transport Corporation from 1993 to 1997. Thereafter, then he joined in Khulna Power Company Ltd. in 1997 as a Project Director and he was actively involved in formation of the company and was pivotal to timely implementation of the project.



MD. AMINUR RAHMAN, FCA
Financial Controller &
Company Secretary

Mr. M. Aminur Rahman, was born on 01 January 1959. He is a Chartered Accountant, qualified from the Institute of Chartered Accountants of Bangladesh (ICAB). He also obtained his Master degree with honors in Accounting from Dhaka University. He is having more than 23 years of service experience in the field of accounts, finance and company secretarial matters in various multinational companies like Rhone Poulenc, Duncan Brothers Ltd and Oxfam, including more than 12 years of service in Khulna Power Company Ltd. as Financial Controller & Company Secretary. He has attended in various training courses and seminars in home and abroad.

SUCCESS MILESTONES

June 2009

- ▶ June 3, 2009 Appointment of Issue Manager
- ▶ June 29, 2009 Credit Rating by CRISL

September 4, 2003

Plant operation has been Certified:
Occupational Health & Safety Admn.
System (OHSAS) 18001

February 21, 2001

- Plant operation has been Certified:
- ▶ Quality Management System (QMS) with ISO 9001
 - ▶ Environmental Management System (EMS) with ISO 14001

October 13, 1998

Full Commercial Operation Date (FCOD)

November 19, 1997

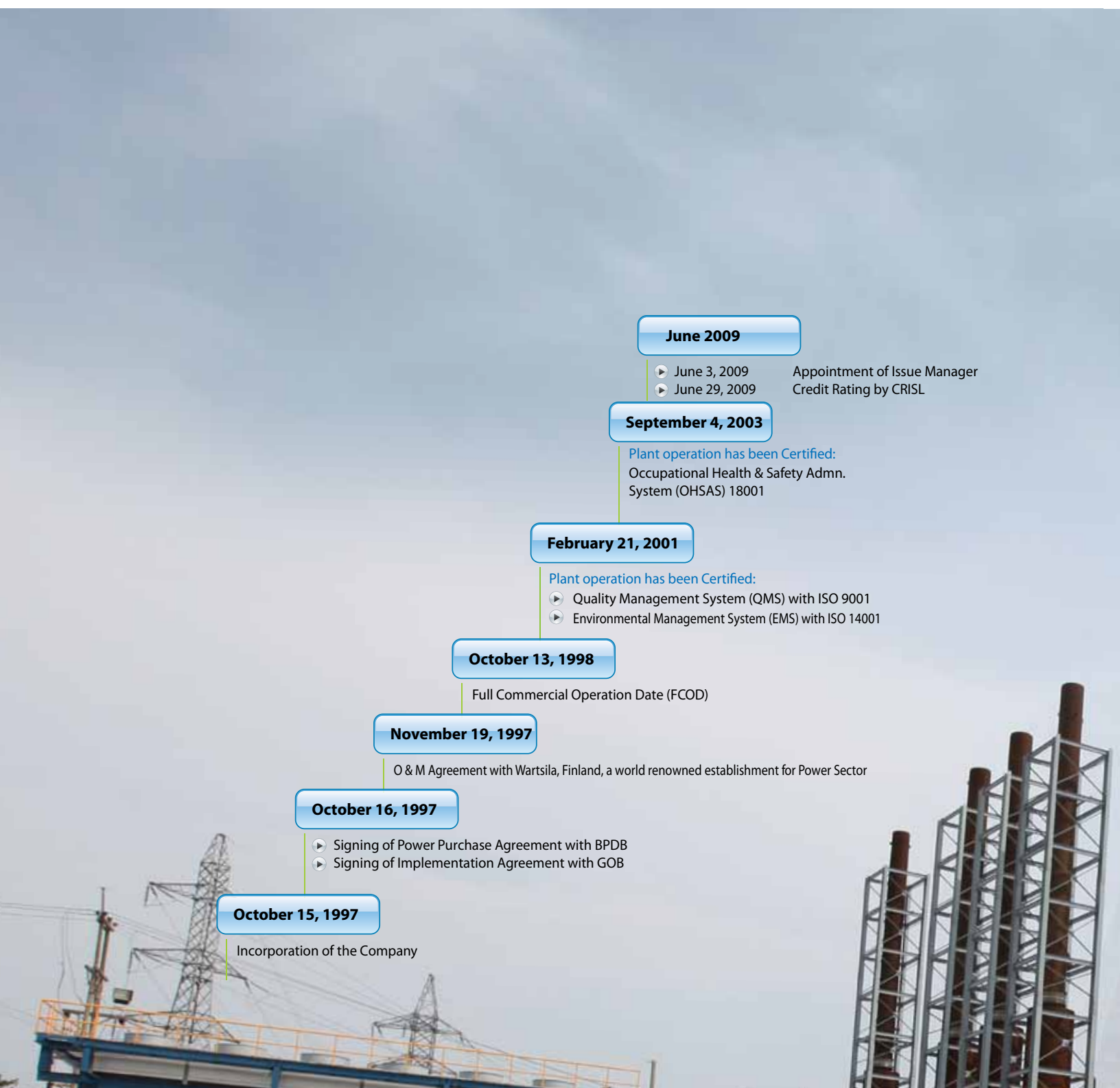
O & M Agreement with Wartsila, Finland, a world renowned establishment for Power Sector

October 16, 1997

- ▶ Signing of Power Purchase Agreement with BPDB
- ▶ Signing of Implementation Agreement with GOB

October 15, 1997

Incorporation of the Company



December 21, 2010

Acquisition (90%) of Khanjahan Ali Power Company Ltd. by KPCL, a 40MW Rental Power Plant Project established for Supply of Electricity to BPDB.

June 23, 2010

Signing of new project Khulna Power Company Unit II Ltd. (99% subsidiary of KPCL) with BPDB to implement 115MW Rental Power Plant Project.

April 2010

- ▶ April 4-6, 2010 Bidding for EII for price discovery under BBM
- ▶ April 15, 2010 Allotment of Shares for EII
- ▶ April 18, 2010 Commencement of Trading of Shares for General Investor

March 2010

- ▶ March 7, 2010 Agreement with CDBL
- ▶ March 15, 2010 Listing with Dhaka Stock Exchange Limited
- ▶ March 18, 2010 Listing with Chittagong Stock Exchange Limited
- ▶ March 29, 2010 Approval of Information Document (ID) from SEC
- ▶ March 30, 2010 Publication of Information Document (Share Offloading) in the daily newspaper

July 19, 2009

Conversion from Private to Public Limited Company

BPDB	Bangladesh Power Development Board
GOB	Government of Bangladesh
FCOD	Full Commercial Operation Date
CRISL	Credit Rating Information & Services Limited
CDBL	Central Depository Bangladesh Limited
SEC	Securities & Exchange Commission
DSE	Dhaka Stock Exchange Limited
CSE	Chittagong Stock Exchange Limited
ID	Information Documents
EII	Eligible Institutional Investors
BBM	Book Building Method
O & M	Operation & Management

FUEL STORAGE TANK
Khanjahan Ali Power Company Ltd.

Corporate Governance

The corporate governance philosophy of the Company is aimed at assisting the top management in efficient conduct of its affairs as well as in meeting obligations to all the stakeholders and is guided by strong emphasis on transparency, accountability and integrity. It provides the Company with strategic guidance as to how the objectives are set and achieved, how risk is monitored and assessed and how the performance is maximized.

Keeping in view the size, complexity and operations, the governance framework of the Company is based on the following principles:

- That the Board is appropriate in size and members are committed to their respective duties and responsibilities.
- That timely flow of information to the Board and its Committees are ensured to enable them discharge their functions effectively.
- That a sound system of risk management and internal control is in place.
- That timely and balanced disclosure of all material information concerning the Company is made to all Stakeholders.
- That all transactions of the Company are transparent and accountability for the same is well established.
- That all regulatory and statutory rules and regulations are complied with.

The Responsibilities of the Board

To ensure effective maintenance of corporate governance, the Board of Khulna Power Company Ltd. (KPCL) formulates strategic objectives and policies for the company, provides leadership and supervises management actions in implementing those objectives of the company. In KPCL, Board of Directors is in full control of the company's affairs and is also accountable to the shareholders. The Board firmly believes that the success of the company depends largely on the prevalence of a credible corporate governance practice. In discharging its responsibilities, the Board fulfills certain key functions, including:

- Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance.
- Ensuring the integrity of the company's accounting & financial reporting systems, in particular, systems for risk management, financial and operational control and compliance with the law and relevant standards.
- Reviewing company's financial statements and oversee its compliance with applicable audit, accounting and reporting requirement.
- Monitoring implementation and effectiveness of the approved strategic and operating plans.

- Establish company's value.
- Oversee the corporate governance of the company

The Board has appointed one Independent Director as per the Securities and Exchange Commission's requirement. The short introduction of the Directors has been described separately in this Report. The Board ensures that the activities of the Company are always conducted with adherence to high ethical standard and in the best interest of the shareholders.

Board meetings and procedures

Nine (9) meetings of the Board of Directors of the Company were held during the financial year ended 31 December 2010. The procedures of the board meeting are mentioned below:



- (a) *Selection of Agenda:* The Chairman of the Board, in consultation with Managing Director sets the agenda for Board meetings with the understanding that the Board is responsible for providing suggestions for agenda items that are aligned with the advisory and monitoring functions of the Board. Any member of the Board may request that an item be included on the agenda.
- (b) *Board Materials:* Board materials related to agenda items are provided to Board members sufficiently in advance of Board meetings to allow the Directors to prepare for discussion of the items at the meeting.
- (c) *Senior Management in the Board meeting:* At the invitation of the Board, members of senior management attended Board meetings or portions thereof for the purpose of participating in discussions.

Internal Control Framework

The Management recognizes its responsibilities to present a balanced and understandable assessment of the company's position and prospect. The management has accountability for reviewing and approving the effectiveness of internal controls operated by the company, including financial, operational and compliance controls and risk management.

