



**THANEAKEA PHUM (CAMBODIA) LTD.**

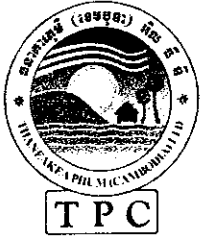
**Financial Statements  
and  
Auditors' report  
31 December 2006**

## Corporate Information

Company	Thaneakea Phum (Cambodia) Ltd.
Registration No	Co. 1413/02E
Registered office	No. 94, Street 360, Sangkat Boeung Keng KangIII, Khan Chamkamon, Phnom Penh Kingdom of Cambodia
Shareholders	Catholic Relief Services (“CRS”) Ms. Elizabeth Obed Abrera Mr. Richard Balmadier
Board of Directors	Mr. Mark Taylor Pierce    CRS/SEAPRO Regional Director Mr. Richard Balmadier    CRS/KH representative Mr. Mark David Palmer    CRS/HQ representative Mr. Tun Kang                Branch Manager
Auditor	KPMG Cambodia Ltd
Principal bankers	National Bank of Cambodia Aceda Bank Plc. Canadia Bank Plc. Rural Development Bank of Cambodia

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## Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of Thaneakea Phum (Cambodia) Ltd. ("the Company" or "TPC") for the year ended 31 December 2006.

### Principal activity

The principal activity of the Company 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.

### Financial results

The financial results of the Company for the year ended 31 December 2006 were as follows:

	KHR'000
Profit before income tax	3,890,965
Income tax	(720,209)
Profit after income tax	<u>3,170,756</u>

### Reserves and provisions

There were no material movements to or from reserves and provisions during the financial year other than as disclosed in the financial statements.

### Bad and doubtful loans

Before the income statement and balance sheet of the Company were prepared, the Board of Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad loans and the making of allowance for bad and doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate allowance had been made for bad and doubtful loans.

At the date of this report, the Board of Directors is not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Company, inadequate to any substantial extent.

## **Thaneakea Phum (Cambodia) Ltd.**

### **Current assets**

Before the income statement and balance sheet of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company had been written down to an amount which they might be expected to realise.

At the date of this report, the Board of Directors is not aware of any circumstances, which would render the values attributed to the current assets in the financial statements of the Company misleading.

### **Valuation methods**

At the date of this report, the Board of Directors is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Company as misleading or inappropriate.

### **Contingent and other liabilities**

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person;
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

### **Change of circumstances**

At the date of this report, the Board of Directors is not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

### **Items of unusual nature**

The results of the operations of the Company for the financial year were not, in the opinion of the Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

# Thaneakea Phum (Cambodia) Ltd.

## Significant events

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

## The Board of Directors

The members of the Board of Directors during the year and at the date of this report are:

- |                          |  |               |
|--------------------------|--|---------------|
| • Mr. Mark Taylor Pierce | CRS/SEAPRO Regional Director           | Chairman      |
| • Mr. Richard Balmadier  | CRS/KH representative                  | Vice Chairman |
| • Mr. Mark David Palmer  | CRS/HQ representative                  | Member        |
| • Mr. Tun Kang           | Branch Manager/Employee representative | Member        |

## Directors' interests

The directors who held office at the end of the financial year and their interests in the shares of the Company are as follows:

	Number of registered shares of KHR100,000 each			
	Balance at 1.1.2006	Bought	Sold	Balance at 31.12.2006
Mr. Richard Balmadier	400	-	-	400

## Directors' benefits

During and at the end of the financial year, no arrangements existed to which the Company is a party with the object of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

## **Thaneakea Phum (Cambodia) Ltd.**

### **Responsibilities of the Board of Directors in respect of the financial statements**

The Board of Directors is responsible for ascertaining that the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2006, and of the results of its operations and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards, accounting principles generally followed in Cambodia and the guidelines issued by the National Bank of Cambodia or, if there have been any departures in the interest of true and fair presentation, ensure that these have 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 the Company will continue operations in the foreseeable future; and
- (v) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Board of Directors confirms that the Company has complied with the above requirements in preparing the financial statements.

*On behalf of the Board of Directors*



Mark Taylor Pierce  
*Chairman*

Date: 28 APR 2007



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## **REPORT OF THE INDEPENDENT AUDITORS**

**To the shareholders**

**Thaneakea Phum (Cambodia) Ltd.**

We have audited the accompanying financial statements of Thaneakea Phum (Cambodia) Ltd. ("the Company" or "TPC"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 7 to 41.

### **Management's Responsibility for the Financial Statements**

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards, accounting principles generally followed in Cambodia and guidelines issued by the National Bank of Cambodia. 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 International Standards on Auditing. 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 of material misstatement. The financial statements of the Company for the year ended 31 December 2005 were audited by another firm of auditors whose report dated 31 March 2006 expressed an unqualified opinion on the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, 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 principles 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 opinion.







**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Thaneakea Phum (Cambodia) Ltd. as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards, accounting principles generally followed in Cambodia and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

*KPMG Cambodia*  
**KPMG Cambodia Ltd** ភីអិម ភី ខេមបូឌា  
**Phnom Penh** ភីអិម ភី ខេមបូឌា  
28 April 2007

