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Marico Bangladesh Limited

Audit report and financial statements
(including consolidated financial statements)
for the year ended 30 September 2006



**Auditors' Report
to the Shareholders of
Marico Bangladesh Limited**

We have audited the accompanying consolidated balance sheet of Marico Bangladesh Limited and its subsidiary as of 30 September 2006 and the related profit and loss account, statement of changes in shareholders' equity and cash flow statement for the year then ended. The preparation of these financial statements is the responsibility of the company's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, prepared in accordance with Bangladesh Accounting Standards, give a true and fair view of the state of the company and its subsidiary as of 30 September 2006 and of the results of its operations and cash flow for the year then ended and comply with the Companies Act 1994 and other applicable laws and regulations.

We also report that:

- a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;
- b) in our opinion, proper books of account as required by law have been kept by the group so far as it appeared from our examination of those books; and
- c) the company's as well as the group's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account.

Dhaka, 2 November 2006



Rahman Rahman Huq
Chartered Accountants

Marico Bangladesh Limited

Consolidated balance sheet as at 30 September 2006

	Notes	2006 Taka	2005 Taka
Sources of funds			
Shareholders equity:			
Equity attributable to group company shareholders:			
Share capital		10,000,000	10,000,000
Proposed dividend		11,100,000	-
Tax holiday reserve		182,480,710	138,136,457
Unappropriate profit		248,696,791	189,531,614
Total		452,277,501	337,668,071
Application of funds			
Property, plant and equipment	2		
Cost		123,841,534	37,776,378
Less: Accumulated depreciation		25,104,576	14,664,478
		<u>98,736,958</u>	<u>23,111,900</u>
Asset under construction	3	130,000,000	-
Intangible asset	4	19,787,155	7,019,911
Other assets	5	100,791,661	62,291,667
Current assets:			
Inventories	6	58,714,046	7,077,177
Goods in transit		26,105,830	23,212,619
Accrued interest		4,833,257	3,605,925
Trade debtors	7	146,466,708	49,991,905
Advances and deposits	8	96,811,300	121,984,811
Cash and cash equivalents	9	216,435,171	197,156,008
Total current assets		549,366,312	403,028,445
Less: Current liabilities:			
Short term finance	10	240,777,949	-
Liability for expenses	11	134,484,521	65,054,592
Liability for goods		48,707,037	48,594,012
Provision for income tax	12	931,283	268,932
Trade creditors		18,275,373	14,399,294
Payable to holding company		-	23,212,619
Other liabilities	13	3,228,422	6,254,403
Total current liabilities		446,404,585	157,783,852
Net current assets		102,961,727	245,244,593
Total		452,277,501	337,668,071

The accompanying notes 1 to 16 form an integral part of these financial statements.


Director


Director

As per our separate report of even date.


Auditors

Dhaka, 2 November 2006



Marico Bangladesh Limited
Consolidated profit and loss account
for the year ended 30 September 2006

	Notes	2006 Taka	2005 Taka
Turnover		1,225,150,825	828,297,984
Cost of sales	14	<u>(842,670,626)</u>	<u>(550,487,448)</u>
Gross profit		382,480,199	277,810,536
General and administration expenses	15	(87,997,551)	(49,913,683)
Selling and distribution expenses	16	<u>(154,464,736)</u>	<u>(70,531,635)</u>
Net profit before interest expense		140,017,912	157,365,218
Interest expense		<u>(27,063,956)</u>	<u>-</u>
Net profit after interest expense		112,953,956	157,365,218
Other income		<u>18,294,544</u>	<u>9,710,704</u>
Net profit before taxation		131,248,500	167,075,922
Tax expenses		<u>(16,639,070)</u>	<u>(4,460,017)</u>
Net profit after taxation		114,609,430	162,615,905
Tax holiday reserve		(44,344,253)	(62,179,648)
Interim dividend including dividend distribution tax		-	(41,250,000)
Proposed dividend		(11,100,000)	-
Profit brought forward		<u>189,531,614</u>	<u>130,345,357</u>
Profit carried forward to the balance sheet		<u>248,696,791</u>	<u>189,531,614</u>

The accompanying notes 1 to 16 form an integral part of these financial statements.


Director


Director

As per our separate report of even date.


Auditors

Dhaka, 2 November 2006

Marico Bangladesh Limited

**Consolidated statement of changes in shareholders' equity
for the year ended 30 September 2006**

	<u>Share capital Taka</u>	<u>Tax holiday reserve Taka</u>	<u>Proposed dividend Taka</u>	<u>Unappropriated profit Taka</u>	<u>Total Taka</u>
Balance at 30 September 2004	10,000,000	75,956,809	-	130,345,357	216,302,166
Net profit after tax for the year 2005	-	-	-	162,615,905	162,615,905
Transferred to tax holiday reserve	-	62,179,648	-	(62,179,648)	-
Proposed dividend including dividend distribution tax	-	-	41,250,000	(41,250,000)	-
Dividend paid	-	-	(41,250,000)	-	(41,250,000)
Balance at 30 September 2005	10,000,000	138,136,457	-	189,531,614	337,668,071
Net profit after tax for the year 2006	-	-	-	114,609,430	114,609,430
Transferred to tax holiday reserve	-	44,344,253	-	(44,344,253)	-
Proposed dividend	-	-	11,100,000	(11,100,000)	-
Balance at 30 September 2006	<u>10,000,000</u>	<u>182,480,710</u>	<u>11,100,000</u>	<u>248,696,791</u>	<u>452,277,501</u>