The company has adequate system of internal control in place. The well defined organization structure, predefined authority levels, documented policy guidelines and an extensive system of internal controls ensure optimal utilization and protection of resources, reporting of financial transactions and compliance with applicable laws and regulations. The system also ensures that assets are safeguarded against loss from unauthorized use or disposition.



BIRD'S EYE VIEW – SWITCHYARD
Khulna Power Company Unit II Ltd.

Financials





Rahman Rahman Huq
Chartered Accountants
9 Mohakhali C/A (11th & 12th Floors)
Dhaka 1212, Bangladesh.

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AUDITORS' REPORT

to the Shareholders of

Khulna Power Company Ltd.

Introduction

We have audited the accompanying financial statements of Khulna Power Company Ltd., which comprise the statement of financial position as at 31 December 2010, statement of 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 notes and all related consolidated financial statements of Khulna Power Company Ltd. and its subsidiaries (together referred to as "the Group").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS), the Companies Act 1994, the Securities and Exchange Rules 1987 and other applicable laws and regulations. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with relevant 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 including consolidated financial statements, prepared in accordance with Bangladesh Financial Reporting Standards (BFRS), give a true and fair view of the state of the Company's/group's affairs as at 31 December 2010 and of the results of its operations and its cash flows for the year then ended and comply with the Companies Act 1994, the Securities and Exchange Rules 1987 and other applicable laws and regulations.

We also report that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof;
- in our opinion, proper books of account as required by law have been kept by the Company/Group so far as it appeared from our examination of these books;
- the statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) dealt with by the report are in agreement with the books of account and returns; and
- the expenditures incurred were for the purposes of the Company's/Group's business.

Dhaka, 30 April, 2011

STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Notes	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual Restated	2008 Taka Individual Restated
Assets					
Non-current assets:					
Property, plant and equipment	5	3,184,307,445	3,181,446,501	3,307,133,332	3,463,283,276
Capital work in progress	6	3,782,852,102	-	-	-
Investments in subsidiaries	7	-	67,500,000	-	-
		6,967,159,547	3,248,946,501	3,307,133,332	3,463,283,276
Current assets:					
Inventories	8	814,059,612	814,059,612	981,640,270	762,728,652
Accounts receivable	9	1,185,346,485	1,185,346,485	387,940,605	885,777,668
Other receivables	10	15,832,152	12,267,375	12,497,004	8,008,915
Advances, deposits and prepayments	11	149,152,489	8,829,511	1,548,516	1,493,673
Inter-company receivable	12	-	941,334,660	-	-
Cash and cash equivalents	13	71,038,693	61,951,785	701,135,588	100,899,376
		2,235,429,431	3,023,789,428	2,084,761,983	1,758,908,284
Total assets		9,202,588,978	6,272,735,929	5,391,895,315	5,222,191,560
Equity and liabilities					
Equity:					
Share capital	14	2,398,819,500	2,398,819,500	2,085,930,000	2,085,930,000
Capital redemption reserve		220,000,000	220,000,000	-	-
Retained earnings		395,919,267	400,203,567	597,594,474	223,539,390
Equity attributable to owners of the company		3,014,738,767	3,019,023,067	2,683,524,474	2,309,469,390
Non controlling interest	15	2,412,135	-	-	-
Total equity		3,017,150,902	3,019,023,067	2,683,524,474	2,309,469,390
Non-current liabilities:					
Redeemable cumulative class 'A' preference shares: non-current portion	16	660,000,000	660,000,000	880,000,000	1,100,000,000
Term loan: non-current portion	17	-	-	-	74,892,180
Deferred liabilities	18	11,050,211	11,050,211	10,891,195	10,208,780
		671,050,211	671,050,211	890,891,195	1,185,100,960
Current liabilities:					
Accounts payable	19	1,733,222,020	1,733,222,020	1,486,104,691	1,314,033,048
Short term/working capital loan	20	587,093,207	520,094,293	-	284,000,000
Inter-company payable	21	29,046,200	21,966,200	-	-
Accrued expenses and others	22	17,212,292	15,731,730	40,476,518	13,470,889
Liability for interest and other financial charges	23	63,507,263	62,590,962	70,898,437	85,233,909
Liability for project implementation expenditure	24	2,855,249,437	-	-	-
Redeemable cumulative class 'A' preference shares: current portion	16	220,000,000	220,000,000	220,000,000	-
Term loan: current portion	17	-	-	-	30,883,364
Unclaimed dividend	25	9,057,446	9,057,446	-	-
		5,514,387,865	2,582,662,651	1,817,479,646	1,727,621,210
Total liabilities		6,185,438,076	3,253,712,862	2,708,370,841	2,912,722,170
Total shareholders' equity and liabilities		9,202,588,978	6,272,735,929	5,391,895,315	5,222,191,560

The annexed notes 1 to 43 form an integral part of these financial statements.



Chairman

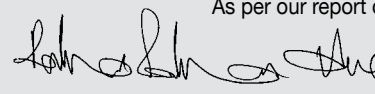


Managing Director



Company Secretary

As per our report of same date.



Auditors

STATEMENT OF COMPREHENSIVE INCOME

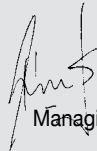
for the year ended 31 December 2010

	Notes	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual Restated
Revenue	26	7,945,762,818	7,945,762,818	6,393,267,345
Cost of sales	27	(7,222,668,468)	(7,222,668,468)	(5,718,431,301)
Gross profit		723,094,350	723,094,350	674,836,044
Other income	28	11,100	11,100	91,481,290
General and administrative expenses	29	(78,683,667)	(74,284,754)	(64,078,271)
Result from operating activities		644,421,783	648,820,696	702,239,063
Exchange gain/(loss)	30	(3,751,292)	(3,751,292)	2,174,414
Finance income	31	19,844,420	19,817,672	9,155,909
Finance expenses	32	(120,795,483)	(120,795,483)	(130,921,302)
Net financial expenses		(104,702,355)	(104,729,103)	(119,590,979)
Profit before income tax		539,719,428	544,091,593	582,648,084
Income tax expenses		-	-	-
Profit for the year		539,719,428	544,091,593	582,648,084
Other comprehensive income		-	-	-
Total comprehensive income		539,719,428	544,091,593	582,648,084
Total comprehensive income attributable to:				
Owners of the company		539,807,293	544,091,593	582,648,084
Non controlling interest		(87,865)	-	-
Total comprehensive income		539,719,428	544,091,593	582,648,084
Earning per share (EPS)	33	2.25	2.27	2.43

The annexed notes 1 to 43 form an integral part of these financial statements.



Chairman



Managing Director



Company Secretary

As per our report of same date.



Auditors

Dhaka, 30 April, 2011

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

Particulars	Attributable to owners of the company					Non-controlling interest	Total equity
	Ordinary shares	Redeemable cumulative class 'A' preference shares	Capital redemption reserve	Retained earnings	Total		
	Taka	Taka	Taka	Taka	Taka		
Balance as at 31 December 2008	2,085,930,000	1,100,000,000	-	294,437,827	3,480,367,827	-	3,480,367,827
Effect of change in accounting policy to reclassify redeemable cumulative class 'A' preference shares as liability*	-	(1,100,000,000)	-	(70,898,437)	(1,170,898,437)	-	(1,170,898,437)
Restated balance as at 1 January 2009	2,085,930,000	-	-	223,539,390	2,309,469,390	-	2,309,469,390
Cash dividend paid for the year 2008	-	-	-	(208,593,000)	(208,593,000)	-	(208,593,000)
Total comprehensive income for 2009	-	-	-	582,648,084	582,648,084	-	582,648,084
Restated profit for the year	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-
Restated balance as at 31 December 2009	2,085,930,000	-	-	597,594,474	2,683,524,474	-	2,683,524,474
Transfer to capital redemption reserve	-	-	220,000,000	(220,000,000)	-	-	-
Issue of ordinary share	-	-	-	-	-	2,500,000	2,500,000
Cash dividend paid for the year 2009	-	-	-	(208,593,000)	(208,593,000)	-	(208,593,000)
Stock dividend paid for the year 2009	312,889,500	-	-	(312,889,500)	-	-	-
Total comprehensive income for 2009:	-	-	-	539,807,293	539,807,293	(87,865)	539,719,428
Profit for the year	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-
Balance as at 31 December 2010	2,398,819,500	-	220,000,000	395,919,267	3,014,738,767	2,412,135	3,017,150,902

* The company had earlier issued 1,100,000 redeemable cumulative class 'A' preference shares par value of Taka 1,000 each. Prior to 2010, this was classified as a component of equity. In 2010 the company has reclassified this as liability as required by Bangladesh Accounting Standard 32, Financial Instruments: Presentation. Accordingly, dividend on this has been reclassified as finance expense.

Effect in 2009:

Increase in finance expense	113,437,500
Decrease in retained earnings	113,437,500

Effect in 2008:

Increase in finance expense	70,898,437
Decrease in retained earnings	70,898,437

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

Particulars	Ordinary shares preference shares Taka	Redeemable cumulative class 'A' reserve Taka	Capital redemption Taka	Retained earnings Taka	Total Taka
Balance as at 31 December 2008	2,085,930,000	1,100,000,000	-	294,437,827	3,480,367,827
Effect of change in accounting policy to reclassify redeemable cumulative class 'A' preference shares as liability*	-	(1,100,000,000)	-	(70,898,437)	(1,170,898,437)
Restated balance as at 1 January 2009	2,085,930,000	-	-	223,539,390	2,309,469,390
Cash dividend paid for the year 2008	-	-	-	(208,593,000)	(208,593,000)
Total comprehensive income for 2009					
Restated profit for the year	-	-	-	582,648,084	582,648,084
Other comprehensive income	-	-	-	-	-
Restated balance as at 31 December 2009	2,085,930,000	-	-	597,594,474	2,683,524,474
Transfer to capital redemption reserve	-	-	220,000,000	(220,000,000)	-
Cash dividend paid for the year 2009	-	-	-	(208,593,000)	(208,593,000)
Stock dividend paid for the year 2009	312,889,500	-	-	(312,889,500)	-
Total comprehensive income for 2009:					
Profit for the year	-	-	-	544,091,593	544,091,593
Other comprehensive income	-	-	-	-	-
Balance as at 31 December 2010	2,398,819,500	-	220,000,000	400,203,567	3,019,023,067

* The company had earlier issued 1,100,000 redeemable cumulative class 'A' preference shares par value of Taka 1,000 each. Prior to 2010, this was classified as a component of equity. In 2010 the company has reclassified this as liability as required by Bangladesh Accounting Standard 32, Financial Instruments: Presentation. Accordingly, dividend on this has been reclassified as finance expense.