## Thaneakea Phum (Cambodia) Ltd.

### Balance sheet

As at 31 December 2006

	Note	2006 KHR'000	2005 KHR'000
<b>Assets</b>			
Cash on hand	3	58,556	96,262
Deposits and placements with banks	4	582,833	1,951,439
Statutory deposits	5	202,700	200,000
Loans to customers	6	29,123,220	17,995,229
Other receivables	7	583,431	350,752
Property and equipment	8	582,209	415,484
Intangible assets	9	7,175	2,062
<b>Total assets</b>		<b>31,140,124</b>	<b>21,011,228</b>
<b>Liabilities and shareholders' funds</b>			
Deposits from customers	10	561,030	2,077,577
Borrowings	11	13,500,761	5,602,015
Deferred grant income	12	51,511	68,681
Other liabilities	13	678,727	394,924
Provision for income tax	14	640,786	331,478
<b>Total liabilities</b>		<b>15,432,815</b>	<b>8,474,675</b>
<b>Shareholders' funds</b>			
Share capital	15	4,000,000	4,000,000
Reserves		788,740	788,740
Hybrid capital	16	3,966,092	3,966,092
Retained earnings		6,952,477	3,781,721
<b>Total shareholders' funds</b>		<b>15,707,309</b>	<b>12,536,553</b>
<b>Total liabilities and shareholders' funds</b>		<b>31,140,124</b>	<b>21,011,228</b>

The accompanying notes form part of these financial statements

## Thaneakea Phum (Cambodia) Ltd.

### Income statement Year ended 31 December 2006

	Note	2006 KHR'000	2005 KHR'000
Interest income	17	8,988,514	6,280,333
Interest expenses	18	(1,255,603)	(613,251)
Net interest income		<u>7,732,911</u>	<u>5,667,082</u>
Grant income	19	132,232	194,863
Other operating income/(loss)	20	453,552	(44,011)
Operating income		<u>8,318,695</u>	<u>5,817,934</u>
Commission expenses	21	(364,564)	(262,514)
Operating and other expenses	22	(3,981,771)	(3,326,820)
Provision for bad and doubtful loans	6	(81,395)	(289,265)
Profit before income tax		<u>3,890,965</u>	<u>1,939,335</u>
Income tax	14	(720,209)	(387,867)
Net profit		<u><u>3,170,756</u></u>	<u><u>1,551,468</u></u>

The accompanying notes form part of these financial statements

## Thaneakea Phum (Cambodia) Ltd.

### Statement of changes in equity Year ended 31 December 2006

	Share capital KHR'000	Reserves KHR'000	Hybrid capital KHR'000	Retained earnings KHR'000	Total KHR'000
Balance as at 1 January 2005	4,000,000	788,740	3,966,092	2,230,253	10,985,085
Net profit for the year	-	-	-	1,551,468	1,551,468
Balance as at 31 December 2005	4,000,000	788,740	3,966,092	3,781,721	12,536,553
Net profit for the year	-	-	-	3,170,756	3,170,756
Balance as at 31 December 2006	4,000,000	788,740	3,966,092	6,952,477	15,707,309

The accompanying notes form part of these financial statements

## Thaneakea Phum (Cambodia) Ltd.

### Statement of cash flows Year ended 31 December 2006

	Note	2006 KHR'000	2005 KHR'000
<b>Cash flows from operating activities</b>			
Net cash used in operating activities	23	(8,880,475)	(1,684,005)
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(427,328)	(306,513)
Purchase of intangible assets		(12,287)	(4,124)
Proceeds from disposal of property and equipment		15,032	-
Net cash used in investing activities		(424,583)	(310,637)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		10,454,736	4,821,434
Repayments on borrowings during the year		(2,555,990)	(2,262,550)
Net cash generated from financing activities		7,898,746	2,558,884
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,406,312)	564,242
<b>Cash and cash equivalents at beginning of year</b>		2,047,701	1,483,459
<b>Cash and cash equivalents at end of year</b>	24	641,389	2,047,701

The accompanying notes form part of these financial statements

# **Thaneakea Phum (Cambodia) Ltd.**

## **Notes to the financial statements 31 December 2006**

### **1. Background and principal activities**

Thaneakea Phum (Cambodia) Ltd. ("the Company" or "TPC"), a licensed micro-finance institution, was incorporated in Cambodia and registered with the Ministry of Commerce as a limited liability company under register number Co. 1413/02E dated 27 June 2002. 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 organisations 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.

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 of 24 provinces and cities in Cambodia, TPC is already operating in eight provinces, namely Takeo, Kampot, Battambang, Siem Reap, Svay Rieng, Kampong Cham, Kandal and Banteay Meanchey. Financial services are provided either through village banks made up of solidarity groups of five members each, or to solidarity groups themselves.

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. On 20 January 2006, the NBC extended this license for another three-year period commencing from 12 February 2006 to 12 February 2009.

As at 31 December 2006, the Company had 227 employees (31 December 2005: 191 employees).

### **2. Significant accounting policies**

#### **(a) Basis of accounting**

The financial statements have been prepared in accordance with Cambodian Accounting Standards, the laws and accounting regulations of Cambodia and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements.

# **Thaneakea Phum (Cambodia) Ltd.**

## **Notes to the financial statements (continued) 31 December 2006**

### **2. Significant accounting policies (continued)**

#### **(b) Basis of aggregation**

The financial statements comprise the financial statements of the head office and the ten branches in Phnom Penh and eight provinces, namely Takeo, Kampot, Battambang, Siem Reap, Svay Rieng, Kampong Cham, Kandal and Banteay Meanchey, after the elimination of all inter-branch balances and transactions.

#### **(c) Financial instruments**

The Company's financial assets and liabilities include cash and cash equivalents, originated loans and receivables, deposits and other receivables and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

#### **(d) Segment information**

The Company operates within one business segment, commercially oriented micro-finance services, and within one geographical segment, the Kingdom of Cambodia.

#### **(e) Measurement and presentation currency**

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riels ("KHR"), United States Dollars ("US\$") and Thai Baht ("THB"). Management have determined the KHR to be the Company's currency for measurement and presentation purposes as it reflects the economic substance of the underlying events and circumstances of the Company as the majority of the loan transactions are in KHR.

Transactions in currencies other than KHR are translated to KHR at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than KHR at the balance sheet date are translated into KHR at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

#### **(f) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 2. Significant accounting policies (continued)

#### (g) Loans to customers

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

The adequacy of the provision for bad and doubtful loans is evaluated monthly by management. 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.