Marico Bangladesh Limited

Cash flow statement
for the year ended 30 September 2006

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
A) Cash flows from operating activities		
Net profit after tax	114,609,430	162,615,905
Add: Depreciation	10,440,098	8,748,985
Deferred expenses write off	11,500,006	-
Amortisation of brand rights	2,232,756	-
	<u>24,172,860</u>	<u>8,748,985</u>
	138,782,290	171,364,890
Changes in working capital:		
Current liabilities increase/(decrease)	288,620,733	29,673,003
Current assets (increase)/decrease	<u>(127,058,704)</u>	<u>(43,461,332)</u>
<i>Net cash generated from operating activities</i>	<u>300,344,319</u>	<u>157,576,561</u>
B) Cash flows from investing activities		
Acquisition of fixed assets	(86,065,156)	(9,972,621)
Assets under construction	(130,000,000)	-
Acquisition of intangible assets	(15,000,000)	(7,325,125)
Investment in Marks & Allys Ltd. support contract	<u>(50,000,000)</u>	<u>(65,000,000)</u>
<i>Net cash generated/(used) from investing activities</i>	<u>(281,065,156)</u>	<u>(82,297,746)</u>
C) Cash flows from financing activities		
Interim dividend paid including dividend distribution tax	-	(41,250,000)
<i>Net cash generated/(used) from financing activities</i>	<u>-</u>	<u>(41,250,000)</u>
D) Net increased in cash and cash equivalents (A+B+C)	19,279,163	34,028,815
E) Opening cash and cash equivalents	197,156,008	163,127,193
F) Closing cash and cash equivalents (D+E)	<u>216,435,171</u>	<u>197,156,008</u>

Marico Bangladesh Limited

**Consolidated notes to the financial statements
for the year ended 30 September 2006**

1.1 Basis of consolidation

These consolidated financial statements have been prepared in accordance with BAS 27. In respect of the subsidiary undertaking, audited financial statements for the year ended 30 September 2006 have been used to draw up these financial statements.

1.2 Subsidiary:

Subsidiary is an entity controlled by the parent company. Control exists when the parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

1.3 Transactions eliminated on consolidation:

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, have been eliminated while preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees have been eliminated against the investment to the extent of the parent company's interest in the investee. Unrealised losses were eliminated in the same way as unrealised gains, but only to the extent that there was no evidence of impairment.

2. Property, plant and equipment

Particulars	Cost			Depreciation			Net book value	
	As at 1 October 2005	Addition during the year	As at 30 September 2006	As at 1 October 2005	Charged for the year	As at 30 September 2006	As at 30 September 2006	As at 30 September 2005
	Taka	Taka	Taka	Taka	Taka	Taka	Taka	Taka
Plant and machinery	12,991,098	81,445,511	94,436,609	3,986,431	5,765,619	9,752,050	84,684,559	9,004,667
Factory equipment	4,863,144	115,049	4,978,193	2,748,378	584,678	3,333,056	1,645,137	2,114,766
Moulds	3,990,548	728,700	4,719,248	1,085,902	813,770	1,899,672	2,819,576	2,904,646
Factory building	1,833,040	-	1,833,040	147,464	301,478	448,942	1,384,098	1,685,576
Laboratory equipment	817,600	-	817,600	390,799	238,290	629,089	188,511	426,801
Office equipments	1,821,612	328,318	2,149,930	823,684	330,790	1,154,474	995,456	997,928
Cars and jeeps	5,130,657	1,239,000	6,369,657	2,728,847	1,111,175	3,840,022	2,529,635	2,401,810
Vans	791,350	-	791,350	92,324	158,270	250,594	540,756	699,026
Computers	2,143,279	1,334,293	3,477,572	1,160,735	591,483	1,752,218	1,725,354	982,544
Furniture	2,823,929	402,370	3,226,299	1,257,433	421,721	1,679,154	1,547,145	1,566,496
Fixtures	97,171	184,415	281,586	17,264	27,330	44,594	236,992	79,907
Refrigerator, water coolers	472,950	287,500	760,450	225,217	95,494	320,711	439,739	247,733
At 30 September 2006	37,776,378	86,065,156	123,841,534	14,664,478	10,440,098	25,104,576	98,736,958	23,111,900
At 30 September 2005	27,803,757	9,972,621	37,776,378	8,929,039	5,735,439	14,664,478	23,111,900	-

Depreciation has been allocated as follows:

	<u>Taka</u>
Manufacturing	7,395,167
Administration	3,044,931
	<u>10,440,098</u>

3. Asset under construction

	<u>2006</u>	<u>2005</u>
	Taka	Taka
Machinery purchased from Aromatic Cosmetics Ltd	195,000,000	-
Cost of setup	2,232,683	-
Cost of acquisition	5,161,250	-
	<u>202,393,933</u>	<u>-</u>
Less: Transferred to fixed assets	72,393,933	-
	<u>130,000,000</u>	<u>-</u>

Above assets remain yet to be installed for commercial production as at balance sheet date.

