

THANEAKEA PHUM (CAMBODIA), LTD.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

THANEAKEA PHUM (CAMBODIA), LTD.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

CONTENTS

| | Pages |
|--|--------------|
| STATEMENT OF THE BOARD OF DIRECTORS | 1 - 3 |
| AUDITORS' REPORT | 4 - 5 |
| FINANCIAL STATEMENTS | |
| Balance sheet | 6 |
| Statement of changes in shareholder's equity | 7 |
| Income statement | 8 |
| Cash flow statement | 9 |
| Notes to the financial statements | 10 - 24 |

STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors (“BOD”) submits its report and the audited financial statements of Thaneakea Phum (Cambodia), Ltd. (“TPC”) for the year ended 31 December 2003.

PRINCIPAL ACTIVITY

The principal activity of TPC is to provide micro-finance services to the rural population of Cambodia, through its head office in Phnom Penh and its various provincial offices. Its corporate objective is to provide needed financial services to low-income households, particularly women in the rural areas, in a manner that is viable and sustainable for the economic development of Cambodia.

RESULTS

The results of operations for the year ended 31 December 2003 are set out in the income statement on page 8.

BAD AND DOUBTFUL LOANS

Before the financial statements of TPC were drawn up, the BOD took reasonable steps to ascertain that appropriate actions had been taken, in relation to the writing off of bad loans and the provision for bad and doubtful loans. They satisfied themselves that all known bad loans had been written off and that adequate provisions had been made for bad and doubtful loans.

At the date of this report, the BOD is not aware of any circumstances which would render the amount of the provision for bad and doubtful loans in the financial statements of TPC inadequate to any material extent.

VALUATION OF ASSETS

Before the financial statements of TPC were drawn up, the BOD took reasonable steps to ensure that its assets, other than loans which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of TPC, had been written down to an amount which they might be expected to realise.

At the date of this report, the BOD is not aware of any circumstances which would render the values attributed to the current assets in the financial statements of TPC misleading in any material respect.

VALUATION METHODS

At the date of this report, the BOD is not aware of any circumstances that have arisen which would render adherence to the existing historical method of valuation of assets and liabilities in the financial statements of TPC misleading or inappropriate in any material respect.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- i) any charge on the assets of TPC which has arisen since the end of the year which secures the liabilities of any other person;
- ii) any contingent liability in respect of TPC that has arisen since the end of the year other than in the ordinary course of its business operations.

No contingent or other liability of TPC has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the BOD, will or may have a material effect on the ability of TPC to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the BOD is not aware of any circumstances, not otherwise dealt with in this report or the financial statements of TPC, which would render any amount stated in the financial statements misleading in any material respect.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of TPC for the year ended 31 December 2003 were not, in the opinion of the BOD, materially affected by any items, transactions or events of a material and unusual nature.

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the BOD, to substantially affect the results of the operations of TPC for the current year in which this report is made.

EVENTS SINCE THE BALANCE SHEET DATE

No significant events occurred after the balance sheet date requiring disclosure or adjustment other than those already disclosed in the accompanying notes to the financial statements.

THE BOARD OF DIRECTORS

The members of the BOD during the period and at the date of this report are:

- | | |
|--|-------------------------------------|
| ▪ Mark Taylor Pierce, CRS/SEAPRO Regional Director | Chairman |
| ▪ Richard Balmadier, CRS/KH representative | Vice Chairman |
| ▪ Mark David Palmer, CRS/HQ representative | Member (Appointed on November 2003) |
| ▪ Madame Sum Nipha, local banking expert | Member |
| ▪ Om Visal, staff representative | Member (Appointed on November 2003) |

No members held any interest in the equity of TPC except for Richard Balmadier holding 400 shares of TPC (at par value of Riel 100,000 each). No arrangements existed to which TPC is a party, with the object of enabling the members to obtain an interest in TPC or in any corporate body. No member has a benefit, other than remuneration, by reason of a contract made by TPC or related party.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re-appointment.

RESPONSIBILITIES OF THE BOD IN RESPECT OF THE FINANCIAL STATEMENTS

The BOD is responsible to ensure that the financial statements are properly drawn up, so as to give a true and fair view of the financial position of TPC as at 31 December 2003, and of the results of its operations for the period then ended. In preparing these financial statements, the BOD is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of guidelines issued by the National Bank of Cambodia or, if there has been any departures in the interests of true and fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that TPC will continue operations in the foreseeable future;
- v) set overall policies for TPC, ratify all decisions and actions by the management that have a material effect on the operations and performance of TPC, and ensure they have been properly reflected in the financial statements.

The BOD confirms that TPC has complied with these requirements in preparing the financial statements.

On behalf of the Board of Directors,

Richard Balmadier
Vice Chairman
Date: 31 March 2004

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF THANEAKEA PHUM (CAMBODIA) LTD.

We have audited the financial statements of Thaneakea Phum (Cambodia) Ltd. (“TPC”) as at 31 December 2003 and for the year then ended as set out on pages 6 to 24. These financial statements have been prepared in accordance with the accounting policies set out in note 2 to the financial statements.