Effect in 2009:

Increase in finance expense	113,437,500
Decrease in retained earnings	<u>113,437,500</u>

Effect in 2008:

Increase in finance expense	70,898,437
Decrease in retained earnings	<u>70,898,437</u>

STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual Restated
A. Cash flow from operating activities:			
Collection from BPDB	7,148,356,938	7,148,356,938	6,891,104,408
Cash paid to suppliers and employees	<u>(6,812,377,352)</u>	<u>(6,771,447,032)</u>	<u>(5,613,972,092)</u>
Cash generated from operations	335,979,586	376,909,906	1,277,132,316
Finance income received	16,616,060	16,589,312	9,155,909
Interest and other financial charges paid	<u>(129,102,959)</u>	<u>(129,102,959)</u>	<u>(145,221,292)</u>
<i>Net cash provided by operating activities</i>	<u>223,492,687</u>	<u>264,396,259</u>	<u>1,141,066,933</u>
B. Cash flow from investing activities:			
Payment for acquisition of property, plant and equipment	(57,210,939)	(57,210,939)	(34,343,525)
Payment for capital work in progress	(986,963,681)	-	-
Investment in subsidiary	-	(49,500,000)	-
Loan to subsidiaries	-	(897,438,962)	-
Proceeds from sale of property, plant and equipment	11,100	11,100	-
<i>Net cash provided by investing activities</i>	<u>(1,044,163,520)</u>	<u>(1,004,138,801)</u>	<u>(34,343,525)</u>
C. Cash flow from financing activities:			
Proceeds from working capital/short term loan	587,093,207	520,094,293	(284,000,000)
Repayment of term loan	-	-	(13,894,196)
Redemption of cumulative preference shares	(220,000,000)	(220,000,000)	-
Proceeds from issuance of ordinary shares	2,500,000	-	-
Receipt from inter-company	20,516,285	-	-
Dividend paid to ordinary shareholders	<u>(199,535,554)</u>	<u>(199,535,554)</u>	<u>(208,593,000)</u>
<i>Net cash used in financing activities</i>	<u>190,573,938</u>	<u>100,558,739</u>	<u>(506,487,196)</u>
D. Net cash inflow/(outflow) for the period (A+B+C)	(630,096,895)	(639,183,803)	600,236,212
E. Opening cash and cash equivalents	701,135,588	701,135,588	100,899,376
F. Closing cash and cash equivalents	<u>71,038,693</u>	<u>61,951,785</u>	<u>701,135,588</u>

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

1. Reporting entity

1.1 Company profile

Khulna Power Company Ltd. ("the company") was incorporated in Bangladesh on 15 October 1997 as a private limited company under the Companies Act 1994 and has subsequently been converted into public limited company on 19 July 2009. The plant came into operation on 13 October 1998. The address of the company's registered office is Summit Centre, 5th floor, 18 Karwan Bazar C/A, Dhaka-1215, Bangladesh. On 18 April 2010, the Company listed its shares with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. The authorised capital of the company is Tk. 5,000,000,000 divided into 300,000,000 ordinary shares of Tk. 10 each and 2,000,000 preference shares of Tk. 1,000 each. Out of 2,000,000 preference shares, 1,100,000 were issued and fully paid up. In 2010, the company took majority interest in two companies namely Khulna Power Company Unit II Ltd. and Khanjahan Ali Power Company Ltd. (hereinafter referred to as "the subsidiaries"). Profile of the subsidiaries are as follows:

Khulna Power Company Unit II Ltd. was incorporated in Bangladesh on 22 June 2010 as a Private Limited Company under Companies Act 1994 with an authorised share capital of Taka 1,000,000,000 divided into 100,000,000 shares of Taka 10 each. Registered office of the company is Summit Centre, 18 Kawran Bazar, Dhaka 1215, Bangladesh.

Khanjahan Ali Power Company Ltd. was incorporated in Bangladesh on 19 July 2010 as a Private Limited Company under Companies Act 1994 with an authorised share capital of Taka 20,000,000 divided into 200,000 ordinary shares of Taka 100 each. Registered office of the company is United Centre, House No. NW(J) - 6, Road No. 51, Gulshan-2, Dhaka 1212, Bangladesh. Khulna Power Company Ltd. acquired 90% shares of Khanjahan Ali Power Company Ltd. on 21 December 2010 in an acquisition process.

These financial statements as at and for the year ended 31 December 2010 include consolidated and separate financial statements. The consolidated financial statements comprise the company and its subsidiaries (together referred to as "the Group"). The separate financial statements present the stand alone financial statements of Khulna Power Company Ltd.

1.2 Nature of business

The principal activity of the Company is to generate electricity, to sell generated electricity to any legal entity and to acquire fuel required for such electricity generation from home and abroad. For this purpose, the Company has set up a nominally rated 110 MW liquid fuel-fired, convertible to dual fuel-fired (liquid gas), barge mounted power plant in Khulna, Bangladesh. Since inception the company is supplying electricity to the national grid of Bangladesh through selling the same to Bangladesh Power Development Board (BPDB) under Power Purchase Agreement (PPA) between the Company and BPDB.

The subsidiaries have been awarded two separate contracts by Bangladesh Power Development Board (BPDP) to supply electricity under the Contract for Supply of Electricity on Rental Basis. Khulna Power Company Unit II Ltd. and Khanjahan Ali Power Company Ltd. have taken steps to install nominally rated 115 MW and 44 MW liquid fuel-fired, rental power plant respectively in Khulna, Bangladesh for generation of electricity. The principal activity of the subsidiaries is to supply electric power and energy to BPDP on rental basis for a period of five years. Both of the subsidiaries expect to be in commercial operation from May 2011.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with Bangladesh Financial Reporting Standards (BFRS), the Companies Act 1994, the Securities and Exchange Rules 1987 and other applicable laws and regulations.

The financial statements were authorised for issue by the Board of Directors on 30 April 2011.

The following BFRSs have been newly adopted while preparing these financial statements to ensure compliance with standards which are effective from 2010:

Title of relevant BFRSs	Effective date and application date
BAS 1: Presentation of Financial Statements (revised)	1 January 2010
BAS 23: Borrowing Costs (revised)	1 January 2010
BAS 32: Financial Instruments: Presentation	1 January 2010
BAS 39: Financial Instruments: Recognition and Measurement	1 January 2010
BFRS 7: Financial Instruments: Disclosure	1 January 2010

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

2.3 Functional and presentational currency and level of precision

The financial statements are prepared in Bangladesh Taka (Taka/Tk/BDT), which is the Group's/Company's functional and presentational currency and have been rounded off to the nearest integer.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with BFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 5: depreciation

Note 8: inventory valuation

Note 18: deferred liabilities

Note 22: accrued expenses and others

2.5 Reporting period

The financial period of the Company covers one year from 1 January to 31 December.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Property, plant and equipment

3.1.1 Recognition and measurement

Items of property, plant and equipment (PPE) are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the assets.

3.1.2 Subsequent costs

The cost of replacing an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.

3.1.3 Maintenance activities

The Group/Company incurs maintenance costs for all of its major items of property, plant and equipment. Repair and maintenance costs are charged as expenses when incurred.

3.1.4 Depreciation

Depreciation on power plant has been charged considering 30 years of useful life and residual value at 15%. Addition during the period is depreciated for full period irrespective of date of capitalisation, while no depreciation is charged in the year of disposal.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

The estimated useful lives of assets are as follows:

	2010 Year	2009 Year
Power plant	30	30
Vehicles	4	4
Building and construction	10	10
Furniture and fixtures	5	5
Office equipment	5	5
Office renovation	5	5

3.1.5 Retirements and disposals

An asset is derecognised on disposal or when no future economic benefits are expected from its use, whichever comes earlier. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the same, and are recognised on net basis within 'other income' in the statement of comprehensive income.

3.2 Inventories

Inventories are measured at cost. The fuel tariff calculation formula as per PPA between the company and BPDB assures recovery of cost. The cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. When inventories are used, the carrying amount of those inventories is recognised in the period in which the related revenue is recognised.

3.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Accounting policies relating to different types of financial instruments are described below:

3.3.1 Non-derivative financial instruments

Financial assets carried in the statement of financial position include cash and cash equivalents, accounts receivable, accounts payable, short term/working capital loan and redeemable preference share.

3.3.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at bank which are held and available for use by the Group/Company without any restriction. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at bank and financial institutions and short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash flows from operating activities have been presented under direct method.

3.3.3 Accounts receivable and other receivables

Accounts receivables are recognised at cost which is the fair value of the consideration given for them.

Provision for debts doubtful of recovery, if any, are made at the discretion of management.

3.3.5 Loans and borrowings

Principal amounts of the loans and borrowings are stated at their amortised amount. Borrowings repayable after twelve months from the date of statement of financial position are classified as non-current liabilities whereas the portion of borrowings repayable within twelve months from the date of statement of financial position, unpaid interest and other charges are classified as current liabilities. All short term/working capital loans are classified as current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

3.3.6 Accounts payable

The Group/Company recognises a financial liability when its contractual obligations arising from past events are certain and the settlement of which is expected to result in an outflow from the entity of resources embodying benefits.

3.3.7 Redeemable Preference Share

The Company has redeemable preference shares in issue. As per BAS 32 Financial Instruments: Presentation, the substance of a financial instrument rather than its legal form governs its classification on the entity's financial statements. Accordingly, the redeemable preference shares which, in substance, meets the condition of a financial liability have been classified as liabilities in these financial statements.