4. Intangible Asset

Marico Bangladesh Ltd., through an agreement dated 25 April 2005 with Marks & Allys Limited, paid Tk. 5,000,000 for acquiring the intellectual property right and copyright of "Camelia" and "Magnolia" soaps. Tk. 15,000,000 had also been paid for acquiring the intellectual property right and copyright of "Aromatic" brand soap vide an agreement dated 7 October 2005 with Aromatic Cosmetics Limited. The total cost is being amortized over a period of 10 years.

Marks & Allys Limited:

Intellectual property right	2,500,000	2,500,000
Copy right	2,500,000	2,500,000
	<u>5,000,000</u>	<u>5,000,000</u>

Aromatic Cosmetics Limited:

Intellectual property right	7,500,000	-
Copy right	7,500,000	-
	<u>15,000,000</u>	<u>-</u>

Incidental to capital expenditure	2,325,125	2,325,125
Total cost	<u>22,325,125</u>	<u>7,325,125</u>
Less: Amortisation	2,537,970	305,214
Net value	<u>19,787,155</u>	<u>7,019,911</u>

5. Other Assets

These represent a sum of Tk. 65,000,000 paid to Marks & Allys Limited and Tk. 50,000,000 paid to Aromatic Cosmetic Limited in respect of business and commercial support contract, covering the period of 10 years, executed on 25 April 2005 and 7 October 2005 respectively.

Deferred expenditure:

Marks & Allys Limited	65,000,000	65,000,000
Aromatic Cosmetics Limited	50,000,000	-
Total deferred expenditure	<u>115,000,000</u>	<u>65,000,000</u>
Less: Amortised	14,208,339	2,708,333
	<u>100,791,661</u>	<u>62,291,667</u>

6. Inventories

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Raw materials	33,100,924	1,155,926
Packing materials	21,220,157	5,921,251
Finished goods	4,392,965	-
	<u>58,714,046</u>	<u>7,077,177</u>

7. Trade debtors

Kollol Limited	144,515,493	49,991,905
Others	1,951,215	-
	<u>146,466,708</u>	<u>49,991,905</u>

All above debtors balances are below six months.

8. Advances and deposits

Advances:

Ethical Drugs Ltd.	34,730,694	34,730,694
For goods	8,814,092	22,754,991
Loan to Marks & Allys Ltd.	20,000,000	20,000,000
Loan to employee	65,000	-
For services	25,582,326	34,826,768
	89,192,112	112,312,453

Deposits:

VAT current account	4,091,856	5,522,066
Supplementary duty	306,185	306,185
Security deposit	3,221,147	3,844,107
	7,619,188	9,672,358
	<u>96,811,300</u>	<u>121,984,811</u>

9. Cash and cash equivalents

Cash on hand	153,115	800,420
Fixed deposit with:		
State Bank of India	166,100,000	91,012,599
Standard Chartered Bank, Dhaka	-	46,964,484
	166,100,000	137,977,083
Cash at banks:		
Citibank N.A.	48,693,628	7,593,165
Standard Chartered Bank, Dhaka	1,488,428	50,785,340
	50,182,056	58,378,505
	<u>216,435,171</u>	<u>197,156,008</u>

10. Short term finance

	<u>2006</u> Taka	<u>2005</u> Taka
Short term loan:		
Citibank N.A., Dhaka	200,000,000	-
Bank overdraft:		
Citibank N.A., Dhaka	37,157,701	-
Standard Chartered Bank, Dhaka	3,620,248	-
	<u>40,777,949</u>	<u>-</u>
	<u>240,777,949</u>	<u>-</u>

Citibank N.A.

a) Limit

Total aggregate limit of short term loan and bank overdraft is Tk 300 million. The short term loan, taken on 4 October 2005, is repayable within 360 days.

b) Nature of security (Short term loan and bank overdraft):

- 1) Demand promissory note and letter of continuity for Tk 300 million.
- 2) First priority pari-passu charge (registered hypothecation) with other lender over the stocks and book debts of the company.

c) Rate of interest:

Short term loan: Concessional and competitive rates to be offered at the time of charging of interest which is currently 10.75%

Overdraft: 11.25% p.a. or such other or higher rate to be fixed or charged by the bank from time to time.

Standard Chartered Bank:

a) Limit:

Against a limit of Tk 115 million, the company is enjoying an overdraft facility of Tk 3.62 million.

b) Nature of security:

- 1) Demand promissory note and letter of continuity for Tk 120 million each.
- 2) Registered hypothecation over stocks and book debts for Tk 120 million.

c) Rate of interest:

Interest will be charged quarterly at the rate determined by the Standard Chartered Bank from time to time within the guidelines of Bangladesh Bank. (Current rate is 11%).

11. Liability for expenses

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Business promotion expenses	48,647,359	21,758,079
Advertisement expenses	27,971,752	14,314,000
Leakage and damage	13,144,140	9,375,568
Royalty	11,409,535	6,968,115
Audit fees	361,250	450,000
Leave encashment	350,000	350,000
Travel payment	-	26,912
Creditors for services	14,374,352	7,797,624
Capital purchase	361,655	500
Salary payable	47,020	6,750
Price difference	-	473,177
Creditors for supplies	9,670,040	629,297
Other expenses	8,147,418	2,904,570
	<u>134,484,521</u>	<u>65,054,592</u>

12. Provision for income tax

Opening balance	268,932	361,546
Add: Provision for current taxation	16,639,070	6,307,230
	<u>16,908,002</u>	<u>6,668,776</u>
Less: Provision adjusted	-	1,847,213
	<u>16,908,002</u>	<u>4,821,563</u>
Tax paid u/s 64 / 74	11,873,330	386,449
Tax deducted at source	4,103,389	4,166,182
	<u>15,976,719</u>	<u>4,552,631</u>
	<u>931,283</u>	<u>268,932</u>

