



HATTHA KAKSEKAR LIMITED

**Financial Statements
and
Auditors' report
31 December 2008**

Corporate information

Company	Hattha Kaksekar Limited	
Registration No	Co. 5523/01P	
Registered office	No. 239, Street 63 (Trasak Paem) Sangkat Boeung Keng Kang I Khan Chamkarmorn, Phnom Penh Kingdom of Cambodia	
Shareholders	Hattha Kaksekar Non-Government Organisation (“HKNGO”) Solidarité Internationale Développement et Investissement (“SIDI”) Catholic Organisation for Relief and Development Aid (“CORDAID”) Hattha Kaksekar Staff Association (“HKSA”) Norwegian Investment Fund for Developing Countries (“NORFUND”) OIKOCREDIT, Ecumenical Development Cooperative Society, U.A. (“OIKOCREDIT”) ASN-Novib Fonds Mr. Dy Davuth	
Board of Directors	Mrs. Dominique Marcon	Chairwoman, Solidarité Internationale Développement et Investissement (appointed on 19 September 2008)
	Ms. Alka Couet	Chairwoman, Investment Officer at Solidarité Internationale Développement et Investissement (resigned on 16 September 2008)
	Mr. Hout Ieng Tong	Member, General Manager of Hattha Kaksekar Limited
	Mr. Tony Fernandes	Member, Research and Consultant of Global Alternatives (resigned on 16 September 2008)
	Mr. Dy Davuth	Member, Associate Professor of Build Bright University
	Mr. Seng Vannara	Member, Retail Manager at Kampuchea Tela Co., Ltd
	Mrs. Elizabeth Marinelli	Member, Head of Financial Institution and Funds (appointed on 16 September 2008)
	Mrs. Tahira Donkersloot	Member, Equity Investment Officer (appointed on 16 September 2008)
	Mr. Erik Peter Geurts	Member (appointed on 16 September 2008)

Management team	<p>Mr. Hout Ieng Tong Ms. Im Vandith Mr. Rath Sarun Mr. Toch Chaochek Mr. Phat Thomas</p> <p>Mr. Ouch Soth Mr. Khou Buntry Mr. Bong Benly Mr. Mech Sokmetrey Mr. Ros Vol</p>	<p>General Manager Deputy General Manager Assistant General Manager Head of Operation Department Head of Human Resource Department (resigned on 16 August 2008) Former Finance Manager (resigned on 1 July 2008) Head of Finance Department (appointed on 14 July 2008) Head of Management Information System Department Head of Marketing Department Head of Internal Audit Department (appointed on 2 January 2008)</p>
Auditor	KPMG Cambodia Ltd	
Principal bankers	<p>Aceda Bank Plc. National Bank of Cambodia Cambodian Public Bank Limited Canadia Bank Plc. Rural Development Bank</p>	

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Report of the Board of Directors

The Board of Directors of Hattha Kaksekar Limited (“HKL” or “the Company”) presents their report together with the audited financial statements of HKL for the year ended 31 December 2008.

Principal activity

The principal activity of HKL is to provide micro-finance services to the economically active poor population of Cambodia through its head office in Phnom Penh and its various provincial offices in the Kingdom of Cambodia.

Financial results

The financial results of the Company for the year ended 31 December 2008 were as follows:

	US\$
Profit before income tax	2,335,889
Income tax expense	(472,201)
Net profit for the year	<u>1,863,688</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 financial statements 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 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 the allowance for doubtful loans in the financial statements of the company, inadequate to any substantial extent.

Report of the Board of Directors (continued)

Current assets

Before the financial statements 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 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.

Report of the Board of Directors (continued)

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.

Share capital

On 20 March 2008, the shareholders of Hattha Kaksekar Limited approved an increase in the paid up share capital from US\$1,339,700 to US\$2,716,800. The total authorised share capital is 27,168 shares (2007: 13,397 shares) with a par value of US\$100 per share.