#### (h) Provision for bad and doubtful loans

In compliance with the NBC Guidelines, a specific provision for bad and doubtful loans is made on loans that are identified as non-performing, as follows:

Classification	Number of days past due	Provision
Short term loan (less than one year):		
Substandard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
Long term loan (more than one year):		
Substandard	31 - 180 days	10%
Doubtful	181 - 360 days	30%
Loss	Over 360 days	100%

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified, excluding accrued interest and is charged as expense. Interest on non-performing loans is not accrued.

Loans are written off to the income statement on a quarterly basis when the loans remain unpaid for more than 90 days after maturity date.

An uncollectible loan or portion of a loan classified is written off when, in the judgment of the management, there is no prospect of recovery, after taking into consideration the realisable value of the collateral, if any.

Recoveries on loans previously written off shall be treated as other income.



# **Thaneakea Phum (Cambodia) Ltd.**

## **Notes to the financial statements (continued)** **31 December 2006**

### **2. Significant accounting policies (continued)**

#### **(i) Deposits and placements with banks**

Deposits and placements with banks are carried at cost.

#### **(j) Other receivables**

Other receivables are carried at estimated realisable value.

#### **(k) Statutory deposits**

Statutory deposits are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital and customers' deposits as required by NBC.

#### **(l) Property and equipment**

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

(ii) Depreciation of property and equipment is charged to the income statement on a declining basis over the estimated useful lives of the individual assets at the following rates:

Office furniture and equipment	25%
Motor vehicles	25%
Computers	50%

(iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

(v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

# **Thaneakea Phum (Cambodia) Ltd.**

## **Notes to the financial statements (continued) 31 December 2006**

### **2. Significant accounting policies (continued)**

#### **(l) Property and equipment (continued)**

- (vi) The carrying amounts of property and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately.

#### **(m) Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised on a declining basis at the rate of 50% per annum.

#### **(n) Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **(o) Deposits from customers**

Deposits from customers are stated at cost plus accrued interest.

#### **(p) Income recognition**

Interest income on loans is recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

Loan fee income is recognised as income when the loan is disbursed to customers. The loan fee income is calculated using the principal and fee rate.

#### **(q) Interest expense**

Interest expense on deposits from customers and borrowings is recognised on an accruals basis.

# **Thaneakea Phum (Cambodia) Ltd.**

## **Notes to the financial statements (continued) 31 December 2006**

### **2. Significant accounting policies (continued)**

#### **(r) Grants**

Revenue grants received to subsidise the Company'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 and equipment are amortised to the income statement on a systematic and rational basis over the useful life of the assets. The unamortised grants are shown as deferred grant income.

Funds received to be used exclusively for funding its loan disbursement are recognised as hybrid capital and treated as part of shareholders' funds in the balance sheet.

#### **(s) Operating lease**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

#### **(t) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholder equity, in which case it is also disclosed as a component of shareholder equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to permit the realisation of the asset. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 2. Significant accounting policies (continued)

#### (u) Reserves

This account represents profits from the previous Program under CRS. After deduction of previous losses, five percent of the net profits shall be transferred into the legal reserve funds. Such transfer will cease when the reserve funds reach 10% of the registered capital of the Company.

#### (v) Related parties

Parties are considered to be related to the Company if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or where the Company and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10 percent of the capital of the Company or voting rights thereof, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

### 3. Cash on hand

	2006 KHR'000	2005 KHR'000
Head office	2,000	2,000
Provincial branches		
Banteay Meanchey	14,175	6,559
Battambang	1,890	3,483
Chhuk	2,272	21,925
Kampong Cham	3,817	6,021
Kandal	7,692	5,363
Phnom Penh	3,263	7,212
Samroung Bati	5,194	7,319
Siem Reap	4,304	14,878
Svay Rieng	10,355	14,375
Tramkok	3,594	7,127
	<u>58,556</u>	<u>96,262</u>

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 3. Cash on hand (continued)

The above amounts are analysed as follows:

	2006 KHR'000	2005 KHR'000
By currency:		
Khmer Riel	35,886	84,398
Thai Baht	14,175	6,560
US Dollar	8,495	5,304
	<u>58,556</u>	<u>96,262</u>

### 4. Deposits and placements with banks

	2006 KHR'000	2005 KHR'000
Current accounts		
Aceda Bank Plc.	101,748	767,572
National Bank of Cambodia	500	500
	<u>102,248</u>	<u>768,072</u>
Saving deposits		
Aceda Bank Plc.	477,036	-
Rural Development Bank of Cambodia	3,549	989,012
Canadia Bank Plc.	-	194,355
	<u>480,585</u>	<u>1,183,367</u>
	<u>582,833</u>	<u>1,951,439</u>

The above amounts are analysed as follows:

a) By maturity:		
Within one month	<u>582,833</u>	<u>1,951,439</u>

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 4. Deposits and placements with banks (continued)

	2006 KHR'000	2005 KHR'000
b) By currency:		
Khmer Riel	385,689	1,754,116
Thai Baht	99,523	176,675
US Dollar	97,621	20,648
	<u>582,833</u>	<u>1,951,439</u>
c) By interest rates (per annum):		
Aclede Bank Plc.	2.00% - 4.00%	2.00% - 4.00%
Rural Development Bank of Cambodia	1.00% - 1.50%	1.00% - 1.50%
Canadia Bank Plc.	0.75% - 2.00%	0.75% - 2.00%

### 5. Statutory deposits

	2006 KHR'000	2005 KHR'000
Statutory deposits on:		
Registered share capital	200,000	200,000
Customers' deposits	2,700	-
	<u>202,700</u>	<u>200,000</u>

The statutory deposits are maintained with the NBC in compliance with Prakas No. B7-00-006 and B7-06-209 on the Licensing of Micro-Finance Institutions, the amounts of which are determined by defined percentages of the Company's registered share capital and customers' deposits with the Company.