13. Other liabilities

VAT deducted at source	-	100,125
VAT Payable	841,900	295,977
Tax deducted from suppliers' bills	2,386,522	5,858,301
	<u>3,228,422</u>	<u>6,254,403</u>

14. Cost of sales

Raw materials consumption	557,232,030	415,298,434
Purchases of finished goods	266,646,330	120,871,279
Add: Factory overhead	15,757,872	8,643,531
Exchange loss	2,900,232	5,456,447
Carriage inward	134,162	217,757
	<u>18,792,266</u>	<u>14,317,735</u>
	<u>842,670,626</u>	<u>550,487,448</u>

15. General and administration expenses

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Salaries and allowances	33,954,194	21,079,917
Director's remuneration	293,337	320,004
Rent	1,179,740	836,750
Professional charges	3,680,835	3,076,638
Security charges	906,499	687,878
Legal charges	1,782,239	1,958,659
Donation	-	760
Repair and maintenance	2,084,935	1,241,729
Communication expenses	2,842,569	2,052,143
Entertainment	51,443	278,576
Printing and stationery	732,165	525,958
Vehicle running expenses	4,408,102	2,750,815
Travelling and conveyance	8,749,556	2,802,849
Audit fees	630,000	233,050
Recruitment expenses	340,058	73,800
Insurance premium	1,648,085	277,874
Books and periodicals	43,482	43,440
Deferred expenses written off	11,500,006	2,708,333
Bank charges	298,331	131,311
Fooding and lodging	-	521,305
Staff welfare expenses	2,123,934	1,403,270
Conference and training expenses	708,274	743,082
Electricity and gas charges	320,659	263,149
Amortisation of brand rights	2,232,757	305,214
Royalty	4,441,420	3,395,855
Depreciation	3,044,931	2,201,324
	<u>87,997,551</u>	<u>49,913,683</u>

16. Selling and distribution expenses

Business promotion expenses	66,208,700	33,602,035
Advertisement	81,685,219	29,473,417
Market research expenses	2,802,245	3,137,030
Leakage and damages	3,768,572	4,319,153
	<u>154,464,736</u>	<u>70,531,635</u>



**Auditors' Report
to the Shareholders of
Marico Bangladesh Limited**

We have audited the accompanying balance sheet of Marico Bangladesh Limited as of 30 September 2006 and the related profit and loss account, cash flow statement and the statement of changes in equity for the year then ended. The preparation of these financial statements is the responsibility of the company's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, prepared in accordance with Bangladesh Accounting Standards, give a true and fair view of the state of the company's affairs as of 30 September 2006 and of the results of its operations and cash flow for the year then ended and comply with the Companies Act 1994 and other applicable laws and regulations.

We also report that:

- a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;
- b) in our opinion, proper books of account as required by law have been kept by the company so far as it appeared from our examination of those books; and
- c) the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account.

R.A.H.

Dhaka, 2 November 2006



Rahman Rahman Huq
Chartered Accountants

Marico Bangladesh Limited

Balance sheet as at 30 September 2006

<u>Sources of funds</u>	<u>Notes</u>	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Shareholders equity:			
Share capital	5	10,000,000	10,000,000
Tax holiday reserve		182,480,710	138,136,457
Proposed dividend		11,100,000	-
Accumulated profit		216,981,876	170,049,420
Total		<u>420,562,586</u>	<u>318,185,877</u>
Application of funds			
Property, plant and equipment			
Cost	6	118,311,911	37,420,978
Less: Accumulated depreciation		<u>24,523,585</u>	<u>14,595,557</u>
		93,788,326	22,825,421
Asset under construction	7	130,000,000	-
Intangible assets	8	19,787,155	7,019,911
Other assets	9	100,791,661	62,291,667
Investment in subsidiary		1,000,000	1,000,000
Current assets:			
Inventories	10	57,727,047	7,077,177
Goods in transit		26,105,830	23,212,619
Accrued interest		5,045,253	2,756,698
Trade debtors	11	125,500,462	34,081,678
Advances and deposits	12	96,530,783	121,984,811
Cash and cash equivalents	13	167,304,745	154,383,741
Total current assets		478,214,120	343,496,724
Less: Current liabilities:			
Short term finance	14	240,777,949	-
Liability for expenses	15	88,476,812	41,616,376
Liability for goods		48,707,037	48,594,012
Provision for income tax	16	2,753,197	(893,446)
Loan from subsidiary		20,000,000	-
Payable to holding company		-	23,212,619
Other liabilities	17	2,303,681	5,918,285
Total current liabilities		403,018,676	118,447,846
Net current assets		75,195,444	225,048,878
Total		<u>420,562,586</u>	<u>318,185,877</u>

The accompanying notes 1 to 25 form an integral part of these financial statements.


Director


Director

As per our separate report of even date.