Respective responsibilities of the BOD and the auditors

The BOD of TPC is responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit of those financial statements, and to report our opinion to you.

This report, including the opinion, has been prepared for and only for TPC’s BOD, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, except where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the financial statements, whether the accounting policies are appropriate to TPC’s circumstances, and whether they are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free of material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements are not intended to present the financial position and results of operations of TPC in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilised in Cambodia may differ from those generally accepted in countries and jurisdictions other than Cambodia.

Scope limitation

As discussed in notes 1 and 19 to the financial statements, the assets and liabilities of the Thaneakea Phum Program (“the Program”) as at 30 June 2002 were transferred to TPC on a going concern basis. The scope of our work did not include an audit of these assets and liabilities as at the date of transfer. Consequently, we are unable to determine the impact, if any, these opening balances would have on the income statement for the year ended 31 December 2003 had the scope of our work been expanded to include an audit of these balances as at the date of transfer.

Opinion

Except for the effect of the adjustments that might have been found to be necessary as a result of the matters described under the heading *Scope limitation*, in our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of TPC as at 31 December 2003, and of the results of its operations and its cash flows for the period then ended, in accordance with the accounting policies set out in note 2 to the financial statements.

PRICEWATERHOUSECOOPERS (CAMBODIA) LIMITED
Phnom Penh, Kingdom of Cambodia
Date: 31 March 2004

THANEAKEA PHUM (CAMBODIA), LTD.**BALANCE SHEET
AS AT 31 DECEMBER 2003**

| | Note | 2003 Riel '000 | 2002 Riel '000 |
|---|------|-------------------|-------------------|
| ASSETS | | | |
| Cash in hand | 3 | 212,267 | 76,783 |
| Deposits with the National Bank of Cambodia | 4 | 200,500 | - |
| Balances with banks | 5 | 1,348,306 | 1,484,725 |
| Loans to customers | 6 | 8,698,487 | 4,119,754 |
| Property and equipment | 7 | 475,126 | 515,929 |
| Other assets | 8 | 181,782 | 49,578 |
| TOTAL ASSETS | | 11,116,468 | 6,246,769 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| LIABILITIES | | | |
| Customer deposits | 9 | 1,157,887 | 625,450 |
| Accruals and other liabilities | 10 | 360,233 | 84,961 |
| Deferred grant income | 11 | 122,100 | 229,541 |
| Total Liabilities | | 1,640,220 | 939,952 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 12 | 4,000,000 | 3,243,285 |
| Donated capital | | 0 | 880,924 |
| Reserves | | 788,740 | 747,188 |
| Hybrid capital investment | 13 | 3,950,666 | 427,362 |
| Retained earnings | | 736,842 | 8,058 |
| Total Shareholders' Equity | | 9,476,248 | 5,306,817 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 11,116,468 | 6,246,769 |

Ms. Elizabeth O. Abrera
Chief Executive Officer
Date: 31 March 2004

Mr. Oum Sophan
Chief Financial Officer
Date: 31 March 2004

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003**

| | Note | Share capital Riel'000 | Donated capital Riel'000 | Reserves Riel'000 | Hybrid capital investment Riel'000 | Retained earnings Riel'000 | Total Riel'000 |
|--|-------|------------------------------|--------------------------------|----------------------|---|----------------------------------|-------------------|
| 2002 | | | | | | | |
| As at the date of the transfer | | - | 140,870 | 699,349 | - | - | 840,219 |
| Registered capital | | 3,243,285 | - | - | - | - | 3,243,285 |
| Loans funds granted during the period | | - | 740,054 | - | - | - | 740,054 |
| Adjustment made during the period – net | | - | - | 113,146 | - | - | 113,146 |
| Provision for bad and doubtful loans | | - | - | (65,307) | - | - | (65,307) |
| Cash received from non-merging partners | | - | - | - | 427,362 | - | 427,362 |
| Net income for the period | | - | - | - | - | 8,058 | 8,058 |
| 2003 | | | | | | | |
| As at 1 January 2003 | | 3,243,285 | 880,924 | 747,188 | 427,362 | 8,058 | 5,306,817 |
| Net income for the year | | - | - | - | - | 728,784 | 728,784 |
| Increase in par value of shares | 12(a) | 679,215 | - | - | (679,215) | - | - |
| Issue of shares for cash | 12(b) | 77,500 | - | - | - | - | 77,500 |
| Transfer from donated capital | | - | (880,924) | - | 880,924 | - | - |
| Cash received from non-merging partners | 13 | - | - | - | 470,021 | - | 470,021 |
| Loan fund from CRS | | - | - | - | 2,851,574 | - | 2,851,574 |
| Write off of savings accounts from the Program | | - | - | 41,552 | - | - | 41,552 |
| As at 31 December 2003 | | <u>4,000,000</u> | <u>-</u> | <u>788,740</u> | <u>3,950,666</u> | <u>736,842</u> | <u>9,476,248</u> |