The statutory deposit on registered share capital is refundable when the Company voluntarily liquidates and has no deposit liabilities. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

From September 2006, the statutory deposit on registered capital placed with NBC earns interest at the rate of 3% per annum. The statutory deposit relating to customers' deposits does not earn interest.

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 6. Loans to customers

	2006 KHR'000	2005 KHR'000
Thaneakea Phum loans:		
Fixed term	3,796,041	2,185,108
End of cycle	15,814,717	8,865,129
Solidarity group loans:		
Fixed term	6,666,755	6,118,438
Market loans:		
Fixed term	11,134	25,041
Individual loans:		
Fixed term	2,556,473	743,480
Staff loans	340,776	264,428
	<hr/>	<hr/>
	29,185,896	18,201,624
Provision for bad and doubtful loans	(62,676)	(206,395)
	<hr/>	<hr/>
	29,123,220	17,995,229
	<hr/> <hr/>	<hr/> <hr/>
Total number of loans	56,007	43,196

The movements in provision for bad and doubtful loans to customers were as follows:

	2006 KHR'000	2005 KHR'000
At beginning of year	206,395	37,523
Provision during the year	81,395	289,265
Bad debts written off during the year	(225,898)	(120,028)
Currency revaluation	784	(365)
	<hr/>	<hr/>
At end of year	62,676	206,395
	<hr/> <hr/>	<hr/> <hr/>

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 6. Loans to customers (continued)

The loans to customers are analysed as follows:

	2006 KHR'000	2005 KHR'000
(a) By maturity:		
Within 1 month	3,991,381	2,484,803
2 to 3 months	5,781,645	5,626,006
4 to 12 months	19,412,870	10,090,815
	<u>29,185,896</u>	<u>18,201,624</u>
(b) By currency:		
Khmer Riel	23,113,314	14,585,631
Thai Baht	5,873,361	3,599,711
US Dollar	199,221	16,282
	<u>29,185,896</u>	<u>18,201,624</u>
(c) By economic sector:		
Agriculture	10,997,510	9,872,514
Household/family	8,412,646	6,811,319
Trade and commerce	8,086,305	1,329,951
Services	1,210,378	-
Transportation	248,257	-
Construction	168,151	-
Other categories	62,649	187,840
	<u>29,185,896</u>	<u>18,201,624</u>
(d) By residency status:		
Residents	<u>29,185,896</u>	<u>18,201,624</u>
(e) By relationship:		
External customers	28,845,120	17,937,196
Staff loans	340,776	264,428
	<u>29,185,896</u>	<u>18,201,624</u>



## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 6. Loans to customers (continued)

	2006 KHR'000	2005 KHR'000
(f) By locations:		
Banteay Meanchey	5,873,361	3,599,711
Battambang	2,061,199	1,808,945
Chhuk	2,551,373	1,854,842
Kandal	2,229,174	974,847
Kampong Cham	2,001,229	946,673
Phnom Penh	1,902,635	1,892,763
Samrourng Bati	3,949,546	2,151,689
Siem Reap	3,314,195	2,032,528
Svay Rieng	2,664,814	1,632,163
Tramkok	2,638,370	1,307,463
	<u>29,185,896</u>	<u>18,201,624</u>
(g) By performance:		
Standard loans:		
Secured	2,897,250	-
Unsecured	26,187,765	17,927,266
Sub-standard loans:		
Secured	2,276	-
Unsecured	23,355	42,182
Doubtful loans:		
Secured	2,666	-
Unsecured	18,959	42,856
Loans loss:		
Secured	5,196	-
Unsecured	48,429	189,320
	<u>29,185,896</u>	<u>18,201,624</u>
(h) By interest rate (per annum):		
External customers	24% - 42%	36% - 42%
Staff loans	18%	18%

During the year there was no renegotiation of delinquent loans, i.e., refinancing or restructuring. Loans disclosed above are based on the original loan agreements entered into with customers.

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 7. Other receivables

	2006 KHR'000	2005 KHR'000
Interest receivable	525,471	313,526
Prepayments and deposits	49,591	27,186
Others	8,369	10,040
	<u>583,431</u>	<u>350,752</u>

#### 8. Property and equipment

	Office furniture & equipment KHR'000	Motor vehicles KHR'000	Computers KHR'000	Total KHR'000
<b>Cost</b>				
Balance as at 1 January 2006	88,543	1,082,941	552,250	1,723,734
Additions	3,373	354,976	68,979	427,328
Disposals	-	(98,293)	-	(98,293)
Written off	-	-	(58,723)	(58,723)
At 31 December 2006	<u>91,916</u>	<u>1,339,624</u>	<u>562,506</u>	<u>1,994,046</u>
<b>Less: Accumulated depreciation</b>				
Balance as at 1 January 2006	54,472	821,509	432,269	1,308,250
Charge for the year	9,360	154,029	94,481	257,870
Disposals	-	(95,560)	-	(95,560)
Write off during the year	-	-	(58,723)	(58,723)
At 31 December 2006	<u>63,832</u>	<u>879,978</u>	<u>468,027</u>	<u>1,411,837</u>
<b>Net book value</b>				
At 31 December 2006	<u>28,084</u>	<u>459,646</u>	<u>94,479</u>	<u>582,209</u>
At 31 December 2005	<u>34,071</u>	<u>261,432</u>	<u>119,981</u>	<u>415,484</u>

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 9. Intangible assets

	Micro Banker Software licence	
	2006 KHR'000	2005 KHR'000
<b>Cost</b>		
At 1 January	4,124	-
Additions	12,287	4,124
	<hr/>	<hr/>
At 31 December	16,411	4,124
	<hr/> <hr/>	<hr/> <hr/>
<b>Less: accumulated amortisation</b>		
At 1 January	2,062	-
Charge for the year	7,174	2,062
	<hr/>	<hr/>
At 31 December	9,236	2,062
	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>		
At 31 December	7,175	2,062
	<hr/> <hr/>	<hr/> <hr/>