Auditors

Dhaka, 2 November 2006

Marico Bangladesh Limited

Profit and loss account
for the year ended 30 September 2006

	Notes	2006 Taka	2005 Taka
Turnover	18	888,284,048	678,365,298
Cost of sales	19	(576,024,297)	(429,616,169)
Gross profit		312,259,751	248,749,129
General and administration expenses	20	(78,497,295)	(47,451,432)
Selling and distribution expenses	21	(111,799,248)	(52,657,433)
Net profit before interest expense		121,963,208	148,640,264
Interest expense		(27,063,956)	-
Net profit after interest expense		94,899,252	148,640,264
Other income		15,961,380	8,220,869
Net profit before taxation		110,860,632	156,861,133
Tax expense		(8,483,923)	(374,787)
Net profit after taxation		102,376,709	156,486,346
Tax holiday reserve		(44,344,253)	(62,179,648)
Interim dividend including dividend distribution tax		-	(41,250,000)
Proposed dividend		(11,100,000)	-
Profit brought forward		170,049,420	116,992,722
Profit carried forward to the balance sheet		216,981,876	170,049,420

The accompanying notes 1 to 25 form an integral part of these financial statements.



Director



Director

As per our separate report of even date.



Auditors

Dhaka, 2 November 2006

Marico Bangladesh Limited

Statement of changes in shareholders' equity
for the year ended 30 September 2006

	<u>Share capital Taka</u>	<u>Tax holiday reserve Taka</u>	<u>Proposed dividend Taka</u>	<u>Unappropriated profit Taka</u>	<u>Total Taka</u>
Balance at 30 September 2004	10,000,000	75,956,809	-	116,992,723	202,949,532
Net profit after tax for the year 2005	-	-	-	156,486,345	156,486,345
Transferred to tax holiday reserve	-	62,179,648	-	(62,179,648)	-
Proposed dividend including dividend distribution tax	-	-	41,250,000	(41,250,000)	-
Dividend paid	-	-	(41,250,000)	-	(41,250,000)
Balance at 30 September 2005	10,000,000	138,136,457	-	170,049,420	318,185,877
Net profit after tax for the year 2006	-	-	-	102,376,709	102,376,709
Transferred to tax holiday reserve	-	44,344,253	-	(44,344,253)	-
Proposed dividend	-	-	11,100,000	(11,100,000)	-
Balance at 30 September 2006	<u>10,000,000</u>	<u>182,480,710</u>	<u>11,100,000</u>	<u>216,981,876</u>	<u>420,562,586</u>

Marico Bangladesh Limited

Cash flow statement for the year ended 30 September 2006

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
A) Cash flows from operating activities		
Net profit after tax	102,376,709	156,486,346
Add: Depreciation charged for the year	9,928,028	8,683,342
Deferred expenses write off	11,500,006	-
Amortisation of brand rights	2,232,757	-
	<u>23,660,791</u>	<u>8,683,342</u>
	126,037,500	165,169,688
Changes in working capital:		
Current liabilities increase/(decrease)	284,570,829	22,170,700
Current assets (increase)/decrease	(121,796,392)	(45,784,461)
<i>Net cash generated from operating activities</i>	<u>288,811,937</u>	<u>141,555,927</u>
B) Cash flows from investing activities		
Acquisition of fixed assets	(80,890,933)	(9,735,221)
Assets under construction	(130,000,000)	-
Acquisition of intangible assets	(15,000,000)	(7,325,125)
Investment in Marks & Allys support contract	(50,000,000)	(65,000,000)
<i>Net cash generated/(used) from investing activities</i>	<u>(275,890,933)</u>	<u>(82,060,346)</u>
C) Cash flows from financing activities		
Interim dividend paid including dividend distribution tax	-	(41,250,000)
<i>Net cash generated/(used) from financing activities</i>	<u>-</u>	<u>(41,250,000)</u>
D) Net increased in cash and cash equivalents (A+B+C)	12,921,004	18,245,581
E) Opening cash and cash equivalents	154,383,741	136,138,160
F) Closing cash and cash equivalents (D+E)	<u>167,304,745</u>	<u>154,383,741</u>



Marico Bangladesh Limited

Notes to the financial statements for the year ended 30 September 2006

1. Company profile

Marico Bangladesh Limited (MBL) is a private limited company incorporated on 6 September 1999 in Bangladesh under the Companies Act 1994. The address of the company's registered office is House # 57, Road # 7/B, Block -H, Banani, Dhaka - 1213, Bangladesh. The present authorised and paid up capital is Tk 10,000,000 divided into 1,000,000 ordinary shares of Tk 10 each. The company is a wholly owned subsidiary of Marico Limited, India.

The company started commercial operation from 30 January 2000.

1.1 Description of subsidiary MBL Industries Limited:

MBL Industries Limited is a private limited company registered under the Companies Act 1994 with an authorised capital of Tk 1,000,000 divided into 100,000 ordinary shares of Tk 10 each. Marico Bangladesh Limited acquired 99,996 ordinary shares of MBL Industries Limited on 4 August 2003.

2. Nature of business

The principal activities of the company are to manufacture, market and sell coconut hair oil and soap. Earlier the products of the company were being sold through its only customer Kollol Limited. Additionally, from this year, the company has established a depot at Bogra for direct sales to dealers.

MBL has set up a manufacturing unit at Gazipur and went into commercial production from 27 October 2002. The land and factory building has been taken on rent under an agreement on 30 May 2002 for a period of 5 years through a tripartite agreement between Quality Chemical Industries Limited, Marico Bangladesh Limited and Bangladesh Shilpa Bank.

MBL has acquired the soap brand "Camelia" and "Magnolia" from Marks & Allys Limited on 25 April 2005 to signal its entry into soap market in Bangladesh.