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

| | Note | 2003 Riel '000 | 2002 Riel '000 |
|---------------------------------------|------|-------------------|-------------------|
| INCOME | | | |
| Interest income from loans | | 3,324,092 | 818,014 |
| Fee income | 14 | 32,331 | 113,845 |
| Amortisation of deferred grant income | | 157,450 | 2,417 |
| Other operating income | 15 | 70,499 | 29,566 |
| Gain on foreign exchange – net | | 53,439 | - |
| Total Income | | 3,637,811 | 963,842 |
| EXPENSES | | | |
| Interest expense | | 114,224 | 19,090 |
| Commissions | | 160,418 | 45,451 |
| Bank fees | 16 | 23,760 | 1,449 |
| General and administrative expenses | 17 | 2,291,505 | 880,899 |
| Provision for doubtful loans | | 136,925 | - |
| Total Expenses | | 2,726,832 | 946,889 |
| PROFIT BEFORE TAX ON PROFIT | | 910,979 | 16,953 |
| Tax on profit | 18 | (182,195) | (8,895) |
| NET PROFIT | | 728,784 | 8,058 |

Ms. Elizabeth O. Abrera
Chief Executive Officer
Date: 31 March 2004

Mr. Oum Sophan
Chief Financial Officer
Date: 31 March 2004

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

| | Note | 2003 Riel '000 | 2002 Riel '000 |
|--|-------------|---------------------------|---------------------------|
| OPERATING ACTIVITIES | | | |
| Net income for the year/ period | | 728,784 | 8,058 |
| Adjustments to reconcile net income with funds provided by operations: | | | |
| Depreciation of property, plant and equipment | | 167,369 | 42,710 |
| Amortisation of grant income | | (107,441) | (2,417) |
| Reserves | | 41,552 | 113,146 |
| Changes in operating assets and liabilities: | | | |
| Loans to customers | | (4,578,733) | (1,517,788) |
| Prepayments and short-term receivables | | - | 55,855 |
| Other assets | | (132,204) | (47,078) |
| Customer deposits | | 532,437 | 157,491 |
| Accounts payable | | - | (29,448) |
| Accruals and other liabilities | | 275,273 | (248,585) |
| Net cash outflow from operating activities | | <u>(3,072,963)</u> | <u>(1,468,056)</u> |
| INVESTING ACTIVITY | | | |
| Purchase of property, plant and equipment | | <u>(126,567)</u> | <u>(164,116)</u> |
| FINANCING ACTIVITIES | | | |
| Loan funds granted during the year | | 2,851,574 | 740,054 |
| Cash from no merging partners | | 470,021 | 427,362 |
| Increase in paid up capital | | 77,500 | - |
| Net cash inflow from financing activities | | <u>3,399,095</u> | <u>1,167,416</u> |
| NET INCREASE / (DECREASE) IN CASH IN HAND AND IN BANKS | | 199,565 | (464,756) |
| CASH IN HAND AND BALANCES WITH BANKS | | | |
| At the beginning of the year/date of transfer | | <u>1,561,508</u> | <u>2,026,264</u> |
| At the end of the year | | <u><u>1,761,073</u></u> | <u><u>1,561,508</u></u> |
| Non-cash activities: | | | |
| Property and equipment grant | | - | 231,958 |
| Unpaid share capital subscription | | - | 2,500 |

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

1. BACKGROUND INFORMATION

The Thaneakea Phum (Cambodia) Company, Ltd. (“TPC”), is a registered limited liability company incorporated under the Cambodian laws. Its activities are an offshoot of the Thaneakea Phum Program (“the Program”) which the Catholic Relief Services (CRS) launched in December 1994 as part of CRS Cambodia’s strategy for rural reconstruction and poverty alleviation. TPC is the result of the operational merger and transformation of CRS branches and two of its non-government organizations (NGO) partners who spun off their micro-finance operations to become a branch of a licensed micro-finance institution. The transferred assets and liabilities of TPC were established based on the asset transfer document dated 19 September 2002, as discussed in note 19 to the financial statements.

TPC as a micro-finance institution will continue to be primarily, a rural-based credit and savings institution with ten branches and a head office in Phnom Penh. TPC’s corporate focus is to provide reliable and affordable access to financial services to poor women micro-entrepreneurs in rural areas and in the vicinity of Phnom Penh. Out of a total 21 provinces in Cambodia, TPC is already operating in eight provinces, namely Takeo, Kampot, Battambang, Svay Rieng, Banteay Meanchey, Siem Reap, Kampong Cham and Kandal. The Kandal and Phnom Penh operations are already fully functioning towards the end of 2002. Financial services are provided either through village banks made up of solidarity groups of five members each, or to solidarity groups themselves. In 2003, TPC plans to provide individual loans to clients who have established a good repayment performance and fine entrepreneurial skills evidenced by a growing and successful micro-enterprise.