#### 10. Deposits from customers

	2006 KHR'000	2005 KHR'000
Loan-linked savings	521,800	2,077,577
General savings	39,230	-
	<hr/>	<hr/>
	561,030	2,077,577
	<hr/> <hr/>	<hr/> <hr/>

The loan-linked savings is a compulsory saving deposit on loans disbursed as required by the Company. 5% to 10% of the principal loan amounts disbursed to borrowers is recorded as loan-linked savings and bears interest at a rate of 12% per annum. The loan-linked savings is be refunded at the end of the loan cycle.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 10. Deposits from customers (continued)

The general savings is a voluntary saving deposit available for the Company's borrowers only and bears interest at the rate of 8% per annum for Khmer Riel and 5% per annum for US Dollar currency. The interest charge is accrued to individual borrowers' accounts on a monthly basis. Voluntary savings can be withdrawn at anytime by the depositor.

The deposits from customers are analysed are as follows:

	2006 KHR'000	2005 KHR'000
(a) By currency:		
Khmer Riel	436,738	1,615,292
Thai Baht	104,677	462,285
US Dollar	19,615	-
	<u>561,030</u>	<u>2,077,577</u>
(b) By maturity:		
Within 1 month	<u>561,030</u>	<u>2,077,577</u>
(c) By locations:		
Banteay Meanchey	104,677	462,284
Battambang	12,754	223,805
Chhuk	9,111	203,261
Kampong Cham	83,164	117,829
Kandal	26,021	83,813
Phnom Penh	154,498	187,735
Svay Rieng	72,516	226,544
Siem Reap	59,263	217,615
Samroung Bati	25,012	217,243
Tramkok	14,014	137,448
	<u>561,030</u>	<u>2,077,577</u>

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 11. Borrowings

	Note	2006 KHR'000	2005 KHR'000
Aclea Bank Plc.	(i)	1,014,250	-
Credit Suisse Micro-finance Fund Management Company	(ii)	2,096,640	-
Catholic Relief Services Cambodia	(iii)	567,980	575,680
Hivos-Triodos Fonds	(iv)	4,189,600	2,000,000
Micro-finance Alliance Fund	(v)	402,000	804,000
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	(vi)	3,122,991	-
Other individuals		107,300	222,335
Rural Development Bank of Cambodia	(vii)	2,000,000	2,000,000
		<u>13,500,761</u>	<u>5,602,015</u>

The above borrowings are analysed as follows:

a) By maturity:

Within one year	9,809,791	222,335
2 to 3 years	3,690,970	5,379,680
	<u>13,500,761</u>	<u>5,602,015</u>

b) By currency:

Khmer Riel	5,428,250	4,804,000
Thai Baht	5,368,730	-
US Dollar	2,703,781	798,015
	<u>13,500,761</u>	<u>5,602,015</u>

(i) **Aclea Bank Plc.**

In November and December 2006, the Company requested from Acleda Bank Plc. a revolving credit facility with a maturity period of 2 to 3 months in order to finance the loans to its customers. The loan amount is US\$250,000 (equivalent to KHR1,014,250,000), and bears interest at a rate of 18% per annum.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 11. Borrowings (continued)

#### (ii) Credit Suisse Micro-finance Fund Management Company

The Company entered into promissory notes with Credit Suisse Micro-finance Fund Management Company on 3 October 2006 and 23 October 2006 for a loan of THB9,360,000 each (equivalent to KHR2,097 million) as at 31 December 2006. The loan bears interest at a rate of 11.50% per annum and both the annual interest and the principal amount will be due for full repayment on 3 October 2007 and 23 October 2007 respectively.

#### (iii) Catholic Relief Services Cambodia

This interest free loan of US\$140,000 (equivalent to KHR567,980,000) was finalised in 2006, entered into between Catholic Relief Services, Cambodia Program, represented by Mr. Richard Balmadier, a minority shareholder, and the Company dated 17 February 2005 and 13 April 2005 for US\$100,000 and US\$40,000 respectively. Full repayment of the loan amounting to US\$40,000 will be due on 30 April 2007.

#### (iv) Hivos-Triodos Fonds

The Company entered into a loan agreement with Hivos-Triodos Fonds, on 14 October 2005 for KHR2,000 million. The loan is unsecured, matures after a period of one year and two months from 1 November 2005, ending no later than 1 January 2007 and bears interest at the rate of 11.50% per annum, exclusive of withholding tax of 14%, on the outstanding loan balance. Repayments are on a quarterly basis for interest and principal upon maturity date.

On 6 April 2006, the Company entered into another loan agreement with Hivos-Triodos Fonds for THB19,550,000. The loan is unsecured, matures after a period of one year and ending no later than 1 October 2007 and bears interest at the rate of 12% per annum, exclusive of withholding tax of 14%, on the outstanding loan balance. Repayments are on a quarterly basis for interest and principal upon maturity date.

The loan period can be renewed annually for one year, up to a maximum period of 3 years, ending no later than 1 January 2009 for the Khmer Riel loan and 1 April 2010 for the Thai Baht loan.

#### (v) Micro-finance Alliance Fund

The Company entered into a loan agreement with Catholic Relief Services, Philippine Program - Microfinance Alliance Fund ("MAF") on 19 November 2004 for KHR1,005,000,000 with an interest rate of 11.63% per annum, maturing within 3 years with a 6 months grace period on the principal with a final maturity date on 4 November 2007.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 11. Borrowings (continued)

#### (vi) Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

The loan agreement with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO") was finalised and signed on 13 September 2005 for an aggregate amount of US\$750,000 and is denominated in three currencies, US Dollar, Khmer Riel and Thai Baht not exceeding the equivalent of US\$250,000 each. The loan is unsecured, matures in 3 years with an 18 month grace period on the principal with a final maturity date on 15 July 2009 and bears interest 8.95%, 9.17% and 12.07% per annum for US Dollar, Thai Baht and Khmer Riel respectively, exclusive of withholding tax of 14%, on the declining balance. Repayments are on a semi-annual basis for both interest and principal.