MBL has also acquired the soap brand "Aromatic" from Aromatic Cosmetics Limited on 7 October 2005 to consolidated its position in soap market in Bangladesh.

3. Basis of preparation

3.1 Statement of compliance:

The financial statements have been prepared in accordance with Bangladesh Accounting Standards (BAS).



3.2 Reporting currency and level of precision:

The figures in the financial statements are denominated in Bangladesh taka, rounded off to the nearest integer.

3.3 Reporting period

Financial statements of the company cover the period from 1 October 2005 to 30 September 2006 consistently.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods.

4.1 Property, Plant & Equipment and depreciation

i. Recognition and measurement:

Property, Plant & Equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets. Parts of an item of property, plant & equipment having different useful lives, are accounted for as separate items of property, plant & equipment.

ii. Subsequent costs:

The costs of a replacing part of an item of property, plant & 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 company and its costs can be measured reliably. The costs of the day to day servicing of property, plant & equipment are recognised in the profit and loss account as incurred.

iii. Depreciation:

Depreciation is recognised in the profit and loss account on straight line basis over the estimated useful lives of each part of an item of property, plant & equipment. Land is not depreciated. Considering the estimated useful lives of the assets the following rates have been applied:

Airconditioner, refrigerator	15-20%
Vehicles (cars, jeeps and vans)	20%
Computer	15-33%
Factory building	15-20%
Factory equipment	15-20%
Furniture	15-33%
Laboratory equipment	15-33%
Moulds	15-20%
Office equipment	15-100%
Plant and machinery	15-20%
Fixtures	20%



4.2 Intangible assets:

Intangible assets have finite useful lives and are stated at cost less accumulated amortization using straight line method. Intangible assets are recognised in accordance in BAS-38. Intangible assets include cost of acquisition of the intellectual property, copy right incidental to capital expenditure.

Amortization:

Amortization is recognized in the profit and loss account on straight line basis over the estimated useful lives of intangible assets from the date they are available for use. Assets are amortized over a period of ten years commencing from 1 May 2005 for Camellia and for Aromatic from 1 October 2005.

4.3 Impairment:

The carrying amounts of the company's assets are reviewed at each balance sheet date or whenever there is any indication of an impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recognised in the profit and loss account.

4.4 Revenue recognition:

Goods sold.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates exclusive of VAT. Revenue is recognised when the significant risks and rewards of the ownership has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods sold. Transfer of risk and rewards occurs for the sale of goods, when the product is delivered along with dispatch documents and invoices to customers.

4.5 Taxation

i. Current tax:

The company is enjoying tax holiday u/s 46A of Income Tax Ordinance, 1984 and therefore, current tax provision is not considered necessary, other than for deductions not admissible u/s 30 and 46A(7) of the same Ordinance.

ii. Deferred tax:

No deferred tax has been provided as the company is enjoying tax holiday u/s 46A of Income Tax Ordinance, 1984.



iii. Tax holiday:

Tax Holiday period will expire on 30th September 2007.

iv. Tax holiday reserve:

Tax holiday reserve has been created @ 40% of the exempted income in accordance with the Income Tax Ordinance 1984.

4.6 Inventories:

4.6.1 Raw materials and packing materials are valued at lower of average cost of material and net realizable value. Finished goods are valued at costs and net realisable value whichever is lower.

4.6.2 Stores:

Stores are valued at average costs.

4.7 Foreign exchange:

The figures in the financial statements are denominated in Bangladesh taka. Monetary assets and liabilities denominated in foreign currencies are translated into Bangladesh taka at the exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical costs, are translated into Bangladesh taka at the exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account.

5. Share capital

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Authorised:		
1,000,000 Ordinary shares of Tk 10 each	<u>10,000,000</u>	<u>10,000,000</u>
Paid up:		
1,000,000 Ordinary shares of Tk 10 each fully paid up in cash	<u>10,000,000</u>	<u>10,000,000</u>

The shares are held by Marico Limited, India and its nominees.

6. Property, plant and equipment

Particulars	Cost			Depreciation			Net book value	
	As at 1 Oct. 2005	Addition during the year	As at 30 Sep. 2006	As at 1 Oct. 2005	Charged for the year	As at 30 Sep. 2006	As at 30 Sep. 2006	As at 30 Sep. 2005
	Taka	Taka	Taka	Taka	Taka	Taka	Taka	Taka
Plant and machinery	12,991,098	76,815,511	89,806,609	3,986,431	5,456,952	9,443,383	80,363,226	9,004,667
Factory equipment	4,863,144	115,049	4,978,193	2,748,378	584,678	3,333,056	1,645,137	2,114,766
Moulds	3,990,548	728,700	4,719,248	1,085,902	813,770	1,899,672	2,819,576	2,904,646
Factory building	1,833,040	-	1,833,040	147,464	301,478	448,942	1,384,098	1,685,576
Laboratory equipments	817,600	-	817,600	390,799	238,290	629,089	188,511	426,801
Office equipments	1,809,612	312,328	2,121,940	819,351	317,051	1,136,402	985,538	990,261
Cars & jeeps	5,130,657	1,239,000	6,369,657	2,728,847	1,111,175	3,840,022	2,529,635	2,401,810
Vans	791,350	-	791,350	92,324	158,270	250,594	540,756	699,026
Computers	1,799,879	806,060	2,605,939	1,096,147	401,819	1,497,966	1,107,973	703,732
Furniture	2,823,929	402,370	3,226,299	1,257,433	421,721	1,679,154	1,547,145	1,566,496
Fixtures	97,171	184,415	281,586	17,264	27,330	44,594	236,992	79,997
Refrigerator, water coolers	472,950	287,500	760,450	225,217	95,494	320,711	439,739	247,733
At 30 September 2006	37,420,978	80,890,933	118,311,911	14,595,557	9,928,028	24,523,585	93,788,326	22,825,421
At 30 September 2005	27,684,757	9,736,221	37,420,978	8,925,762	5,669,795	14,595,557	22,825,421	-