TPC was registered as a limited liability company (“LLC”) on 27 June 2002. The National Bank of Cambodia (“NBC”) granted TPC a license to conduct business as a micro-finance institution for a three-year period commencing from 12 February 2003 to 12 February 2006.

As at 31 December 2003, TPC had 162 staff of whom 20 are situated at the Head Office in Phnom Penh and 125 in the branches.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation

The financial statements are prepared under the historical cost convention following the significant accounting policies disclosed in note 2.

The financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilised in Cambodia may differ from those generally accepted in countries and jurisdiction other than Cambodia.

THANEAKEA PHUM (CAMBODIA), LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency of presentation

The financial statements are prepared in the national currency of the Kingdom of Cambodia, the Khmer Riel (“Riel”).

Basis of aggregation

The financial statements include the financial statements of the head office, and TPC’s ten branches. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and provision for bad and doubtful loans.

The amount of provision established by TPC as at the balance sheet date is in full compliance with the requirement of the National Bank of Cambodia’s (NBC) Prakas No B-7-02-186 on classification of and provisioning for bad and doubtful loans, including interest in suspense. This is determined by applying defined percentages to the outstanding balances in various aged categories (other than those classified as *current* or *standard* where no provision is required), as follows:

| Loan classification | % |
|---|----------|
| <i>Standard</i> (where repayments are less than 30 days overdue) | 0 |
| <i>Substandard</i> (where repayments are more than 30 days overdue) | 10 |
| <i>Doubtful</i> (where repayments are more than 60 days overdue) | 30 |
| <i>Loss</i> (where repayments are more than 90 days overdue) | 100 |

The adequacy of the provision for bad and doubtful loans established as at balance sheet date following the NBC Prakas was evaluated by management up to the date of the auditors’ report. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms. Based on management’s judgment, no additional amount is necessary to maintain the provision balance at an adequate level to absorb losses.

For the period from 27 June to 31 December 2002, the amount of provision for bad and doubtful loans was charged against the *Reserves* account (see note 22). From 1 January 2003 onwards, the amount of provision for bad and doubtful loans was charged against the income statement.

Property, plant and equipment

Property, plant and equipment are stated at their transferred values represented by the respective net book values (cost less accumulated depreciation) recorded in the Program’s accounts as at the date of transfer to TPC (see note 19). All acquisitions subsequently are recorded at cost.

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Depreciation is computed based on the straight-line method other than for vehicles, which is computed based on the declining balance method. The expense will be charged at rates calculated to write down the recorded cost of the property, plant and equipment over their estimated useful lives. The useful lives of these assets are as follows:

| | <i>Useful lives (Years)</i> |
|------------------|---------------------------------|
| Office equipment | 3 to 5 |
| Motor vehicles | 5 to 8 |

Expenditure for maintenance and repairs that do not extend the useful lives of assets will be expensed in the year in which they are incurred.

Gains or losses on the sale of property and equipment will be recognised upon the disposal of such assets.

Operating lease

Leases where most of the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Interest Income and expense recognition

Interest earned on loans is recognised on an accrual basis.

Interest expense on deposits is recognized on an accrual basis.

Fee income is recognised in the income statement when the transaction occurs.

Grants

Revenue grants received to subsidize TPC's operating expenses are released to the income statement on a systematic and rational basis, matching the related costs which they are intended to compensate.

Grants received for the purchase of property, plant and equipment are amortised to the income statement on a systematic and rational basis over the useful life of the asset. The unamortised grants are shown as *Deferred grant income*.

Funds received to be used exclusively for funding its loan disbursement are recognized as *Hybrid capital* and treated as part of shareholder's equity in the balance sheet.

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

Foreign currency transactions are translated into Khmer Riel using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations of the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. The exchange rates used for the translations of monetary assets and liabilities denominated in foreign currencies are as follows:

| | 2003 | 2002 |
|------------------------|-------------|-------------|
| Khmer Riel / US\$ | 3,976 | 3,905 |
| Khmer Riel / Thai Baht | 100.25 | 100 |

Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions entered into by TPC with related parties consisted mainly of fixed asset and loan fund grants received from CRS, as disclosed in notes 11 and 13.

Comparatives

Where necessary, comparative figures have been adjusted to confirm with changes in presentation in the current year.

Reserves

This account represents profits from the previous Program under CRS. Loans and deposits that accrue from the Program are charged to this account.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****3. CASH IN HAND**

The details of cash in hand by location are as follows:

| | 31 December 2003 | 31 December 2002 |
|----------------------------|-------------------------|-------------------------|
| | Riel '000 | Riel '000 |
| <i>Head office</i> | 1,168 | 1,000 |
| <i>Provincial branches</i> | | |
| Phnom Penh | 34,051 | 1,226 |
| Siem Reap | 29,716 | 7,411 |
| Tramkok | 26,741 | 5,535 |
| Samroung Bati | 21,540 | 9,968 |
| Kompong Cham | 20,561 | 15,595 |
| Kandal | 20,559 | 5,756 |
| Chhuk | 19,190 | 8,592 |
| Battambang | 16,737 | 12,193 |
| Banteay Meanchey | 14,111 | 5,417 |
| Svay Rieng | 7,893 | 4,090 |
| | <hr/> | <hr/> |
| | 212,267 | 76,783 |
| | <hr/> | <hr/> |

4. DEPOSITS WITH THE NATIONAL BANK OF CAMBODIA

Following NBC's Prakas No. 8700-006 on the "Licensing of Micro-finance Institution", each licensed MFI shall maintain an amount equal to 5% of its registered capital in a non-interest earning permanent account with the NBC.