#### (vii) Rural Development Bank of Cambodia

The Company entered into a promissory note with Rural Development Bank ("RDB") on 12 March 2004 for KHR2,000,000,000 maturing within 3 years, with an 18 month review, from the date when the loan is disbursed. The loan bears interest at the rate of LIBOR six months plus 6% per annum, which ranged from 10.60% to 11.63% for the year ended 31 December 2006 (2005: 8.64% - 10.60%), calculated on monthly basis. The loan maturity date will be due on 23 May 2007.

This loan is unsecured and falls under the Rural Credit and Saving Project financed by the Asian Development Bank ("ADB").

The proceeds of the loan shall be used exclusively to finance sub-loans to rural micro-enterprises.

### 12. Deferred grant income

This account is originally represented by grant received from CRS for the purchase of two motor vehicles amounting to KHR231,958,000.

	2006 KHR'000	2005 KHR'000
At beginning of year	68,681	91,575
Amortisation of grant income during the year	(17,170)	(22,894)
At end of year	<u>51,511</u>	<u>68,681</u>

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued)

31 December 2006

#### 13. Other liabilities

	2006 KHR'000	2005 KHR'000
Interest payable	202,561	7,036
Staff bonus	148,157	127,938
Staff incentive	254,331	144,135
Withholding tax payable	28,846	13,649
Others	44,832	102,166
	<u>678,727</u>	<u>394,924</u>

#### 14. Income tax

##### *Provision:*

	2006 KHR'000	2005 KHR'000
Balance at beginning of year	331,478	329,185
Expenses	720,209	387,867
Payments	(410,901)	(385,574)
	<u>640,786</u>	<u>331,478</u>

##### *Tax expense:*

In accordance with Cambodian law, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

The reconciliation of income taxes computed at the statutory tax rate to the income tax expense shown in the income statement is as follows:

	2006		2005	
	KHR'000	%	KHR'000	%
Profit before income tax	<u>3,890,965</u>		<u>1,939,335</u>	
Income tax using statutory rate	778,193	20.00	387,867	20.00
Tax effect of:				
Non-taxable income	(62,402)	(1.60)	-	-
Non-deductible expenses	3,306	0.08	-	-
Under provision in prior year	1,112	0.03	-	-
Effective income tax rate	<u>720,209</u>	<u>18.51</u>	<u>387,867</u>	<u>20.00</u>

The calculation of profit tax is subject to the review and approval of the tax authorities.



# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 15. Share capital

The details of shareholding are as follows:

	2006 KHR'000	2005 KHR'000
40,000 shares of KHR100,000 each:		
Catholic Relief Services	3,920,000	3,920,000
Ms. Elizabeth Obed Abrera	40,000	40,000
Mr. Richard Balmadier	40,000	40,000
	<hr/>	<hr/>
	4,000,000	4,000,000
	<hr/> <hr/>	<hr/> <hr/>

Based on the articles of incorporation, the Company's registered, issued and fully paid capital amounted to KHR4,000,000,000 represented by 40,000 ordinary shares, each having an issue price of KHR100,000. Each share will have one vote and will participate equally in all dividends and other distributions of the Company.

### 16. Hybrid capital

The hybrid capital resulted from the transfer of the Program to the Company based on the asset transfer document dated 19 September 2002. The terms and conditions between CRS, its majority shareholder and the Company for this hybrid capital are being drafted.

### 17. Interest income

	2006 KHR'000	2005 KHR'000
Loans to customers	8,967,578	6,271,012
Deposits and placements with banks	20,936	9,321
	<hr/>	<hr/>
	8,988,514	6,280,333
	<hr/> <hr/>	<hr/> <hr/>

### 18. Interest expenses

	2006 KHR'000	2005 KHR'000
Borrowings	1,119,329	385,101
Customer deposits	136,274	228,150
	<hr/>	<hr/>
	1,255,603	613,251
	<hr/> <hr/>	<hr/> <hr/>

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 19. Grant income

During the year, the Company receives grant income in-kind or subsidies as follows:

	2006 KHR'000	2005 KHR'000
USAID-PACT grant for DPAT practicality test	89,292	28,910
Technical fees	17,566	49,344
Amortisation of grant income from CRS	17,170	22,894
Micro-finance Alliance Fund grant for general training	8,204	73,206
CGAP financial transparency award	-	20,509
	<u>132,232</u>	<u>194,863</u>

#### 20. Other operating income/(loss)

	2006 KHR'000	2005 KHR'000
Recovery from loans written off	44,295	20,304
Penalty income	9,231	8,720
Foreign exchange gain/(loss) - net	325,482	(93,041)
Training income	-	18,211
Gain on disposal of fixed assets	12,299	-
Reversal on import tax of motor vehicles	59,081	-
Other income	3,164	1,795
	<u>453,552</u>	<u>(44,011)</u>

#### 21. Commission expenses

The commission expenses represent payments towards the Group Leader ("GL"), Village Leader ("VL") and key person (including commune leader, district leader and other influential person). The basis of the incentive is calculated at a maximum rate of 2%, 3% and 5% of interest amount collected for GL, VL and key person respectively.