Depreciation allocation (actual basis) to:

	<u>Taka</u>
Manufacturing	7,395,167
Administration	2,532,861
	<u>9,928,028</u>

7. Asset under construction

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Machinery purchased from Aromatic Cosmetics Ltd	195,000,000	-
Cost of setup	2,232,683	-
Cost of acquisition	5,161,250	-
	<u>202,393,933</u>	<u>-</u>
Less: Transferred to fixed assets	72,393,933	-
	<u>130,000,000</u>	<u>-</u>

Above assets remain yet to be installed for commercial production as at balance sheet date.

8. Intangible asset

Marico Bangladesh Ltd., through an agreement dated 25 April 2005 with Marks & Allys Limited, paid Tk. 5,000,000 for acquiring the intellectual property right and copyright of "Camelia" and "Magnolia" soaps. Tk. 15,000,000 had also been paid for acquiring the intellectual property right and copyright of "Aromatic" brand soap vide an agreement dated 7 October 2005 with Aromatic Cosmetics Limited. The total cost is being amortized over a period of 10 years.

Marks & Allys Limited:

Intellectual property right	2,500,000	2,500,000
Copy right	2,500,000	2,500,000
	<u>5,000,000</u>	<u>5,000,000</u>

Aromatic Cosmetics Limited:

Intellectual property right	7,500,000	-
Copy right	7,500,000	-
	<u>15,000,000</u>	<u>-</u>

Incidental to capital expenditure	2,325,125	2,325,125
Total cost	<u>22,325,125</u>	<u>7,325,125</u>
Less: Amortisation	2,537,970	305,214
Net value	<u>19,787,155</u>	<u>7,019,911</u>

9. Other assets

These represent a sum of Tk. 65,000,000 paid to Marks & Allys Limited and Tk. 50,000,000 paid to Aromatic Cosmetic Limited in respect of business and commercial support contract, covering the period of 10 years, executed on 25 April 2005 and 7 October 2005 respectively.

Deferred expenditure:

Marks & Allys Limited	65,000,000	65,000,000
Aromatic Cosmetics Limited	50,000,000	-
Total deferred expenditure	<u>115,000,000</u>	<u>65,000,000</u>
Less: Amortised	14,208,339	2,708,333
	<u>100,791,661</u>	<u>62,291,667</u>

10. Inventories

	<u>2006</u> Taka	<u>2005</u> Taka
Raw materials	33,100,924	1,155,926
Packing materials	21,220,157	5,921,251
Finished goods	3,405,966	-
	<u>57,727,047</u>	<u>7,077,177</u>

11. Trade debtors

Kollol Limited	123,549,247	34,081,678
Others	1,951,215	-
	<u>125,500,462</u>	<u>34,081,678</u>

All of above debtors balances are below six months.

12. Advances and deposits

Advances:

Ethical Drugs Ltd.	34,730,694	34,730,694
For goods	8,814,092	22,754,991
Loan to Marks & Allys Ltd.	20,000,000	20,000,000
For services	25,366,809	34,826,768
	<u>88,911,595</u>	<u>112,312,453</u>

Deposits:

VAT current account	4,091,856	5,522,066
Supplementary duty	306,185	306,185
Security deposit	3,221,147	3,844,107
	<u>7,619,188</u>	<u>9,672,358</u>
	<u>96,530,783</u>	<u>121,984,811</u>

13. Cash and cash equivalents

Cash on hand	120,547	753,766
Fixed deposit with:		
State Bank of India	140,000,000	64,912,599
Standard Chartered Bank, Dhaka	-	39,000,000
	<u>140,000,000</u>	<u>103,912,599</u>
Cash at banks:		
Citibank N.A.	27,184,198	7,593,165
Standard Chartered Bank, Dhaka	-	42,124,211
	<u>27,184,198</u>	<u>49,717,376</u>
	<u>167,304,745</u>	<u>154,383,741</u>

14. Short term finance

Short term loan:		
Citibank N.A., Dhaka	200,000,000	-
Bank overdraft:		
Citibank N.A., Dhaka	37,157,701	-
Standard Chartered Bank, Dhaka	3,620,248	-
	<u>40,777,949</u>	-
	<u>240,777,949</u>	-

Citibank N.A.

a) Limit

Total aggregate limit of short term loan and bank overdraft is Tk.300 million. The short term loan, taken on 4 October 2005, is repayable within 360 days.

b) Nature of security (Short term loan and bank overdraft):

- 1) Demand promissory note and letter of continuity for Tk 300 million.
- 2) First priority pari-passu charge (registered hypothecation) with other lender over the stocks and book debts of the company.

c) Rate of interest:

Short term loan: Concessional and competitive rates to be offered at the time of charging of interest which is currently 10.75% p.a.