5. BALANCES WITH BANKS

| | 31 December 2003 | 31 December 2002 |
|---|-------------------------|-------------------------|
| | Riel '000 | Riel '000 |
| <i>Current accounts</i> | | |
| ACLEDA Bank (without interest) | 555,017 | 174,610 |
| <i>Saving accounts</i> | | |
| Rural Development Bank (RDB), with interest at 1.5% a year | 688,628 | 1,177,928 |
| Canadia Bank, with interest at 2% a year | 104,661 | 132,187 |
| | <hr/> | <hr/> |
| | 1,348,306 | 1,484,725 |
| | <hr/> | <hr/> |

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

6. LOANS TO CUSTOMERS

| | 31 December 2003 | 31 December 2002 |
|---|-------------------------|-------------------------|
| | Riel '000 | Riel '000 |
| Loans and advances to customers | 8,739,970 | 4,185,061 |
| Provision for bad and doubtful loans (see notes 13 and 22) | <u>(41,483)</u> | <u>(65,307)</u> |
| Net | <u><u>8,698,487</u></u> | <u><u>4,119,754</u></u> |

All loans and advances were made to Cambodian nationals.

The details of gross loans and advances by currency are as follows:

| | 31 December 2003 | 31 December 2002 |
|--------------|-------------------------|-------------------------|
| | Riel '000 | Riel '000 |
| In Riel | 7,094,697 | 3,377,447 |
| In Thai Baht | <u>1,645,273</u> | <u>807,614</u> |
| | <u><u>8,739,970</u></u> | <u><u>4,185,061</u></u> |

- i) *Thaneakea Phum loans or Group loans* - are loans granted in Riel to Cambodian rural residents in Tramkok, Sanroung Bati, Chhuk, Battambang, Siem Reap, Savay Rieng, Kompong Cham, Kandal, Phnom Penh and in Thai Baht, in the province of Bantey Meanchey. This type of loan is provided to customers at a monthly interest rate of 4% for a loan cycle of three to eight months. Principal repayments can be made anytime within the loan cycle and interest is due on a monthly basis. In December 2002, a variation of this group loan type was introduced in the Phnom Penh branch, with a daily collection mechanism and interest rate at 3% a month, equivalent to 0.001% per day. Interest on all amortized loans are on a declining basis.
- ii) *Special loans* - are additional loans granted to borrowers in order to meet their expenses for family emergency, funeral, sickness, fire, wedding and school fees. Customers can borrow up to a maximum of Riel 100,000 as long as they have a 100% repayment in their Thaneakea Phum loans. The group leader should certify on the veracity of the purpose of the loan and must guarantee the amount borrowed. The loan term is three months with an interest rate of 4% per month. All interest and principal repayments are due at the end of the loan term. If a client chooses to make a payment before the end of the loan term, then the principal and interest amounts due will be adjusted accordingly.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****6. LOANS TO CUSTOMERS (Continued)**

Movements in provision for doubtful loans are as follow:

| | 31 December 2003 Riel'000 | 31 December 2002 Riel'000 |
|--|--|--|
| Balance as at beginning of the year/period | 65,307 | - |
| Provision for the year/period | 136,925 | 65,307 |
| Bad debts written off | (122,175) | - |
| Interest written off | (35,127) | - |
| Bad debts recovered | (3,447) | - |
| | <hr/> | <hr/> |
| | 41,483 | 65,307 |
| | <hr/> | <hr/> |

The details of gross loans to customers, by branches, are as follows:

| | 31 December 2003 Riel '000 | 31 December 2002 Riel '000 |
|------------------|---|---|
| Samroung Bati | 1,168,724 | 817,108 |
| Banteay Meanchey | 1,645,273 | 807,614 |
| Tramkok | 808,298 | 582,713 |
| Chhuk | 969,850 | 563,826 |
| Battambang | 721,490 | 520,602 |
| Svay Rieng | 408,540 | 391,176 |
| Siem Reap | 920,480 | 255,516 |
| Kompong Cham | 453,893 | 118,410 |
| Kandal | 468,490 | 86,329 |
| Phnom Penh | 1,174,932 | 41,767 |
| | <hr/> | <hr/> |
| | 8,739,970 | 4,185,061 |
| | <hr/> | <hr/> |

Total non-performing loans on which recognition of interest is suspended amounted to Riel 61,221 thousand (Riel 84,303 thousand in 2001). Loans are considered as non-performing when they become overdue for more than 30 days.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****7. PROPERTY, PLANT AND EQUIPMENT**

CRS transferred all the property, plant and equipment owned by the Program as at 30 June 2002 to TPC. These assets were transferred at their respective net book values recorded in the Project's accounts.