The Board of Directors

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

- Mrs. Dominique Marcon Chairwoman, Solidarité Internationale Développement et Investissement (appointed on 19 September 2008)
- Mrs. Alka Couet Chairwoman, Investment Officer at Solidarité Internationale Développement et Investissement (resigned on 16 September 2008)
- Mr. Hout Ieng Tong Member, General Manager of Hattha Kaksekar limited
- Mr. Tony Fernandes Member, Research and Consultant of Global Alternatives (resigned on 16 September 2008)
- Mr. Dy Davuth Member, Associate Professor of Build Bright University
- Mr. Seng Vannara Member, Retail Manager at Kampuchea Tela Co., Ltd
- Mrs. Elizabeth Marinelli Member, Head of Financial Institution and Funds (appointed on 16 September 2008)
- Mrs. Tahira Donkersloot Member, Equity Investment Officer (appointed on 16 September 2008)
- Mr. Erik Peter Geurts Member (appointed on 16 September 2008)

Report of the Board of Directors (continued)

Events since the balance sheet date

At the date of this report, there have been no significant events occurring after the balance sheet date which would require disclosures or adjustments to be made in the financial statements.

Directors' interests

No members held any interest in the equity of the Company, except for Mr. Dy Davuth who holds 555 shares in the Company, with a par value of US\$100 each, representing 2.04% (2007: 555 shares of US\$100 each, representing 4.14%).

Directors' benefits

During and at the end of the year, no arrangement existed, to which the Company was 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 the benefit received by the Directors as disclosed in note 29 to 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 which the Director has a substantial financial interest other than as disclosed in the financial statements.

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

The Board of Directors is responsible for ensuring 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 2008, 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 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;

Report of the Board of Directors (continued)

Responsibilities of the Board of Directors in respect of the financial statements (continued)

- (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 they have complied with the above requirements in preparing the financial statements.

On behalf of the Board of Directors



Hout Ieng Tong
General Manager

Date: 25/03/09

REPORT OF THE INDEPENDENT AUDITORS

To the shareholders of Hattha Kaksekar Limited

We have audited the accompanying financial statements of Hattha Kaksekar Limited (“HKL” or “the Company”), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 8 to 59.

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 and the 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 Cambodian Standards on Auditing and 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.

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 Company’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 Company’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 gives a true and fair view of the financial position of Hattha Kaksekar Limited as at 31 December 2008, and of its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

The accompanying financial statements of the Company have been translated into Khmer Riel solely for compliance with the guidelines issued by the National Bank of Cambodia regarding the preparation and presentation of financial statements. We have audited the translation and, in our opinion, the financial statements expressed in United States Dollars have been translated into Khmer Riel on the basis as set forth in Note 4 to the financial statements.

For KPMG Cambodia Ltd



Craig McDonald
Audit Partner

Phnom Penh

25 March 2009

Hattha Kaksekar Limited

Balance sheet As at 31 December 2008

	Note	2008		2007	
		US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand	5	74,593	304,414	57,919	231,850
Deposits with banks	6	5,789,268	23,626,003	1,545,902	6,188,246
Loans to customers	7	28,847,051	117,724,815	14,015,162	56,102,693
Other receivables	8	575,914	2,350,305	295,292	1,182,054
Statutory deposits	9	149,378	609,612	39,731	159,043
Property and equipment	10	564,641	2,304,300	382,957	1,532,977
Intangible assets	11	18,219	74,352	14,171	56,726
Deferred tax assets	12	46,032	187,856	4,678	18,726
TOTAL ASSETS		36,065,096	147,181,657	16,355,812	65,472,315
LIABILITIES AND EQUITY					
Liabilities					
Deposits from customers	13	1,194,239	4,873,689	658,620	2,636,456
Borrowings	14	20,123,145	82,122,555	11,783,300	47,168,550
Subordinated loans	15	729,319	2,976,351	729,319	2,919,464
Other liabilities	16	1,004,150	4,097,936	383,237	1,534,098
Amounts due to shareholders	17	5,731,038	23,388,366	230,848	924,084
Deferred grant income	18	60,184	245,611	120,227	481,269
Provision for income tax	19	426,450	1,740,342	197,394	790,168
Total liabilities		29,268,525	119,444,850	14,102,945	56,454,089
Equity					
Share capital	20	2,716,800	11,087,261	1,339,700	5,362,819
Share premium	20	1,445,955	5,900,942	-	-
Reserves		80,464	328,374	44,704	178,950
Retained earnings		2,553,352	10,420,230	868,463	3,476,457
Total equity		6,796,571	27,736,807	2,252,867	9,018,226
TOTAL LIABILITIES AND EQUITY		36,065,096	147,181,657	16,355,812	65,472,315

The accompanying notes form part of these financial statements.