Overdraft: 11.25% p.a. or such other or higher rate to be fixed or charged by the bank from time to time.

Standard Chartered Bank:

a) Limit:

Against a limit of Tk 115 million, the company is enjoying an overdraft facility of Tk 3.62 million.

b) Nature of security:

- 1) Demand promissory note and letter of continuity for Tk 120 million each.
- 2) Registered hypothecation over stocks and book debts for Tk 120 million.

c) Rate of interest:

Interest will be charged quarterly at the rate determined by the Standard Chartered Bank from time to time within the guidelines of Bangladesh Bank. (Current rate is 11%).

15. Liability for expenses

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Business promotion expenses	22,570,138	15,623,662
Advertisement expenses	27,971,752	10,397,000
Leakage and damage	8,227,304	4,458,732
Audit fees	215,000	285,000
Leave Encashment	350,000	350,000
Royalty	11,409,535	6,968,115
Creditors for supplies	9,670,040	629,297
Other expenses	8,063,043	2,904,570
	<u>88,476,812</u>	<u>41,616,376</u>

16. Provision for income tax

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Opening balance	(893,446)	2,233,662
Add: Provision for current taxation	<u>8,483,923</u>	<u>2,222,000</u>
	7,590,477	4,455,662
Less : Provision adjusted	<u>-</u>	<u>1,847,213</u>
	7,590,477	2,608,449
Less:		
Tax paid w/s 74	<u>733,891</u>	<u>386,449</u>
Tax deducted at source	<u>4,103,389</u>	<u>3,115,446</u>
	4,837,280	3,501,895
	<u>2,753,197</u>	<u>(893,446)</u>

17. Other liabilities

VAT deducted at source	-	100,125
Tax deducted from suppliers' bills	<u>2,303,681</u>	<u>5,818,160</u>
	<u>2,303,681</u>	<u>5,918,285</u>

18. Turnover

<u>Products</u>		
Parachute coconut oil	874,505,920	678,365,298
Aromatic soap	<u>13,778,128</u>	<u>-</u>
	888,284,048	678,365,298

19. Cost of sales

Raw materials consumption	557,232,030	415,298,434
Add: Factory overhead	<u>15,757,873</u>	<u>8,643,531</u>
Exchange loss	2,900,232	5,456,447
Carriage inward	134,162	217,757
	<u>18,792,267</u>	<u>14,317,735</u>
	<u>576,024,297</u>	<u>429,616,169</u>



20. General and administration expenses

	<u>2006</u>	<u>2005</u>
	Taka	Taka
Salaries and allowances (Note 20.1)	28,846,842	19,611,948
Rent	1,179,740	836,750
Professional charges	2,355,788	3,076,638
Security charges	906,499	687,878
Legal charges	1,680,799	1,950,405
Director's remuneration	293,337	320,004
Repair and maintenance	1,775,185	1,095,556
Communication expenses	2,788,679	2,038,572
Entertainment	31,779	267,486
Printing and stationery	705,988	473,411
Vehicle running expenses	4,298,638	2,750,815
Travelling and conveyance	7,583,527	2,582,572
Auditor's remuneration (Note 20.2)	315,000	117,800
Recruitment expenses	226,843	73,800
Insurance premium	1,400,256	257,882
Books and periodicals	43,482	40,741
Deferred expenses written off	11,500,006	2,708,333
Bank charges	279,673	119,952
Fooding and lodging	-	521,305
Staff welfare expenses	2,121,057	1,358,511
Conference and training expenses	636,480	461,174
Electricity and gas charges	320,659	263,149
Amortisation of brand rights	2,232,757	305,214
Royalty	4,441,420	3,395,855
Depreciation	2,532,861	2,135,681
	<u>78,497,295</u>	<u>47,451,432</u>

20.1 Salaries and allowances:

These include remuneration of Tk 6,965,660 to executive director as salaries and benefits.

20.2 Auditor's remuneration :

Statutory audit fee	125,000	120,000
Tax audit fee	90,000	90,000
Special audit fee	100,000	75,000
	<u>315,000</u>	<u>285,000</u>
Less : Excess provision written back	-	167,200
	<u>315,000</u>	<u>117,800</u>



21. Selling and distribution expenses

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Business promotion expenses	33,692,451	22,625,406
Advertisement	72,701,904	25,404,266
Market research expenses	1,636,321	2,773,062
Leakage and damages	3,768,572	1,854,699
	<u>111,799,248</u>	<u>52,657,433</u>

22. Related party transactions

<u>Name of the related party and relationship</u>	<u>Nature of transactions</u>	<u>Equivalent</u> <u>Taka</u>	<u>Equivalent</u> <u>Taka</u>
Marico Limited, India - parent company	Purchase of coconut oil	<u>289,651,234</u>	<u>151,562,223</u>

Related party transactions were executed at prices fixed by the parent company and are payable under normal payment terms.

23. L/C commitment:

There are commitments for Tk 40.73 million with Standard Chartered Bank, Dhaka on account of letters of credit and Tk 0.88 million on account of shipping guarantee issued by bank in favour of the company.

24. Number of employees

The number of employees engaged for the whole period or part thereof who received a total salary of Tk 36,000 and above was 28 (previous year 24).

25. Import of capital machinery and raw materials

During the year import of capital machinery was worth USD 108,921 and raw material was worth USD 4,364,601.