As at 31 December 2003, the details of these assets are as follows:

| | <i>Office equipment Riel '000</i> | <i>Motor vehicle Riel '000</i> | <i>Total Riel '000</i> |
|----------------------------------|---|--|----------------------------|
| <i>Cost</i> | | | |
| At 1 January 2003 | 380,277 | 901,139 | 1,281,416 |
| Additions during the year | 63,837 | 49,746 | 113,583 |
| Disposals during the year | - | - | - |
| | <u>444,114</u> | <u>950,885</u> | <u>1,394,999</u> |
| <i>Accumulated depreciation</i> | | | |
| At 1 January 2003 | 210,750 | 554,737 | 765,487 |
| Depreciation charge for the year | 62,490 | 91,896 | 154,386 |
| Disposals during the year | - | - | - |
| | <u>273,240</u> | <u>646,633</u> | <u>919,873</u> |
| <i>Net book value at</i> | | | |
| As at 31 December 2003 | <u>170,874</u> | <u>304,252</u> | <u>475,126</u> |
| As at 31 December 2002 | <u>169,527</u> | <u>346,402</u> | <u>515,929</u> |

8. OTHER ASSETS

| | 31 December 2003 Riel '000 | 31 December 2002 Riel '000 |
|--|---|---|
| Interest receivable | 133,449 | - |
| Grants receivable from CRS | - | 34,693 |
| Prepaid on rental | 34,262 | 9,803 |
| Receivable from a shareholder for unpaid capital | - | 2,500 |
| Others | 14,071 | 2,582 |
| | <u>181,782</u> | <u>49,578</u> |

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****9. CUSTOMER DEPOSITS**

This account represents the compulsory deposits from customers representing 5% to 10% of their principal loan amounts. Customers receive 1% interest a month on their savings deposits that will be calculated and paid at the maturity of their Thaneakea Phum loans.

The details of customer deposits, by location, are as follows:

| | 31 December 2003 | 31 December 2002 |
|------------------|-------------------------|-------------------------|
| | Riel '000 | Riel '000 |
| Banteay Meanchey | 213,846 | 120,344 |
| Samroung Bati | 123,314 | 108,533 |
| Battambang | 120,352 | 99,375 |
| Tramkok | 93,263 | 87,079 |
| Svay Rieng | 75,572 | 85,897 |
| Chhuk | 108,468 | 71,532 |
| Siem Reap | 117,918 | 33,046 |
| Kompong Cham | 70,157 | 10,165 |
| Kandal | 42,286 | 7,359 |
| Phnom Penh | 192,711 | 2,120 |
| | <u>1,157,887</u> | <u>625,450</u> |

10. ACCRUALS AND OTHER LIABILITIES

| | 31 December 2003 | 31 December 2002 |
|------------------|-------------------------|-------------------------|
| | Riel '000 | Riel '000 |
| Accrued expenses | | |
| Salaries | 127,099 | 78,348 |
| Withholding tax | 5,962 | 3,879 |
| Income tax | 152,868 | 1,942 |
| Others | 74,304 | 792 |
| | <u>360,233</u> | <u>84,961</u> |

11. DEFERRED GRANT INCOME

This account represents the grant received from CRS for three motor vehicles amounting to Riel 231,958 thousand. The amortised portion of the grant, representing the depreciation expense of Riel 76,340 thousand charged to the income statement, was recognised as income for the year accordingly. As at 31 December 2003, the remaining balance corresponds to the recorded net book value of these cars as at 31 December 2003 amounting to Riel 122,100 thousand.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****12. SHARE CAPITAL**

The details of share capital as follows:

| | 31 December 2003 | | | 31 December 2002 | | |
|-----------------------|-------------------------|------------|--------------------------|-------------------------|------------|--------------------------|
| | Number of shares | % | Paid up capital Riel'000 | Number of shares | % | Paid up capital Riel'000 |
| CRS (see note 22) | 39,200 | 98 | 3,920,000 | 24,750 | 99 | 3,240,785 |
| Elizabeth Obed Abrera | 400 | 1 | 40,000 | 250 | 1 | 2,500 |
| Richard Balmadier | 400 | 1 | 40,000 | - | - | - |
| | <u>40,000</u> | <u>100</u> | <u>4,000,000</u> | <u>25,000</u> | <u>100</u> | <u>3,243,285</u> |

Based on the articles of incorporation (AoI), TPC's registered, issued and fully paid capital amounted to Riel 4,000,000,000 represented by 40,000 ordinary shares, each having an issue price of Riel 100,000. Each share will have one vote and will participate equally in all dividends and other distributions of the TPC.