3.4 Provisions

A provision is recognised on the reporting date if, as a result of past events, the Group/Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.5 Impairment

3.5.1 Financial assets

Accounts receivable is assessed at each date of statement of financial position to determine whether there is objective evidence that it is impaired. Account receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3.5.2 Non-financial assets

At each reporting date, indications of impairment are reviewed. For this review, the Company is considered as a single cash generating unit and both tangible and intangible assets are reviewed. If any indication exists, the assets' recoverable amount will need to be estimated. As at 31 December 2010, the assessment of indicators of impairment reveals that impairment testing is not required for the Company.

3.5.3 Inventories

Inventories are measured and stated at cost less allowance for obsolescence. These are for use in the operation and maintenance of power plants. As inventories are for internal use, the value is unlikely to diminish.

3.6 Contingencies

Contingencies arising from claim, litigation assessment, fines, penalties etc. are recorded when it is probable that a liability has been incurred and the amount can reasonably be measured.

3.7 Revenue

Revenue is recognised in the statement of comprehensive income upon supply of electricity to BPDB, quantum of which is determined by survey of meter reading.

3.8 Foreign currency transactions

BAS 21, The Effect of Changes in Foreign Exchange Rates, requires balances resulting from transactions denominated in a foreign currency to be converted into Taka at the rate prevailing on the date of the transaction. All monetary assets and liabilities at the statement of financial position date, denominated in foreign currencies, are to be retranslated at the exchange rates prevailing on the statement of financial position date.

Foreign exchange difference arising from all foreign currency transactions are charged or credited to statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

3.9 Lease

Lease payments under operating lease are recognised as expenses in statement of comprehensive income on a straight line basis over the lease term. The lessor reserves the right to revise the rent after each period of five years and can increase the rent by a maximum of twenty percent for five years.

3.10 Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised on accrual basis.

Finance expenses comprise interest expense on borrowings and other finance related costs. All borrowing costs are recognised in the statement of comprehensive income using effective interest method except to the extent that they are capitalised during construction period of the project in accordance with BAS 23: Borrowing cost.

3.11 Provision for tax

No provision for tax has been made in the accounts as the Company is entitled to tax exemption for a period of 15 years with effect from commencement of commercial production, vide SRO no. 114-Law/99 dated 26 May 1999 issued by Government of Bangladesh, under private sector power generation policy.

3.12 Deferred tax

As there is considerable uncertainty with regard to the taxation of the company/group after the expiry of the tax exemption period, management feels it is not possible to make a reasonable estimate of deferred tax assets/liabilities at this stage.

3.13 Employee benefit schemes

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company operates an unfunded gratuity scheme, which is a defined benefit scheme, a provision in respect of which is made periodically covering all permanent employees by applying period of employment to latest basic salary. Although no valuation was done to quantify actuarial liabilities as per Bangladesh Accounting Standard 19 Employee Benefits for the year ended 31 December 2010, such valuation for only 11 employees is not likely to yield a result significantly different from the current provision.

The Company maintains a provident fund for all local employees, recognised by the National Board of Revenue, Bangladesh. This is a defined contribution scheme as per Bangladesh Accounting Standard 19 Employee Benefits.

The Company has also a policy of earned leave encashment. Under this policy, an employee is allowed twenty one days earned leave for each completed twelve months of continuous service with a maximum accumulation of one hundred and five days.

3.14 Earnings per share

The Group/Company represent basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group/Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by the adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares. However, dilution of EPS is not applicable for these financial statements as there was no potential dilutive ordinary shares during the relevant periods.

3.15 Cash flow statement

Cash flow statement has been presented under direct method.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

4. Financial risk management

The Group/Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

4.1 Risk management framework

Board of directors has overall responsibility for the establishment and oversight of the Group's/Company's risk management framework.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The Group, through its training and management standards and procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

4.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivable from customers. The Company's sales is made to Government entity, viz, Bangladesh Power Development Board (BPDB) under the conditions of the long term Power Purchase Agreement (PPA). Sales made to this entity is fully secured by Letters of Credit issued by local scheduled banks. Credit risk does not arise in respect of any other receivables.

The Company held cash and cash equivalents of Taka 61,951,785 at 31 December 2010 (2009: Taka 701,135,588), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with different banks which are rated from AA1 to AAA, based on ratings by Credit Rating Agency of Bangladesh (CRAB) and Credit Rating Information and Services Limited (CRISL).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

4.3 Liquidity risk

Liquidity risk is the risk that the Group/Company will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's/Company's reputation. Typically, the Group/Company ensures that it has sufficient cash and cash equivalent to meet expected operational expenses, including the servicing of financial obligation through preparation of the cash forecast, prepared based on time line of payment of the financial obligation and accordingly arrange for sufficient liquidity/fund to make the expected payment within due date. Moreover, the group seeks to maintain short term lines of credit with scheduled commercial banks (Note 20.1) to ensure payment of obligations in the event that there is insufficient cash to make the required payment. The requirement is determined in advance through cash flows projections and credit lines facilities with banks are negotiated accordingly.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

4.4 Market risk

Market risk is the risk that any change in market conditions, such as foreign exchange rates, interest rates and commodity prices that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

a) *Currency risk*

The Group is exposed to currency risk on certain revenues and purchases that are denominated in foreign currencies. Majority of the Group's foreign currency transactions are denominated in USD and Euro and relate to procurement of raw materials and capital items from abroad.

b) *Interest rate risk*

Interest rate risk is the risk that arises due to changes in interest rates. Foreign currency liabilities of the Company are not significantly affected by fluctuations in interest rates. The Company has not entered into any agreement involving derivative instrument at the reporting date.

c) *Commodity risk*

Commodity risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. As the Company reimburses all fuel cost from BPDB, commodity risk is kept at minimal.

4.5 Capital management

Capital management refers to implementing policies and measures to maintain sufficient capital, assessing Company's internal capital adequacy to ensure Company's operation as a going concern. Capital consists of share capital, capital redemption reserve and retained earnings. All major investment and operational decisions with exposure to certain amount are evaluated and approved by the board. The Board of Directors monitors the level of dividends to ordinary shareholders.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

5. Property, plant and equipment

Year 2010 (consolidated)

Particulars	Cost					Rate %	Depreciation					Carrying amount as at 31 December 2010 Taka
	Balance as at 1 January 2010 Taka	Addition during the year* Taka	Disposal during the year Taka	Adjustment during the year** Taka	Balance as at 31 December 2010 Taka		Balance as at 1 January 2010 Taka	Charge for the year Taka	Disposal during the year Taka	Adjustment during the year Taka	Balance as at 31 December 2010 Taka	
Power plant	5,136,750,563	56,768,360	-	(13,576,440)	5,179,942,483	3.33	1,833,150,638	181,349,938	-	(13,576,440)	2,000,924,136	3,179,018,347
Vehicles	5,384,657	1,950,000	-	-	7,334,657	25.00	2,346,163	1,833,663	-	-	4,179,826	3,154,831
Building and construction	9,428,606	600,000	-	-	10,028,606	10.00	9,240,456	157,388	-	-	9,397,844	630,762
Furniture and fixtures	1,073,758	830,993	(240,211)	-	1,664,540	20.00	1,026,358	184,813	(240,211)	-	970,960	693,580
Office equipment	5,599,462	839,865	(2,576,955)	-	3,862,372	20.00	5,340,132	289,303	(2,576,955)	-	3,052,480	809,892
Office renovation	1,299,590	-	-	-	1,299,590	20.00	1,299,557	-	-	-	1,299,557	33
Total 2010	5,159,536,636	60,989,218	(2,817,166)	(13,576,440)	5,204,132,248		1,852,403,304	183,815,105	(2,817,166)	(13,576,440)	2,019,824,803	3,184,307,445

Year 2010 (separate)

Particulars	Cost					Rate %	Depreciation					Carrying amount as at 31 December 2010 Taka
	Balance as at 1 January 2010 Taka	Addition during the year* Taka	Disposal during the year Taka	Adjustment during the year** Taka	Balance as at 31 December 2010 Taka		Balance as at 1 January 2010 Taka	Charge for the year Taka	Disposal during the year Taka	Adjustment during the year Taka	Balance as at 31 December 2010 Taka	
Power plant	5,136,750,563	56,768,360	-	(13,576,440)	5,179,942,483	3.33	1,833,150,638	181,349,938	-	(13,576,440)	2,000,924,136	3,179,018,347
Vehicles	5,384,657	-	-	-	5,384,657	25.00	2,346,163	1,346,163	-	-	3,692,326	1,692,331
Building and construction	9,428,606	-	-	-	9,428,606	10.00	9,240,456	97,388	-	-	9,337,844	90,762
Furniture and fixtures	1,073,758	401,803	(240,211)	-	1,235,350	20.00	1,026,358	98,975	(240,211)	-	885,122	350,228
Office equipment	5,599,462	196,000	(2,576,955)	-	3,218,507	20.00	5,340,132	160,530	(2,576,955)	-	2,923,707	294,800
Office renovation	1,299,590	-	-	-	1,299,590	20.00	1,299,557	-	-	-	1,299,557	33
Total 2010	5,159,536,636	57,366,163	(2,817,166)	(13,576,440)	5,200,509,193		1,852,403,304	183,052,994	(2,817,166)	(13,576,440)	2,019,062,692	3,181,446,501

*Addition of power plant is the cost of two newly installed Alternators by replacing the old one.

**Adjustment arises for disposal of old Alternator.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

Property, plant and equipment (Contd..)