Hattha Kaksekar Limited

Income statement Year ended 31 December 2008

	Note	2008		2007	
		US\$	KHR'000	US\$	KHR'000
Interest income	21	6,717,300	27,413,301	2,887,747	11,559,651
Interest expenses	22	(1,979,465)	(8,078,197)	(732,880)	(2,933,719)
Net interest income		4,737,835	19,335,104	2,154,867	8,625,932
Other operating income	24	119,144	486,227	96,031	384,412
Operating income		4,856,979	19,821,331	2,250,898	9,010,344
Salaries and staff benefits	25	(1,453,369)	(5,931,199)	(751,220)	(3,007,133)
General and administrative expenses	26	(1,065,799)	(4,349,526)	(615,166)	(2,462,510)
Provision for bad and doubtful loans	7	(68,353)	(278,949)	(75,099)	(300,621)
Profit from operations		2,269,458	9,261,657	809,413	3,240,080
Grant income	23	66,431	271,105	79,192	317,006
Profit before income tax		2,335,889	9,532,762	888,605	3,557,086
Income tax expense	19	(472,201)	(1,927,052)	(173,401)	(694,124)
Net profit for the year		1,863,688	7,605,710	715,204	2,862,962

The accompanying notes form part of these financial statements.

Hattha Kaksekar Limited

Statement of changes in equity Year ended 31 December 2008

	Share capital US\$	Share Premium US\$	Reserves US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2007	257,850	-	22,355	918,152	1,198,357
Issuance of shares	608,450	-	-	(608,450)	-
Conversion of Subordinated loans	48,322	-	-	-	48,322
Increase in share capital	425,078	-	-	-	425,078
Net profit for the year	-	-	-	715,204	715,204
Transfer to legal reserves	-	-	22,349	(22,349)	-
Dividends paid	-	-	-	(134,094)	(134,094)
Balance as at 31 December 2007	<u>1,339,700</u>	<u>-</u>	<u>44,704</u>	<u>868,463</u>	<u>2,252,867</u>
Increase in share capital	64,500	67,725	-	-	132,225
Conversion of Borrowings	1,312,600	1,378,230	-	-	2,690,830
Net profit for the year	-	-	-	1,863,688	1,863,688
Transfer to legal reserves	-	-	35,760	(35,760)	-
Dividends paid	-	-	-	(143,039)	(143,039)
Balance as at 31 December 2008	<u>2,716,800</u>	<u>1,445,955</u>	<u>80,464</u>	<u>2,553,352</u>	<u>6,796,571</u>
(KHR'000 equivalents)	<u>11,087,261</u>	<u>5,900,942</u>	<u>328,374</u>	<u>10,420,230</u>	<u>27,736,807</u>

The accompanying notes form part of these financial statements.

Hattha Kaksekar Limited

Statement of cash flows Year ended 31 December 2008

	Note	2008		2007	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Net cash used in operating activities	27	(11,871,119)	(48,446,036)	(6,862,090)	(27,468,947)
Cash flows from investing activities					
Purchase of property and equipment		(378,605)	(1,545,087)	(259,365)	(1,038,238)
Purchase of intangible assets		(18,000)	(73,458)	-	-
Proceeds from disposal of property and equipment		7,713	31,477	16,984	67,987
Net cash used in investing activities		(388,892)	(1,587,068)	(242,381)	(970,251)
Cash flows from financing activities					
Proceeds from borrowings		13,375,336	54,584,746	9,250,000	37,027,750
Repayments of borrowings		(1,935,492)	(7,898,743)	(752,152)	(3,010,864)
Proceeds from shareholders		5,254,123	21,442,076	-	-
Repayments to shareholders		(163,102)	(665,619)	(377,525)	(1,511,232)
Increase in share capital		132,225	539,610	425,078	1,701,587
Dividends paid		(143,039)	(583,742)	(134,094)	(536,778)
Net cash generated from financing activities		16,520,051	67,418,328	8,411,307	33,670,463
Net increase in cash and cash equivalents		4,260,040	17,385,224	1,306,836	5,231,265
Cash and cash equivalents at beginning of year		1,603,821	6,420,096	296,985	1,204,867
Translation difference		-	125,097	-	(16,036)
Cash and cash equivalents at end of year	28	5,863,861	23,930,417	1,603,821	6,420,096

The accompanying notes form part of these financial statements.