Movement of share capital during the year was as follow:

| Shareholders | Note | CRS Riel'000 | Elizabeth Obed Abrera Riel'000 | Richard Balmadier Riel'000 | Total Riel'000 |
|--|------|------------------|--------------------------------|----------------------------|------------------|
| Balance as at 1 January 2003 | | 3,240,785 | 2,500 | - | 3,243,285 |
| Increase in par value of shares - CRS | (a) | 679,215 | | - | 679,215 |
| Increase in par value of shares – Elizabeth Obed Abrera (for cash) | (a) | | 22,500 | | 22,500 |
| Issue of shares for cash | (b) | - | 15,000 | 40,000 | 55,000 |
| Balance as at 31 December 2003 | | <u>3,920,000</u> | <u>40,000</u> | <u>40,000</u> | <u>4,000,000</u> |

- (a). During the year, the BOD voted to increase its par value of shares from Riel 10,000 per share to Riel 100,000 per share. For CRS, this was affected by a transfer from hybrid capital investment; and for Ms. Elizabeth Obed Abrera, paid for in cash.
- (b). In addition, during the year, TPC issued 15,000 new shares for Riel 55,000 thousand.

THANEAKEA PHUM (CAMBODIA), LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

13. HYBRID CAPITAL INVESTMENT

Included in the asset transfer document (see note 19) is a provision for TPC to collect CRS loan capital from the Program's local NGO partners who did not join the merger (non merging partners). As stated in this document, the loan capital collected from the partners will be the subject of a separate agreement at a later date when a decision is made as to when these funds are to be constituted as subordinated debts. Until such time that a decision is made and a separate agreement drawn up, TPC will record these third party collections on behalf of its majority shareholder as *Hybrid capital investment*. Total amount outstanding from these non merging partners are Riel 33.7 million. Discounts will be given to these non merging partners at the rate of 40%, 30% and 20% for payment made from July 2002 to 30 June 2003, from July 2003 to 30 June 2004 and from July 2004 to 30 June 2005 respectively. Any payments after 30 June 2005 will not be subject to any discounts.

In August 2003, donated capital amounting to Riel 880,924 thousand was transferred to hybrid capital.

14. FEE INCOME

Based on the terms of the asset transfer document as discussed in note 19, interest of 1% a month is paid by the local NGO partners on their loans from CRS for managing the collections and for reporting the status of the loans to CRS.

15. OTHER OPERATING INCOME

| | For the year ended 31 December 2003 Riel '000 | For the period from 27 June to 31 December 2002 Riel '000 |
|----------------------------|--|--|
| Interest income from banks | 10,315 | 13,923 |
| Training income | 10,559 | 11,715 |
| Penalty income | 1,728 | 223 |
| Other income | 47,897 | 3,705 |
| | <hr/> | <hr/> |
| | 70,499 | 29,566 |
| | <hr/> | <hr/> |

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****16. BANK FEES**

| | For the year ended 31 December 2003 Riel '000 | For the period from 27 June to 31 December 2002 Riel '000 |
|--------------------|--|--|
| Bank charges | 23,671 | 1,389 |
| Other service fees | 89 | 60 |
| | <u>23,760</u> | <u>1,449</u> |

17. GENERAL AND ADMINISTRATIVE EXPENSES

| | For the year ended 31 December 2003 Riel '000 | For the period from 27 June to 31 December 2002 Riel '000 |
|-------------------------------|--|--|
| Personnel expenses | 1,435,533 | 609,000 |
| Office expenses | 277,898 | 102,527 |
| Occupancy expenses | 200,065 | 85,057 |
| Traveling expenses | 113,321 | 39,970 |
| Depreciation and amortisation | 167,369 | 42,710 |
| Technical fee | 81,110 | - |
| Other tax expense | 13,815 | 1,635 |
| Others | 2,394 | - |
| | <u>2,291,505</u> | <u>880,899</u> |

18. TAX ON PROFIT

Under the 1997 Law on Taxation, the Company has obligation to pay Tax on Profit at 20% of taxable profit or Minimum Tax at 1% of total revenue, whichever is higher.

The reconciliation of effective tax rate, subject to agreement with the Cambodian Tax Department, is as follow:

| | 2003 Riel'000 | 2002 Riel'000 |
|---|--------------------------|--------------------------|
| Accounting profit before income tax | <u>910,979</u> | <u>16,953</u> |
| Income tax using Tax on Profit at 20% Minimum tax at 1% of turnover | 182,195 | 8,895 |
| Expenses not deductible for tax purposes | - | - |
| Income not subject to tax | <u>-</u> | <u>-</u> |
| Current income tax expense | <u>182,195</u> | <u>8,895</u> |

THANEAKEA PHUM (CAMBODIA), LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