Year 2009 (individual)

Particulars	Cost					Rate %	Depreciation					Carrying amount as at 31 December 2009 Taka
	Balance as at 1 January 2009 Taka	Addition during the year Taka	Disposal during the year Taka	Adjustment during the year Taka	Balance as at 31 December 2009 Taka		Balance as at 1 January 2009 Taka	Charge for the year Taka	Disposal during the year Taka	Adjustment during the year Taka	Balance as at 31 December 2009 Taka	
Power plant	5,133,347,383	30,956,118	-	(27,552,938)	5,136,750,563	3.33	1,672,340,952	188,000,895	-	(27,191,209)	1,833,150,638	3,303,599,925
Vehicles	2,000,000	3,384,657	-	-	5,384,657	25.00	1,000,000	1,346,163	-	-	2,346,163	3,038,494
Building and construction	9,428,606	-	-	-	9,428,606	10.00	8,629,939	610,517	-	-	9,240,456	188,150
Furniture and fixtures	1,073,758	-	-	-	1,073,758	20.00	1,007,770	18,588	-	-	1,026,358	47,400
Office equipment	5,976,712	2,750	(380,000)	-	5,599,462	20.00	5,564,555	155,577	-	(380,000)	5,340,132	259,330
Office renovation	1,299,590	-	-	-	1,299,590	20.00	1,299,557	-	-	-	1,299,557	33
Total 2009	5,153,126,049	34,343,525	(380,000)	(27,552,938)	5,159,536,636		1,689,842,773	190,131,740	-	(27,571,209)	1,852,403,304	3,307,133,332

Year 2008 (individual)

Particulars	Cost					Rate %	Depreciation					Carrying amount as at 31 December 2008 Taka
	Balance as at 1 January 2008 Taka	Addition during the year Taka	Disposal during the year Taka	Adjustment during the year Taka	Balance as at 31 December 2008 Taka		Balance as at 1 January 2008 Taka	Charge for the year Taka	Disposal during the year Taka	Adjustment during the year Taka	Balance as at 31 December 2008 Taka	
Power plant	5,134,863,771	-	-	(1,516,388)	5,133,347,383	3.33	1,503,141,492	169,272,392	-	(72,932)	1,672,340,952	3,461,006,431
Vehicles	4,700,000	-	(2,700,000)	-	2,000,000	25.00	3,199,998	500,002	(2,700,000)	-	1,000,000	1,000,000
Building and construction	9,428,606	-	-	-	9,428,606	10.00	7,687,075	942,864	-	-	8,629,939	798,667
Furniture and fixtures	1,345,218	71,840	(343,300)	-	1,073,758	20.00	1,176,963	26,987	(196,180)	-	1,007,770	65,988
Office equipment	5,997,279	341,163	(361,730)	-	5,976,712	20.00	5,619,207	242,164	(296,816)	-	5,564,555	412,157
Office renovation	1,299,590	-	-	-	1,299,590	20.00	1,299,557	-	-	-	1,299,557	33
Total 2008	5,157,634,464	413,003	(3,405,030)	(1,516,388)	5,153,126,049		1,522,124,292	170,984,409	(3,192,996)	(72,932)	1,689,842,773	3,463,283,276

Total depreciation has been charged in the financial statements as follows:

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Depreciation charged during the year	183,815,105	183,052,994	190,131,740	170,984,409
Add: Adjustments made during the year	-	-	(38,329)	(72,932)
	183,815,105	183,052,994	190,093,411	170,911,477

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

5.1 Allocation of depreciation

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Cost of sales (power plant, after considering adjustment)	181,349,938	181,349,938	187,962,566	169,272,392
Operating expenses (other than power plant)	2,465,167	1,703,056	2,130,845	1,639,085
	<u>183,815,105</u>	<u>183,052,994</u>	<u>190,093,411</u>	<u>170,911,477</u>

6. Capital work in progress

Khulna Power Company Unit-II Ltd.	3,636,024,824	-	-	-
Khanjahan Ali Power Company Ltd.	146,827,278	-	-	-
	<u>3,782,852,102</u>	<u>-</u>	<u>-</u>	<u>-</u>

6.1 Movement in capital work-in progress in 2010

	Balance as at 1 Jan 2010 Taka	Addition during the year Taka	Transfer to PPE during the year Taka	Balance as at 31 Dec 2010 Taka
Plant and machinery	-	3,771,399,641	-	3,771,399,641
Capitalised project development expenditure	-	11,452,461	-	11,452,461
	<u>-</u>	<u>3,782,852,102</u>	<u>-</u>	<u>3,782,852,102</u>

7. Investments in subsidiaries

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Khulna Power Company Unit-II Ltd.	-	49,500,000	-	-
Khanjahan Ali Power Company Ltd.	-	18,000,000	-	-
	<u>-</u>	<u>67,500,000</u>	<u>-</u>	<u>-</u>

8. Inventories

Heavy furnace oil (HFO)	716,107,053	716,107,053	882,365,926	662,741,360
Light furnace oil (LFO)	2,194,559	2,194,559	3,516,344	4,229,292
Spare parts for plant maintenance	95,758,000	95,758,000	95,758,000	95,758,000
	<u>814,059,612</u>	<u>814,059,612</u>	<u>981,640,270</u>	<u>762,728,652</u>

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

8.1 Movement in inventories

Year 2010:

Particulars	Balance as at 1 January		Addition during the year		Consumption during the year		Balance as at 31 December	
	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)
Heavy furnace oil (HFO)	22,561.32	882,365,926	165,963.25	6,469,672,967	171,431.13	6,635,931,840	17,093.44	716,107,053
Light furnace oil (LFO)	87,690.00	3,516,344	-	-	33,980.00	1,321,785	53,710.00	2,194,559
Spare parts for plant maintenance*		95,758,000		-		-		95,758,000
Total 2010		981,640,270		6,469,672,967		6,637,253,625		814,059,612

Year 2009:

Particulars	Balance as at 1 January		Addition during the year		Consumption during the year		Balance as at 31 December	
	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)
Heavy furnace oil (HFO)	26,284.21	662,741,360	173,630.59	5,143,280,116	177,353.48	4,923,655,550	22,561.32	882,365,926
Light furnace oil (LFO)	110,790.00	4,229,292	27,000.00	1,155,570	50,100.00	1,868,518	87,690.00	3,516,344
Spare parts for plant maintenance		95,758,000		-		-		95,758,000
Total 2009		762,728,652		5,144,435,686		4,925,524,068		981,640,270

Year 2008:

Particulars	Balance as at 1 January		Addition during the year		Consumption during the year		Balance as at 31 December	
	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)	Quantity (MT/Ltr.)	Amount (Taka)
Heavy furnace oil (HFO)	21,406.79	844,836,171	161,876.86	6,931,467,893	156,999.44	7,113,562,704	26,284.21	662,741,360
Light furnace oil (LFO)	151,100.00	5,309,932	-	-	40,310.00	1,080,640	110,790.00	4,229,292
Spare parts for plant maintenance		95,758,000		-		-		95,758,000
Total 2008		945,904,103		6,931,467,893		7,114,643,344		762,728,652

* Spare parts inventory was acquired under a provision of the Engineering, Procurement and Construction (EPC) contract. The provision called for the contractor to provide with safety spares on historical cost basis of USD 2,000,000 (prevailing rate was 1 USD= BDT 47.88). In addition to above safety spares, the operator maintains usual maintenance spares at their cost against variable fees paid to them.

9. Accounts receivable

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Other monthly tariff	277,344,200	277,344,200	108,415,448	225,528,311
Fuel tariff	908,002,285	908,002,285	279,525,157	660,249,357
	1,185,346,485	1,185,346,485	387,940,605	885,777,668

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

10. Other receivables

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
BPDB (agreed charges paid to BIWTA)	8,814,015	8,814,015	12,497,004	8,008,915
BRAC Bank, Citibank NA and Standard Chartered Bank for interest	6,793,137	3,228,360	-	-
Income tax authority (corporate tax deposition for AY 2007)	225,000	225,000	-	-
	15,832,152	12,267,375	12,497,004	8,008,915

11. Advances, deposits and prepayments

Advances:

Car/motor cycle loan	1,875	1,875	114,375	433,542
Bank guarantee for spare parts	1,400,000	1,400,000	-	840,000
Padma/Jamuna Oil for HFO supply	634,530	634,530	634,530	-
Neptune Commercial Ltd. (EPC contractor)	99,563,715	-	-	-
Dr. Kamal Hossain & Associates	-	-	400,000	-
Various parties for Alternator repair works	1,764,683	1,764,683	-	-
Other advances	1,307,960	1,071,471	209,224	69,162
	104,672,763	4,872,559	1,358,129	1,342,704

Deposits:

Bangladesh Telephone & Telegraph Board	16,000	16,000	16,000	16,000
Grameenphone Ltd.	89,006	89,006	89,006	89,006
Central Depository Bangladesh Ltd. (CDBL)	500,000	500,000	-	-
Security deposits	40,494,332	-	-	-
Others	28,500	28,500	28,500	24,500
	41,127,838	633,506	133,506	129,506

Prepayments:

General insurance premium (fire, fidelity, health, motor, etc.)	92,268	63,826	56,881	21,463
Green Delta Insurance Company Ltd.	3,259,620	3,259,620	-	-
	3,351,888	3,323,446	56,881	21,463
	149,152,489	8,829,511	1,548,516	1,493,673

12. Inter-company receivable

Khulna Power Company Unit II Ltd.	-	799,813,469	-	-
Khanjahan Ali Power Company Ltd.	-	141,521,191	-	-
	-	941,334,660	-	-