Hattha Kaksekar Limited

Notes to the financial statements 31 December 2008

1. Background and principal activities

Hattha Kaksekar, a non-governmental organisation (“NGO”) established in November 1996, has created Hattha Kaksekar Limited (“HKL” or the “Company”) in order to comply with Prakas No. B-700-06 dated 11 January 2000, a regulation issued by the National Bank of Cambodia (“NBC”) on the licensing of micro-finance institutions. The creation of HKL converted the NGO’s micro-lending operations into a licensed and commercially oriented micro-finance institution (“the MFI”). HKL aims to carry out the NGO’s micro-finance activities and conduct banking operations as defined in the Law on Banking and Financial Institution. The conversion was achieved by transferring and assigning all the assets and liabilities of the NGO as at 27 April 2001, the effective date of transfer, to HKL including all grant contracts and the outstanding receivables arising from these contracts as at the date of transfer, conditions and obligations relating to a bank loan, all employment contracts, conditions, obligations and benefits, leases on premises or houses for office branches or headquarters, and all other related to the micro-lending operations of the NGO. The transfer and assignment of all these were put into effect through an agreement to transfer assets and liabilities, and the subordinated loan agreement between the NGO and the MFI, both dated 27 April 2001.

On 27 April 2001, the Ministry of Commerce issued a business license dated 3 April 2001 to HKL to operate as a public limited company with the aim of providing credit and saving services for the lower segments of the market. On 19 October 2001, under license number 02, the NBC issued a license to HKL to conduct micro-finance operations for a three-year period which expired on 19 October 2004. On 12 July 2004, HKL obtained a new license for a three-year period which expired on 19 October 2007. The NBC granted an indefinite micro-finance license to the Company effective from 8 August 2007.

HKL operates in nine branches located in Pursat, Kampong Thom, Siem Reap, Banteay Meanchey, Kampong Cham, Kampong Chhnang, Battambang and Phnom Penh, with the primary source of revenue being interest income earned on providing loans to clients.

As at 31 December 2008, the Company had 435 (2007:248) employees.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

2. Basis of preparation

(a) Basis of financial statements preparation

The financial statements have been prepared on the historical cost basis and the accounting policies have been consistently applied by the Company.

The financial statements have been prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements.

Cambodia Financial Reporting Standard 7, Financial Instruments: Disclosures, has been promulgated in 2007 and is effective for annual period beginning on or after 1 January 2008. Adoption of this standard increases the level of disclosures in respect of financial instruments, but has no impact on the reported profits or financial position of the Company.

(b) Basis of aggregation

The financial statements comprise the financial statements of the head office and nine branches located in Pursat, Kampong Thom, Siem Reap, Banteay Meanchey, Kampong Cham, Kampong Chhnang, Battambang and Phnom Penh. All inter-branch balances and transactions have been eliminated.

(c) Use of estimates and judgements

The management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates.

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

Hattha Kaksekar Limited

Notes to the financial statements (continued) **31 December 2008**

2. Basis of preparation (continued)

(d) 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 US\$ 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.

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

3. Significant accounting policies

(a) Segment information

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

(b) Financial instruments

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

Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

(c) 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.

(d) 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 the Company's 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 customers, the financial position of customers and the performance of loans in relation to contract terms.

(e) 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%

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

3. Significant accounting policies (continued)

(e) Provision for bad and doubtful loans (continued)

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 an expense. Interest on non-performing loans is not accrued.

In addition to the specific provision, an additional general provision for bad and doubtful loans is made at the rate of 0.7% of total loan outstanding, net of the specific provision.

Loans are written off to the income statement when the loans remain unpaid after 90 days for loans with maturities of one year or less and after 360 days for loans with maturities of more than one year. Loans written off are removed from the outstanding loan portfolio and from the provision for bad and doubtful loans.

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 are treated as other operating income.

(f) Deposits with banks

Deposits with banks are carried at cost.

(g) Other receivables

Other receivables are carried at estimated realisable value. An estimate is made for doubtful receivables based on a review of outstanding amounts at the end of the fiscal year.