19. TRANSFER OF ASSETS AND LIABILITIES

Based on the asset transfer document dated 19 September 2002, the Program's assets and liabilities as at 30 June 2002 (transfer date) were transferred to TPC at their recorded net book values, with details as follows:

| | 2002 Riel '000 |
|--|---------------------------------|
| ASSETS | |
| Cash and balances with NBC and other banks | 2,026,264 |
| Loans and advances to customers | 2,667,273 |
| Prepayments and short-term receivables | 55,855 |
| Property and equipment | <u>162,565</u> |
| Total assets | <u>4,911,957</u> |
| LIABILITIES | |
| Customer deposits | 467,959 |
| Accounts payable | 29,448 |
| Accruals and provisions | 194,342 |
| Other liabilities | <u>139,204</u> |
| Total liabilities | <u>830,953</u> |
| Net | <u><u>4,081,004</u></u> |

The net difference between the transferred assets and liabilities were treated as follows:

| | |
|--|-------------------------|
| Paid-up capital (see note 12) * | 3,240,785 |
| Donated capital (see statement of changes in shareholders' equity) ** | 140,870 |
| Reserve and appropriation | <u>699,349</u> |
| Total | <u><u>4,081,004</u></u> |

*The amount of paid up capital was determined based on the sum of the following:

- Outstanding balance of the loans and advances to customers of Riel 2,667,273 thousand as at transfer date, less the amount of Riel 402,737 thousand representing the portion of the outstanding loan portfolio financed from the Program's internally generated earnings prior to the transfer and incorporation as LLC;
- The amount of US\$ 250,000 (Riel 976,250 thousand) in cash that constitutes the paid in capital.

**The amount of donated capital was established based on the net book value of assets transferred, reduced by the net book value of the assets amounting to Riel 21,695 thousand which were not funded by CRS.

As at the transfer date, the provision for bad and doubtful loans known to exist as at the date of transfer was not considered in establishing the loan portfolio included in the transferred assets and therefore affected the amount of *Reserve and appropriation* which was a balancing figure after the amounts to constitute as paid in capital and donated capital were established. Had the provision amount of Riel 69,227 thousand been established as at the transfer date, the transferred balance of loans and advances to

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

19. TRANSFER OF ASSETS AND LIABILITIES (Continued)

customers would have been established at the net outstanding amount of Riel 2,598,046 thousand and the *Reserve and appropriation* would have been Riel 630,122 thousand. As a result, TPC charged the required provision for bad and doubtful loans as at balance sheet date, in order to comply with NBC's mandatory specific provisioning requirement, to the beginning balance of the *Reserve and appropriation* account.

20. FAIR VALUES OF ASSETS AND LIABILITIES

In the opinion of the management, the carrying amounts of financial assets and liabilities included in the balance sheet are reasonable estimates of their fair values and of the credit risk associated with these assets. In making this assessment, management assumes that loans and advances to customers are mainly held to maturity. Fair value approximates to the book value of loans adjusted for provision for loan losses.

21. SUBSEQUENT EVENTS

On 12 March 2004, the Company signed a loan agreement with Rural Development Bank for the amount of KHR 2,000,000,000 under the Rural Credit and Savings Project financed by ADB with an interest rate of 6% plus LIBOR six month and service charge of 1% per annum. Borrowing term is for the period of three years commencing the disbursement dates.

The proceed of the loan shall be used exclusively by the Company to finance Sub-loans for productive purposes to rural micro-enterprises and institutional development and training of the Company and Sub-borrowers; all of whom be qualified target clients under the Project.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****22. CURRENCY ANALYSIS**

An analysis of TPC's assets and liabilities by currency (in Riel '000) as at 31 December 2003 follows:

| | US\$ | Thai Baht | Riel | Total |
|--|------------------|------------------|------------------|-------------------|
| ASSETS | | | | |
| Cash in hand | - | 14,111 | 198,156 | 212,267 |
| Balance with National Bank of Cambodia | - | - | 200,500 | 200,500 |
| Balances with banks | 672,644 | 221,073 | 454,589 | 1,348,306 |
| Loans to customers | - | 1,642,209 | 7,056,278 | 8,698,487 |
| Property and equipment | - | - | 475,126 | 475,126 |
| Other assets | 29,824 | 35,104 | 116,854 | 181,782 |
| Total Assets | 702,468 | 1,912,497 | 8,501,503 | 11,116,468 |
| LIABILITIES | | | | |
| Customer deposits | - | 213,846 | 944,041 | 1,157,887 |
| Accounts payable and other liabilities | 108,845 | 101,325 | 150,063 | 360,233 |
| Deferred grant income | - | - | 122,100 | 122,100 |
| Total Liabilities | 108,845 | 315,171 | 1,216,204 | 1,640,220 |
| <i>Net asset position</i> | 593,623 | 1,597,326 | 7,285,299 | 9,476,248 |
| <i>As at 31 December 2002</i> | | | | |
| Total assets in foreign currency | 1,673,352 | 993,035 | 3,580,382 | 6,246,769 |
| Total liabilities in foreign currency | 229,541 | 120,344 | 590,067 | 939,952 |
| Net on (off) balance sheet position | 1,443,811 | 872,691 | 2,990,315 | 5,306,817 |