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

13. Cash and cash equivalents

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Cash in hand	60,130	60,130	99,943	183,422
Cash at bank:				
Current account:				
Citibank, NA (operating a/c # 129039 -Taka)	5,840,503	5,840,503	3,706,884	13,050,702
Citibank, NA (operating a/c # 129024 -Taka)	4,327	4,327	6,081	667,821
Citibank, NA (operating a/c -US Dollar)	4,103,675	4,103,675	79,727,542	85,434,867
AB Bank Ltd.	-	-	-	414
Bank Asia Ltd.	-	-	825	1,900
BRAC Bank Ltd.	2,597	171	18,969	307,313
Pubali Bank Ltd.	25,863	25,863	27,533	75,032
Shahjalal Islami Bank Ltd.	-	-	1,014	1,029,742
Standard Bank Ltd.	44,249	44,249	45,519	46,714
Standard Chartered Bank	675,659	675,659	87,957	97,518
Prime Bank Ltd.	1,631	1,631	2,781	3,931
Total current account	10,698,504	10,696,078	83,625,105	100,715,954
Special notice deposit (SND) account:				
BRAC Bank Ltd.	40,456,729	40,393,623	617,400,135	-
Dutch Bangla Bank Ltd.	8,061,703	3,258	4,400	-
Standard Chartered Bank Ltd.	572,490	-	-	-
Citibank, NA	390,441	-	-	-
One Bank Ltd.	3	3	441	-
The City Bank Ltd.	-	-	463	-
Trust Bank Ltd.	4,126	4,126	5,101	-
BRAC Bank Ltd. (EII Escrow II a/c)	1,630,524	1,630,524	-	-
BRAC Bank Ltd. -Dividend distribution a/c	9,164,043	9,164,043	-	-
Total SND account	60,280,059	51,195,577	617,410,540	-
Total cash at bank	70,978,563	61,891,655	701,035,645	100,715,954
Total cash and cash equivalents	71,038,693	61,951,785	701,135,588	100,899,376

14. Share capital

Authorised:

300,000,000 ordinary shares of Tk 10 each
2,000,000 preference shares of Tk 1,000 each

3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000
2,000,000,000	2,000,000,000	2,000,000,000	2,000,000,000
5,000,000,000	5,000,000,000	5,000,000,000	5,000,000,000

The Company changed the denomination of face value of shares from Tk 100 to Tk 10 on 19 July 2009.

Issued, subscribed and paid-up:

Ordinary shares:

208,593,000 ordinary shares of Tk 10 each
31,288,950 ordinary shares of Tk 10 each
issued as bonus shares in 2010

2,085,930,000	2,085,930,000	2,085,930,000	2,085,930,000
312,889,500	312,889,500	-	-
2,398,819,500	2,398,819,500	2,085,930,000	2,085,930,000

Preference share:

880,000 redeemable cumulative class 'A'
preference shares of Tk 1,000 each

880,000,000	880,000,000	1,100,000,000	1,100,000,000
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Redeemable cumulative class 'A' preference shares has been classified as liability as required by Bangladesh Accounting Standard 32, Financial Instruments: Presentation. For details see note 16.

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

14.1 Shareholding position of ordinary shares is as follows:

Name of shareholders	2010			2009		
	No. of shares	Percentage of holding	Total value (Taka)	No. of shares	Percentage of holding	Total value (Taka)
Summit Industrial & Mercantile Corporation (Pvt.) Ltd. (incorporated in Bangladesh)	89,925,543	37.4874%	899,255,430	104,261,500	49.9832%	1,042,615,000
United Enterprises & Company Ltd. (incorporated in Bangladesh)	89,925,543	37.4874%	899,255,430	104,261,500	49.9832%	1,042,615,000
Other sponsors	60,368	0.0252%	603,680	70,000	0.0336%	700,000
General investors	59,970,496	25.0000%	599,704,960	-	-	-
	239,881,950	100.00%	2,398,819,500	208,593,000	100.00%	2,085,930,000

Classification of shareholders by holding as at 31 December 2010:

Range of share holdings	No. of shareholders	No. of shares	Percentage of shareholdings
Less than 5,000 shares	53,212	26,663,037	11.12%
5,001 to 10,000 shares	730	4,828,514	2.01%
10,001 to 25,000 shares	268	4,129,245	1.72%
25,001 to 50,000 shares	111	4,107,299	1.71%
50,001 to 100,000 shares	42	2,966,605	1.24%
100,001 to 250,000 shares	32	4,911,980	2.05%
250,001 to 500,000 shares	15	5,136,739	2.14%
500,001 to 2,500,000 shares	5	4,412,375	1.84%
2,500,001 to 5,000,000 shares	1	2,875,070	1.20%
Over 5,000,000 shares	2	179,851,086	74.97%
Total	54,418	239,881,950	100.00%

15. Non controlling interest

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Khulna Power Company Unit II Ltd.:				
Share capital (1%)	500,000	-	-	-
Share of total comprehensive income/(loss)	(38,816)	-	-	-
Khanjahan Ali Power Company Ltd.:				
Share capital (10%)	2,000,000	-	-	-
Share of total comprehensive income/(loss)	(49,049)	-	-	-
	<u>2,412,135</u>	<u>-</u>	<u>-</u>	<u>-</u>

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16. Redeemable cumulative class 'A' preference shares

The company issued 1,100,000 redeemable cumulative class 'A' preference shares in favour of The City Bank Ltd. (600,000 shares), Pubali Bank Limited (200,000 shares), One Bank Limited (200,000 shares) and Trust Bank Limited (100,000 shares) on 14 May 2008. These shares, under ordinary circumstances, are redeemable at par value in five annual equal installments from 14 May 2010, the second anniversary of the issue date. Annual dividend on these preference shares is payable at the rate 8.25% (net of withholding tax).

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Balance as at 1 January	1,100,000,000	1,100,000,000	1,100,000,000	-
Issued during the year	-	-	-	1,100,000,000
	1,100,000,000	1,100,000,000	1,100,000,000	1,100,000,000
Repayment during the year	(220,000,000)	(220,000,000)	-	-
Balance as at 31 December	880,000,000	880,000,000	1,100,000,000	1,100,000,000
Non-current portion	660,000,000	660,000,000	880,000,000	1,100,000,000
Current portion	220,000,000	220,000,000	220,000,000	-
	880,000,000	880,000,000	1,100,000,000	1,100,000,000

16.1 Shareholding position of redeemable cumulative class 'A' preference shares

Name of shareholders	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
The City Bank Limited	480,000,000	480,000,000	600,000,000	600,000,000
Pubali Bank Limited	160,000,000	160,000,000	200,000,000	200,000,000
One Bank Limited	160,000,000	160,000,000	200,000,000	200,000,000
Trust Bank Limited	80,000,000	80,000,000	100,000,000	100,000,000
	880,000,000	880,000,000	1,100,000,000	1,100,000,000

17. Term loan

El Paso Power Khulna Holding Ltd.	-	-	-	91,878,000
Wartsila Dev. & Financial Services (Asia) Ltd.	-	-	-	13,897,544
	-	-	-	105,775,544
Non-current portion	-	-	-	74,892,180
Current portion	-	-	-	30,883,364
	-	-	-	105,775,544

18. Deferred liabilities

Gratuity scheme:

Balance as at 1 January	7,734,297	7,734,297	7,051,344	8,146,500
Provision made during the year	693,994	693,994	828,153	1,334,844
	8,428,291	8,428,291	7,879,497	9,481,344
Gratuity paid during the year	(313,500)	(313,500)	(145,200)	(2,430,000)
Balance as at 31 December	8,114,791	8,114,791	7,734,297	7,051,344

Provision for leave encashment:

Balance as at 1 January	3,156,898	3,156,898	3,157,436	3,516,778
Provision/(adjustment) made during the year	(85,455)	(85,455)	62,462	454,298
	3,071,443	3,071,443	3,219,898	3,971,076
Payment made during the year	(136,023)	(136,023)	(63,000)	(813,640)
Balance as at 31 December	2,935,420	2,935,420	3,156,898	3,157,436
	11,050,211	11,050,211	10,891,195	10,208,780

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19. Accounts payable

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Kuo Oil (S) Pte Ltd. - Handling commission	200,162,551	200,162,551	114,263,650	22,106,313
Kuo Oil (S) Pte Ltd. - Fuel cost	1,211,161,998	1,211,161,998	1,100,823,552	794,770,553
USCOL - Fuel carrying and storage	169,042,669	169,042,669	130,116,675	314,419,260
Wartsila -Operation and maintenance - (O&M)	152,854,802	152,854,802	140,900,814	182,736,922
	1,733,222,020	1,733,222,020	1,486,104,691	1,314,033,048

20. Short term/working capital loan

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
BRAC Bank Ltd.	384,094,293	384,094,293	-	200,000,000
Shahjalal Islami Bank Ltd.	-	-	-	84,000,000
Dutch Bangla Bank Ltd.	66,998,914	-	-	-
Citibank, N.A., Bangladesh	136,000,000	136,000,000	-	-
	587,093,207	520,094,293	-	284,000,000

Collateral includes registered mortgages of vessels "TIGER I" and "TIGER III", a registered letter of hypothecation by way of first priority fixed charge over plant, machinery and equipment, and a registered letter of hypothecation by way of first priority floating charge over all fixed and floating assets of the company.

20.1 Credit facilities available as at 31 December

The group enjoys both funded and non funded short term working capital facilities with four banks. The non funded facilities include Letters of Credit (LC) and Letters of Guarantee. The funded facilities include overdraft facility and working capital/short term loan facility.

A detail of the total facilities is enumerated below:

Standard Chartered Bank:

Funded facility - Taka 350,000,000.

Letters of credit facility- Taka 4,760,000,000.

Citibank, N.A.

(i) Omnibus - USD 21,969,500.

(ii) Short term loan (inner limit of omnibus) - USD 5,000,000.

(iii) Guarantee (inner limit of omnibus) - USD 500,000.

(iv) Guarantee - USD 30,500.

BRAC Bank Limited:

(i) Revolving letter of credit - Taka 500,000,000.

(ii) Revolving LATR (inner limit of LC facility) - Taka 500,000,000.

(iii) Revolving STL (inner limit of LC facility) - 500,000,000.

Dutch Bangla Bank Limited:

Short term loan facility - Taka 67,000,000.