(h) 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.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

2. Significant accounting policies (continued)

(h) Property and equipment (continued)

- (ii) Depreciation of property and equipment is charged to the income statement on a declining basis at the following rates:

Motor vehicles	25%
Computer equipment	50%
Equipment	25%
Furniture and fixtures	20%

- (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.
- (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.

(i) Intangible assets

Intangible assets consist of computer software licenses and 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.

(j) Deposits from customers

Deposits from customers are stated at placement value.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

3. Significant accounting policies (continued)

(k) 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.

(l) Borrowings

Borrowings are stated at cost.

(m) Retirement benefits

Provision for retirement benefits is conditional on the employees of HKL remaining in the service of HKL up to retirement age and the completion of a minimum service period as follows:

<i>Number of working years</i>	<i>Percentage (%) of December salary provided</i>
Up to 5 years	50
Up to 10 years	80
More than 10 years	100

This retirement benefits will be fully paid to the employees of HKL upon retirement age, or if they resign before retirement age, they will be entitled to the following portion of retirement benefits:

<i>Number of working years</i>	<i>Percentage (%) of total retirement benefits provided for the employee</i>
Less than 3 years	-
4 to less than 6 years	60
7 to less than 12 years	80
12 years and more	100

No separate fund is maintained, i.e. there is no separate interest bearing bank account or any other asset for the fund.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

3. Significant accounting policies (continued)

(n) Reserves

In accordance with the Memorandum and Articles of Association, HKL has to transfer to this reserve fund 5% of its prior year's net income. Such transfer will cease when the reserve fund equals 10% of the registered share capital of the Company.

(o) 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 or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

(p) Grants

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.

(q) Operating leases

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

(r) Interest income and expense recognition

Interest income on loans is recognised on an accruals basis taking into consideration the principal amount of loans outstanding. 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 on a monthly basis using the balances of the principal amount outstanding as at the previous month end.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

3. Significant accounting policies (continued)

(r) Interest income and expense recognition (continued)

Interest expenses on deposits from customers, borrowings and subordinated loans are recognised on an accrual basis.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in 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 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 against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines issued by the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,081 (2007: KHR4,003) published by the NBC on 31 December 2008. These convenience translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

5. Cash on hand

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	16,849	68,761	8,926	35,731
Phnom Penh branch	7,727	31,534	14,654	58,660
Provincial branches				
Pursat - Sampov Meas	1,063	4,338	10,698	42,824
Kampong Thom				
- Steoung Sen	9,190	37,504	4,573	18,306
- Stung	11,338	46,270	8,447	33,813
Banteay Meanchey	9,470	38,647	6,074	24,314
Kampong Cham	5,063	20,662	2,743	10,980
Siem Reap	5,686	23,205	1,804	7,222
Kampong Chhnang	2,942	12,006	-	-
Battambang	5,265	21,487	-	-
	<u>74,593</u>	<u>304,414</u>	<u>57,919</u>	<u>231,850</u>

The above amounts are analysed by currency as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
US Dollar	55,648	227,100	50,896	203,737
Khmer Riel	15,003	61,227	4,867	19,483
Thai Baht	3,942	16,087	2,156	8,630
	<u>74,593</u>	<u>304,414</u>	<u>57,919</u>	<u>231,850</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

6. Deposits with banks

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	3,888,843	15,870,368	1,251,542	5,009,923
Phnom Penh branch	381,355	1,556,310	22,182	88,795
Provincial branches				
Pursat - Sampov Meas	142,413	581,187	8,913	35,679
Kampong Thom				
- Steoung Sen	12,063	49,229	12,050	48,236
- Stung	392,492	1,601,760	59,849	239,575
Banteay Meanchey	17,156	70,014	33,247	133,088
Kampong Cham	90,748	370,343	96,124	384,784
Siem Reap	745,363	3,041,826	61,995	248,166
Kampong Chhnang	55,901	228,132	-	-
Battambang	62,934	256,834	-	-
	<u>5,789,268</u>	<u>23,626,003</u>	<u>1,545,902</u>	<u>6,188,246</u>