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 22. Operating and other expenses

	2006 KHR'000	2005 KHR'000
Staff costs	2,535,521	2,098,987
Depreciation and amortisation	265,044	229,204
Office rentals	181,483	148,045
Office supplies and equipment	131,650	87,521
Professional services	94,471	69,955
Photocopy and printing	71,055	60,168
Communication	68,115	57,995
Traveling expenses	297,771	266,923
Technical fee	-	49,344
Bank and service charge and other fees	136,838	95,330
Utilities	78,832	56,666
Other expenses	120,991	106,682
	<u>3,981,771</u>	<u>3,326,820</u>

#### 23. Net cash used in operating activities

	2006 KHR'000	2005 KHR'000
Profit before income tax	3,890,965	1,939,335
Adjustments for:		
Depreciation and amortisation	265,044	229,204
Amortisation of grant income	(17,170)	(22,894)
Provision for doubtful loans	81,395	289,265
Gain on disposal of fixed assets	(12,299)	-
Operating profit before changes in operating assets and liabilities	<u>4,207,935</u>	<u>2,434,910</u>
Decrease/(increase) in:		
Statutory deposits	(2,700)	-
Loans to customers	(11,209,386)	(4,093,443)
Other receivables	(232,679)	(119,148)
Increase/(decrease) in:		
Deposits from customers	(1,516,547)	449,922
Other liabilities	283,803	29,328
Cash used in operations	<u>(8,469,574)</u>	<u>(1,298,431)</u>
Income tax paid	(410,901)	(385,574)
Net cash used in operating activities	<u>(8,880,475)</u>	<u>(1,684,005)</u>

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 24. Cash and cash equivalents

	2006 KHR'000	2005 KHR'000
Cash on hand	58,556	96,262
Deposits and placements with banks	582,833	1,951,439
	<u>641,389</u>	<u>2,047,701</u>

### 25. Commitments and contingencies

#### (a) Lease commitment

The Company has lease commitments in respect of the lease of the Company's registered office in Phnom Penh and branches in Takeo, Kampot, Battambang, Siem Reap, Svay Rieng, Kampong Cham, Kandal and Banteay Meanchey. The total remaining rental commitments as at 31 December are due as follows:

	2006 KHR'000	2005 KHR'000
Within one year	136,504	123,322
2 to 3 years	92,968	-
	<u>229,472</u>	<u>123,322</u>

#### (b) Taxation contingencies

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 26. Related party transactions

The Company had significant related party transactions during the year as follows:

	2006 KHR'000	2005 KHR'000
Staff loans	340,776	264,428
Borrowings		
Catholic Relief Services Cambodia	567,980	575,680
	<u>                    </u>	<u>                    </u>

### 27. Financial risk management policies

The guidelines and policies adopted by the Company to manage the risks that arise in the conduct of their business activities are as follows:

#### (a) Credit risk

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Company's operation manual to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The operation manual documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC Guidelines.

#### (b) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factor is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

The operational risk management entails the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its micro-finance business.

## **Thaneakea Phum (Cambodia) Ltd.**

### **Notes to the financial statements (continued) 31 December 2006**

#### **27. Financial risk management policies (continued)**

##### **(c) Market risk**

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

##### **(i) Foreign currency exchange risk**

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US\$ and Thai Baht. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

##### **(ii) Interest rate risk**

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its loans and bank deposits.

Since majority of financial assets are short-term and the interest rates are subject to change with the market rates, the Company does not use derivative financial instruments to hedge such risk.

The following table indicates the effective interest rates at the balance sheet date and the periods in which the financial instruments re-price or mature, whichever is earlier.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 27. Financial risk management policies (continued)

(ii) Interest rate risk (continued)		Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 3 – 12 months KHR'000	> 1 – 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
<b>Assets</b>								
Cash on hand	-	-	-	-	-	58,556	58,556	-
Deposits and placements with banks	480,585	-	-	-	-	102,248	582,833	3.59%
Statutory deposits	-	-	-	200,000	-	2,700	202,700	3.00%
Loans to customers	3,991,381	5,781,645	19,311,989	-	-	-	29,085,015	30.79%
- Performing	-	-	-	-	-	100,881	100,881	-
- Non performing	-	-	-	-	-	(62,676)	(62,676)	-
- Specific provision	-	-	-	-	-	583,431	583,431	-
Other receivables	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>4,471,966</b>	<b>5,781,645</b>	<b>19,311,989</b>	<b>200,000</b>	<b>785,140</b>	<b>30,550,740</b>		
<b>Liabilities</b>								
Deposits from customers	561,030	-	-	-	-	-	561,030	12.00%
Borrowings	513,001	709,050	8,587,740	3,690,970	-	-	13,500,761	13.48%
Deferred grant income	-	-	-	-	-	51,511	51,511	-
Other liabilities	-	-	-	-	-	678,727	678,727	-
Provision for income tax	-	-	-	-	-	640,786	640,786	-
<b>Total liabilities</b>	<b>1,074,031</b>	<b>709,050</b>	<b>8,587,740</b>	<b>3,690,970</b>	<b>1,371,024</b>	<b>15,432,815</b>		
<b>Maturity gap</b>	<b>3,397,935</b>	<b>5,072,595</b>	<b>10,724,249</b>	<b>(3,490,970)</b>	<b>(585,884)</b>	<b>15,117,925</b>		

# Thaneaeka Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 27. Financial risk management policies (continued)

#### (ii) Interest rate risk (continued)

2005	Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 3 – 12 months KHR'000	> 1 – 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
<b>Assets</b>							
Cash on hand	-	-	-	-	96,262	96,262	-
Deposits and placements with banks	1,183,367	-	-	-	768,072	1,951,439	0.48%
Statutory deposits	-	-	-	-	200,000	200,000	-
Loans and advances							
- Performing	2,484,803	5,626,006	9,816,457	-	-	17,927,266	34.85%
- Non performing	-	-	-	-	274,358	274,358	-
- Specific provision	-	-	-	-	(206,395)	(206,395)	-
Other receivables	-	-	-	-	350,752	350,752	-
<b>Total assets</b>	<b>3,668,170</b>	<b>5,626,006</b>	<b>9,816,457</b>	<b>-</b>	<b>1,483,049</b>	<b>20,593,682</b>	
<b>Liabilities</b>							
Deposits from customers	2,077,577	-	-	-	-	2,077,577	12.00%
Borrowings	222,335	-	-	5,379,680	-	5,602,015	10.14%
Deferred grant income	-	-	-	-	68,681	68,681	-
Other liabilities	-	-	-	-	394,924	394,924	-
Provision for income tax	-	-	-	-	331,478	331,478	-
<b>Total liabilities</b>	<b>2,299,912</b>	<b>-</b>	<b>-</b>	<b>5,379,680</b>	<b>795,083</b>	<b>8,474,675</b>	
<b>Maturity gap</b>	<b>1,368,258</b>	<b>5,626,006</b>	<b>9,816,457</b>	<b>(5,379,680)</b>	<b>687,966</b>	<b>12,119,007</b>	



## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 27. Financial risk management policies (continued)

##### (d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the Management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment.

##### 31 December 2006

	Less than 1 month KHR'000	Between 1 and 3 months KHR'000	Between 3 months and 1 year KHR'000	Between 1 year and 5 years KHR'000	No fixed terms KHR'000	Total KHR'000
<b>Financial assets</b>						
Cash on hand	58,556	-	-	-	-	58,556
Deposits and placements with banks	582,833	-	-	-	-	582,833
Statutory deposits	-	-	-	-	202,700	202,700
Loans to customers						
- Performing	3,991,381	5,781,645	19,311,989	-	-	29,085,015
- Non performing	-	-	-	-	100,881	100,881
- Specific provision	-	-	-	-	(62,676)	(62,676)
Other receivables	583,431	-	-	-	-	583,431
<b>Total assets</b>	<b>5,216,201</b>	<b>5,781,645</b>	<b>19,311,989</b>	<b>-</b>	<b>240,905</b>	<b>30,550,740</b>
<b>Financial liabilities</b>						
Deposits from customers	561,030	-	-	-	-	561,030
Borrowings	513,001	709,050	8,587,740	3,690,970	-	13,500,761
Deferred grant income	1,073	2,146	9,658	38,634	-	51,511
Other liabilities	174,232	197,253	307,242	-	-	678,727
Provision for income tax	-	640,786	-	-	-	640,786
<b>Total liabilities</b>	<b>1,249,336</b>	<b>1,549,235</b>	<b>8,904,640</b>	<b>3,729,604</b>	<b>-</b>	<b>15,432,815</b>

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 27. Financial risk management policies (continued)

##### (d) Liquidity risk (continued)

31 December 2005

	Less than 1 month KHR'000	Between 1 and 3 months KHR'000	Between 3 months and 1 year KHR'000	Between 1 year and 5 years KHR'000	No fixed terms KHR'000	Total KHR'000
<b>Financial assets</b>						
Cash on hand	96,262	-	-	-	-	96,262
Deposits and placements with banks	1,951,439	-	-	-	-	1,951,439
Statutory deposits	-	-	-	-	200,000	200,000
Loans to customers						
- Performing	2,484,803	5,626,006	9,816,457	-	-	17,927,266
- Non performing	-	-	-	-	274,358	274,358
- Specific provision	-	-	-	-	(206,395)	(206,395)
Other receivables	350,752	-	-	-	-	350,752
<b>Total assets</b>	<b>4,883,256</b>	<b>5,626,006</b>	<b>9,816,457</b>	<b>-</b>	<b>267,963</b>	<b>20,593,682</b>
<b>Financial liabilities</b>						
Deposits from customers	2,077,577	-	-	-	-	2,077,577
Borrowings	222,335	-	-	5,379,680	-	5,602,015
Deferred grant income	1,908	3,816	17,172	45,785	-	68,681
Other liabilities	1,562	384,513	8,849	-	-	394,924
Provision for income tax	-	331,478	-	-	-	331,478
<b>Total liabilities</b>	<b>2,303,382</b>	<b>719,807</b>	<b>26,021</b>	<b>5,425,465</b>	<b>-</b>	<b>8,474,675</b>

#### 28. Fair values of financial assets and liabilities

The aggregate fair values of financial assets and liabilities carried on the balance sheet are approximately equal to their carrying values as at 31 December 2006.

# Thaneakea Phum (Cambodia) Ltd.

## Notes to the financial statements (continued) 31 December 2006

### 29. Comparative figures

The following comparative figures have been restated to conform with the current year's presentation.

	As reclassified KHR'000	2005 As previously presented KHR'000
Balance sheet:		
Balances with banks	-	1,950,939
Balances with Central Bank	-	200,500
Deposits and placements with banks	1,951,439	-
Statutory deposits	200,000	-
	<u>2,151,439</u>	<u>2,151,439</u>
Interest receivables	-	313,526
Other assets	-	37,226
Other receivables	350,752	-
	<u>350,752</u>	<u>350,752</u>
Property and equipment	415,484	417,546
Intangible assets	2,062	-
	<u>417,546</u>	<u>417,546</u>
Accruals and other liabilities	-	726,402
Other liabilities	394,924	-
Provision for income tax	331,478	-
	<u>726,402</u>	<u>726,402</u>

## Thaneakea Phum (Cambodia) Ltd.

### Notes to the financial statements (continued) 31 December 2006

#### 29. Comparative figures (continued)

	As reclassified KHR'000	2005 As previously presented KHR'000
Income statement:		
Foreign exchange loss - net	-	(93,041)
Other operating income	-	58,351
Interest income from deposits and placements with banks	9,321	-
Other operating loss	(44,011)	-
	<u>(34,690)</u>	<u>(34,690)</u>
Personnel costs	-	2,098,987
General and administration expenses	-	1,261,143
Depreciation	-	229,204
Commission expenses	262,514	-
Operating and other expenses	3,326,820	-
	<u>3,589,334</u>	<u>3,589,334</u>