21. Inter-company payable

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
United Enterprises & Company Ltd.	11,046,200	3,966,200	-	-
United Power Generation & Distribution Co. Ltd.	9,000,000	9,000,000	-	-
Cosmopolitan Traders (Pvt.) Ltd.	9,000,000	9,000,000	-	-
	29,046,200	21,966,200	-	-

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22. Accrued expenses and others

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual	2008 Taka Individual
Electricity, gas and water	21,615	21,615	75,078	85,000
Legal, audit and other professional fees	795,000	565,000	620,000	881,000
Office rent and service charges	106,165	106,165	131,075	109,240
Lease rent payable - BPDB	2,793,603	2,793,603	3,167,709	3,541,814
Telephone, fax and e-mail	66,208	66,208	88,239	80,000
C & F agent's bill	1,046,141	-	-	-
Employee expenses	3,323,045	3,323,045	3,098,149	1,307,757
Withholding tax/VAT for O & M fees, professional fees and others	6,126,041	6,126,041	16,806,155	6,429,070
Wartsila - river intake dredging	140,000	140,000	140,000	150,000
Falcon Securities Ltd - plant security	226,220	226,220	215,469	216,251
Employees' provident fund	-	-	96,460	101,875
Board meeting fees	-	-	-	212,500
Kuo Oil (S) Pte Ltd. - Demurrage - Fuel (Note 22.1)	-	-	15,458,537	-
MAXXAM Analytics Inc.- passive analysis (air)	733,071	733,071	-	-
Others	1,835,183	1,630,762	579,647	356,382
	17,212,292	15,731,730	40,476,518	13,470,889

22.1 Demurrage is claimed by Kuo Oil(s) Pte Ltd. on behalf of shipping company due to unusual delay in unloading of Heavy Furnace Oil (HFO) at Chittagong Port in May 2009.

23. Liability for interest and other financial charges

Dividend on redeemable cumulative preference shares	56,718,750	56,718,750	70,898,437	70,898,437
Interest on:				
El Paso term loan	-	-	-	9,749,214
Wartsila term loan	-	-	-	757,939
Interest payable on:				
Working capital loan- Shahajalal Islami Bank	-	-	-	1,643,250
Short term loan- Dutch Bangla Bank	916,301	-	-	-
Working capital loan- BRAC Bank	5,872,212	5,872,212	-	2,185,069
	63,507,263	62,590,962	70,898,437	85,233,909

24. Liability for project implementation expenditure

Wartsila Finland Oy	2,850,608,519	-	-	-
Jamil Steel Industries	4,640,918	-	-	-
	2,855,249,437	-	-	-

25. Unclaimed dividend

As at 31 December 2010, the following amount of cash dividend remained unclaimed by the shareholders. The amount of dividend is deposited in dedicated bank account and is payable on demand.

Final cash dividend for the year 2009	9,057,446	9,057,446	-	-
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NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

26. Revenue

Revenue comprises other monthly tariff and fuel tariff invoiced to BPDB.

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Other monthly tariff	1,920,081,136	1,920,081,136	1,982,771,320
Fuel tariff	6,025,681,682	6,025,681,682	4,410,496,025
	<u>7,945,762,818</u>	<u>7,945,762,818</u>	<u>6,393,267,345</u>

26.1 Other monthly tariff is the price component of all other costs including profit per KW of energy supplied at the delivery point excluding fuel.

26.2 The price component of fuel tariff is comprised of the cost of fuel per KW of energy generated which is reimbursable from BPDB after making some adjustments as per agreement.

27. Cost of sales

Consumption of Heavy Furnace Oil (HFO) and related expenses*	6,512,914,400	6,512,914,400	4,979,259,117
Consumption of Light Furnace Oil (LFO)	1,321,784	1,321,784	1,868,518
Operation and maintenance cost to operator	497,417,392	497,417,392	496,387,941
Security service - Plant	2,936,927	2,936,927	2,609,210
Duty on spare parts	26,728,027	26,728,027	50,343,948
Depreciation of power plant	181,349,938	181,349,938	187,962,567
	<u>7,222,668,468</u>	<u>7,222,668,468</u>	<u>5,718,431,301</u>

* The above expenses arise after considering various fuel related expenses and adjustments which are not relevant with HFO inventory. That is why, the actual consumption shown in HFO inventory (note no. 8) is not directly matchable with the above mentioned expenses.

28. Other income

Gain on sale of items of property, plant and equipment*	11,100	11,100	-
Income from El Paso's term loan waiver	-	-	91,481,290
	<u>11,100</u>	<u>11,100</u>	<u>91,481,290</u>

*This comprises gain on sale of furniture and fixtures and office equipment.

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29. General and administrative expenses

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Salary and allowances	15,827,264	15,647,264	13,226,172
Employer's contribution to P.F.	551,760	551,760	554,400
Gratuity provision	693,994	693,994	828,153
Earned leave provision	(85,455)	(85,455)	62,462
Leave fare assistance	224,401	224,401	243,400
Office rent and maintenance	3,048,482	2,487,331	2,120,177
Telephone, fax and e-mail	308,060	300,884	391,012
Advertisement, publicity, press and seminar	1,023,974	926,094	81,480
Entertainment expenses	155,620	155,620	121,610
Bank charges and commission	1,197,870	1,034,612	214,373
Printing, postage and stationery	244,084	174,034	86,799
Travel and conveyance	1,507,403	258,798	507,736
Vehicles fuel and maintenance	237,032	237,032	124,582
Newspaper, books and periodicals	15,720	15,720	20,939
Business promotion, subscription, gift and donation	3,621,283	3,400,003	1,820,346
Uniform and liveries	16,400	16,400	18,200
Insurance premium	17,432,245	17,420,798	32,466,173
Lease rent - BPDB (Note 29.1)	3,355,293	3,355,293	3,355,293
Directors' fees and board meeting expenses	185,448	185,448	152,186
Audit fee	645,000	415,000	375,000
Legal, tax and other professional fees	3,365,904	3,297,904	2,393,626
Survey, testing and inspection fees	748,285	748,285	376,322
Company matter expenses	344,730	72,000	938,000
Share offload related expenses	10,047,303	10,047,303	-
Environmental compliance expenses	1,491,098	1,491,098	864,371
Computer consumable and maintenance	317,422	317,422	275,143
River intake dredging	140,000	140,000	130,000
Annual General Meeting (AGM) expenses	8,930,445	8,930,445	-
Depreciation - Other property, plant and equipment	2,465,167	1,703,056	2,130,845
Miscellaneous and incidental expenses	627,435	122,210	199,471
	78,683,667	74,284,754	64,078,271

29.1 Operating leases

The company is obligated under non-cancellable lease for use of land leased out by BPDB that are renewable on a periodic basis at the option of both lessor and lessee. During the year, rental expenses under non-cancellable operating leases aggregated Tk. 3,355,293 (2009: Tk. 3,355,293).

The future minimum lease payments in respect of operating leases as at 31 December 2010 are as follows:

Amount due:			
Not later than one year	3,242,955	3,242,955	3,242,955
Later than one year but not later than five years	11,026,044	11,026,044	14,268,998
Later than five years	-	-	-
	14,268,999	14,268,999	17,511,953

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30. Exchange gain/(loss)

Exchange gain/(loss) arise on retranslating foreign currency denominated monetary assets and liabilities at the exchange rates prevailing on the reporting date. Exchange gain/(loss) arose from following foreign currency denominated monetary assets and liabilities:

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Kuo Oil (S) Pte Ltd. - Handling commission	(1,870,770)	(1,870,770)	(56,637)
Wartsila -Operation and maintenance - (O&M)	(2,807,902)	(2,807,902)	(277,951)
Citibank, NA (operating a/c -US Dollar)	972,096	972,096	2,523,962
Others	(44,716)	(44,716)	(14,960)
	(3,751,292)	(3,751,292)	2,174,414

31. Finance income

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Interest on bank deposits	19,844,420	19,817,672	9,155,909

32. Finance expenses

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Interest on:			
Term loan provided by El Paso Power Khulna Holding Ltd.	-	-	(9,714,483)
Term loan provided by Wartsila Development and Financial Services (Asia) Ltd.	-	-	224,919
Working capital facility	18,777,670	18,777,670	24,213,366
Annual agency fee - Security & Facility Agent	2,760,000	2,760,000	2,760,000
Dividend on redeemable cumulative class 'A' preference shares	99,257,813	99,257,813	113,437,500
	120,795,483	120,795,483	130,921,302

33. Earnings per share (EPS)

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Basic earnings per share			
The computation of EPS is given below:			
a) Profit attributable to the ordinary shareholders	539,719,428	544,091,593	582,648,084
b) Weighted average number of ordinary shares outstanding	239,881,950	239,881,950	208,593,000
c) Restated weighted average number of ordinary shares outstanding			239,881,950
Earnings per share (EPS) (a/b)	2.25	2.27	2.79
Restated earnings per share (EPS) (a/c)			2.43

Since the bonus issue is an issue without consideration, the issue has been treated as if it occurred prior to the beginning of 2010, the earliest period reported for the purposes of EPS calculation.

Diluted earnings per share

No diluted earnings per share is required to be calculated for the year as there was no potentially dilutive ordinary shares during the year.

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34. Remittance of foreign currency

Purpose of payment	Name of the recipient	2010 USD Consolidated	2010 USD Separate	2009 USD Individual
Cash margin for import of spare parts on behalf of Wartsila Finland OY	Wartsila Finland OY	-	-	748,392
Insurance premium	CODAN Marine, Finland Ltd, Singapore	-	-	462,081
Purchase of fuel (HFO)	Kuo Oil (s) Pte Ltd.	5,679,490	5,679,490	7,396,659
Legal service/Barge registration	Quijano & Associates	11,689	11,689	15,503
Legal service	Chadbourne & Parke LLP	-	-	7,599
Consultancy Fee	Envirotech East Pvt Ltd.	5,860	5,860	6,100
Passive analysis (air)	MAXXAM Analytics Inc.	23	23	3,872
Loan repayment with interest	Wartsila Development and Financial Services (Asia) Ltd.	-	-	214,172
Deferred interest for fuel L/C	Citibank, N A	-	-	9,226
		5,697,062	5,697,062	8,863,604

35. Receipts of foreign currency

Nature of receipt	Name of party	2010 USD Consolidated	2010 USD Separate	2009 USD Individual
Other monthly tariff (99%)	BPDB	4,609,559	4,609,559	8,922,913

36. Value of imports calculated on CIF basis

Heavy furnace oil (fuel)	5,725,787,973	5,725,787,973	3,874,798,895
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37. Financial instrument

37.1 Credit risk

37.1.1 Exposure to credit risk

The carrying amount of financial assets represent the maximum exposure. The maximum exposure to credit risk at the reporting date was:

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Accounts receivable	1,185,346,485	1,185,346,485	387,940,605
Other receivable	15,832,152	12,267,375	12,497,004
Inter-company receivable	-	941,334,660	-
Cash at bank	70,978,563	61,891,655	701,035,645
	1,272,157,200	2,200,840,175	1,101,473,254

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37.1.2 Aging of receivables

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Invoiced 0-30 days	1,140,273,925	1,140,273,925	387,940,605
Invoiced 31-60 days	5,166,547	5,166,547	-
Invoiced 61-90 days	6,251,190	6,251,190	-
Invoiced 91-120 days	8,752,848	8,752,848	-
Invoiced above 120 days	24,901,975	24,901,975	-
	1,185,346,485	1,185,346,485	387,940,605

37.2 Liquidity risk

The following are the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
2010 (Consolidated):						
Redeemable preference shares	880,000,000	1,100,000,000	220,000,000	-	220,000,000	440,000,000
Accounts payable	1,733,222,020	1,733,222,020	1,733,222,020	-	-	-
Working capital/short term loan	587,093,207	587,093,207	587,093,207	-	-	-
Inter company payable	29,046,200	29,046,200	29,046,200	-	-	-
Accrued expenses and others	17,212,292	17,212,292	17,212,292	-	-	-
Liability for interest and other financial charges	63,507,263	63,507,263	63,507,263	-	-	-
Liability for project implementation	2,855,249,437	2,855,249,437	2,855,249,437	-	-	-
Unclaimed dividend	9,057,446	9,057,446	9,057,446	-	-	-
2009 (Individual):						
Redeemable preference shares	1,100,000,000	1,100,000,000	220,000,000	-	220,000,000	660,000,000
Accounts payable	1,486,104,691	1,486,104,691	1,486,104,691	-	-	-
Accrued expenses and others	40,476,518	40,476,518	40,476,518	-	-	-

37.3 Market risk

37.3.1 Currency risk

(i) Exposure to currency risk

The Group/Company is exposed to foreign currency risk relating to purchases and other transactions which are denominated in foreign currencies. As at 31 December, the Company was exposed to foreign currency risk in respect of financial liabilities denominated in the foreign currency (US Dollar):

	2010 (Consolidated)			2009 (Individual)	
	BDT	USD	EUR	BDT	USD
Foreign currency denominated assets					
Cash at bank (dollar account)	4,103,675	57,515	-	79,727,542	1,145,017
Foreign currency denominated liabilities					
Liability for project implementation	(2,850,608,519)	-	(29,413,582)	-	-
Accounts payable	(1,564,179,351)	(21,922,626)	-	(1,355,988,016)	(19,474,192)
	(4,414,787,870)	(21,922,626)	(29,413,582)	(1,355,988,016)	(19,474,192)
Net exposure	(4,410,684,195)	(21,865,111)	(29,413,582)	(1,276,260,474)	(18,329,175)

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The following significant exchange rates are applied:

	2010 Taka	2009 Taka
BDT/USD	71.35	69.63
BDT/EUR	96.91	102.09

(ii) Foreign exchange rate sensitivity analysis

The basis for the sensitivity analysis to measure foreign exchange risk is an aggregate corporate-level currency exposure. The aggregate foreign exchange exposure is composed of all assets and liabilities denominated in foreign currencies.

A 3% change in foreign exchange rates would have increased/(decreased) equity and profits or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain constant.

	Profit or loss (Taka)		Equity (Taka)	
	3% increase	3% decrease	3% increase	3% decrease
2010 (Consolidated):				
USD denominated items	(46,802,270)	46,802,270	-	-
EUR denominated items	(85,518,256)	85,518,256	-	-
2009 (Individual):				
USD denominated items	(38,287,814)	38,287,814	-	-

37.3.2 Interest rate risk

As at 31 December, the interest rate profile of the Group's/Company's interest bearing financial instruments was:

	Carrying amount (Taka)		
	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Fixed rate instruments			
Financial assets	-	-	-
Financial liabilities			
Redeemable cumulative preference shares	880,000,000	880,000,000	1,100,000,000
Short term/working capital loan	587,093,207	520,094,293	-
Floating rate instruments			
Financial assets	-	-	-
Financial liabilities	-	-	-

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as at and for the year ended 31 December 2010

37.3.3 Accounting classification and fair values

Fair value of financial assets and liabilities together with carrying amount shown in the statement of financial position are as follows:

	2010 (Consolidated)		2010 (Separate)		2009 (Individual)	
	Carrying amount Taka	Fair value Taka	Carrying amount Taka	Fair value Taka	Carrying amount Taka	Fair value Taka
Assets carried at fair value through profit or loss	-	-	-	-	-	-
Held to maturity assets	-	-	-	-	-	-
Loans and receivables						
Accounts receivable	1,185,346,485	1,185,346,485	1,185,346,485	1,185,346,485	387,940,605	387,940,605
Intercompany receivable	-	-	941,334,660	941,334,660	-	-
Other receivables	15,832,152	15,832,152	12,267,375	12,267,375	12,497,004	12,497,004
Cash at bank	70,978,563	70,978,563	61,891,655	61,891,655	701,035,645	701,035,645
Available for sale financial assets	-	-	-	-	-	-
Liabilities carried at fair value through profit or loss						
Liabilities carried at amortised costs						
Redeemable preference shares	880,000,000	880,000,000.00	880,000,000	880,000,000.00	1,100,000,000	1,100,000,000
Working capital/short term loan	587,093,207	587,093,207.00	520,094,293	520,094,293.00	-	-
Accounts payable	1,733,222,020	N/A*	1,733,222,020	N/A*	1,486,104,691	N/A*
Inter company payable	29,046,200	N/A*	21,966,200	N/A*	-	N/A*
Accrued expenses and others	17,212,292	N/A*	15,731,730	N/A*	40,476,518	N/A*
Liability for interest and other financial charges	63,507,263	N/A*	62,590,962	N/A*	70,898,437	N/A*
Liability for project development	2,855,249,437	N/A*	-	N/A*	-	N/A*
Unclaimed dividend	9,057,446	N/A*	9,057,446	N/A*	-	N/A*

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable were as follows:

	2010 Taka Consolidated	2010 Taka Separate	2009 Taka Individual
Redeemable preference shares	10.3125%**	10.3125%**	10.3125%**
Working capital/short term loan	9.00-10.50%	9.00-10.50%	N/A

* Determination of fair value is not required as per the requirements of BFRS 7 : Financial Instruments: Disclosure. However, fair value of such instruments is not likely to be significantly different from the carrying amounts of such instruments.

** The Company is liable to pay dividend on redeemable preference share @ 8.25%, net of tax. As applicable tax rate is 20%, gross rate comes to 10.3125%.

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38. Related party transactions

Name of party	Relationship	Nature of transactions	Transaction value (Taka)	
			2010	2009
United Summit Coastal Oil Ltd.	Subsidiary of shareholder	Fuel carrying, storage and temporary loan	336,793,416	292,401,937
Summit Industrial & Mercantile Corporation (Pvt) Ltd.	Shareholder	Office rent and dividend paid	180,720,213	84,306,222
Summit Corporation	Subsidiary of shareholder	Service charge for other office facilities	747,330	747,330
Wartsila Development & Financial Services (Asia) Ltd.	Shareholder	Repayment of loan, payment of interest and dividend paid	-	14,118,362
United Enterprises & Company Ltd.	Shareholder	Dividend paid	179,851,191	83,437,200
Key management personnel	Shareholder and Board of Directors Key employees	Dividend paid and directors fees	306,665	82,000
		Salary, allowances and long term benefits	8,074,203	7,980,663
		Bonus	3,342,059	1,506,000

Key management personnel includes managing director, project director and financial controller & company secretary. However, the managing director did not receive any salary during the year under review.

39. Commitments of capital expenditure

The Company has no commitment of capital expenditure as at 31 December 2010 apart from its subsidiaries. Subsidiaries are committed to procure machinery and construction against following:

	Currency	2010 Consolidated	2009 Separate
For Khulna Power Company Unit II Ltd:			
Outstanding letters of credit	USD	1,809,314	-
Outstanding letters of credit	EUR	59,219	-
For Khanjahan Ali Power Company Ltd:			
Outstanding letters of credit	USD	553,147	-
Outstanding letters of credit	EUR	12,044,762	-

40. Bank guarantees and commitments

	2010 Taka Consolidated	2009 Taka Separate
Performance bond, bank guarantees, bank acceptance etc.	1,061,386,638	-
Outstanding letters of credit	1,341,615,280	-
	<u>2,403,001,918</u>	-

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2010

41. Capacity

Period	Licensed capacity (MW)	Installed capacity (MW)	Plant factor (% on licensed capacity)	Energy generated (MWh)	Energy sold (MWh)
Khulna Power Company Ltd: January to December 2010	110	114	Average 78.28 Maximum 97.48	766,218	754,419
January to December 2009	110	114	Average 83.55 Maximum 102.00	792,887	780,178
Khulna Power Company Unit II Ltd.*	115	119	-	-	-
Khanjahan Ali Power Company Ltd.*	40	44	-	-	-

*Expects to commence commercial operation in April 2011.

42. Events after reporting period

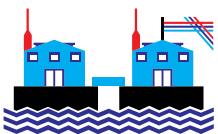
The Board of Directors of Khulna Power Company Ltd. at its meeting held on 30 April 2011, proposed 20% stock dividend for the year ended 31 December 2010. This dividend is subject to final approval by the shareholders at the forthcoming Annual General Meeting of the Company.

43. General

During the year the company had eleven permanent employees and their individual remuneration rate was not less than Tk 36,000 per annum (31 December 2009: nine permanent employees).



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KHULNA POWER COMPANY LTD.

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