Deposits with banks are analysed as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
a) By currency:				
US Dollar	5,117,222	20,883,383	1,543,688	6,179,383
Khmer Riel	658,698	2,688,147	317	1,269
Thai Baht	13,348	54,473	1,897	7,594
	<u>5,789,268</u>	<u>23,626,003</u>	<u>1,545,902</u>	<u>6,188,246</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

6. Deposits with banks (continued)

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
b) By type:				
<i>Current accounts:</i>				
Aceda Bank Plc.	101,356	413,634	-	-
Rural Development Bank	418	1,706	428	1,713
Cambodian Public Bank Limited	45	184	54	216
<i>Savings accounts:</i>				
Aceda Bank Plc.	5,684,931	23,200,203	1,518,385	6,078,095
National Bank of Cambodia	882	3,599	443	1,774
Cambodian Public Bank Limited	96	392	96	384
Canadia Bank Plc.	1,540	6,285	26,496	106,064
	<u>5,789,268</u>	<u>23,626,003</u>	<u>1,545,902</u>	<u>6,188,246</u>
c) By interest rate (per annum):				
<i>Current accounts:</i>			Nil	Nil
<i>Savings accounts:</i>				
Aceda Bank Plc.				
- Khmer Riel		4%		4%
- Thai Baht		4%		4%
- US Dollar		2%		1.50%
National Bank of Cambodia		2.02%		2.02%
Cambodian Public Bank Limited		1%		0.50%
Canadia Bank Plc.		0.75%		1.50%

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

7. Loans to customers

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	102,059	416,503	69,789	279,365
Phnom Penh branch	4,784,983	19,527,516	2,085,926	8,349,962
Provincial branches				
Pursat - Sampov Meas	3,460,256	14,121,305	1,749,785	7,004,389
Kampong Thom				
- Steoung Sen	2,824,753	11,527,817	1,525,414	6,106,232
- Stung	2,969,969	12,120,444	2,196,199	8,791,385
Banteay Meanchey	4,062,273	16,578,136	2,192,515	8,776,638
Kampong Cham	2,942,754	12,009,379	882,602	3,533,056
Siem Reap	5,558,203	22,683,026	3,463,106	13,862,813
Kampong Chhnang	700,794	2,859,940	-	-
Battambang	1,644,359	6,710,629	-	-
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
Provision for bad and doubtful loans				
- Specific provision	(24,903)	(101,629)	(14,063)	(56,294)
- General provision	(178,449)	(728,251)	(136,111)	(544,853)
	<u>(203,352)</u>	<u>(829,880)</u>	<u>(150,174)</u>	<u>(601,147)</u>
	<u><u>28,847,051</u></u>	<u><u>117,724,815</u></u>	<u><u>14,015,162</u></u>	<u><u>56,102,693</u></u>

Movements in provision for bad and doubtful loans during the year are as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	150,174	601,147	94,096	381,747
Provision during the year	68,353	278,949	75,099	300,621
Written off during the year	(15,175)	(61,929)	(19,021)	(76,141)
Translation difference	-	11,713	-	(5,080)
	<u>203,352</u>	<u>829,880</u>	<u>150,174</u>	<u>601,147</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

7. Loans to customers (continued)

Loans to customers are analysed as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
a) By maturity:				
Within 1 month	168,023	685,702	1,030,028	4,123,202
2 to 3 months	771,061	3,146,700	4,156	16,637
4 to 12 months	15,531,935	63,385,827	6,787	27,168
More than 12 months	12,579,384	51,336,466	13,124,365	52,536,833
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
b) By currency:				
US Dollar	25,274,579	103,145,556	12,577,441	50,347,496
Khmer Riel	2,162,358	8,824,584	812,160	3,251,077
Thai Baht	1,613,466	6,584,555	775,735	3,105,267
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
c) By economic sector:				
Trade and commerce	9,583,787	39,111,435	6,375,436	25,520,870
Agriculture	7,748,337	31,620,963	2,676,426	10,713,733
Household/family	4,475,393	18,264,079	2,300,597	9,209,290
Services	4,319,808	17,629,136	1,094,440	4,381,043
Transportation	1,381,253	5,636,894	875,347	3,504,014
Construction	796,890	3,252,108	270,944	1,084,589
Other categories	744,935	3,040,080	572,146	2,290,301
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
d) By residency status:				
Residents	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
e) By relationship:				
External customers	28,822,118	117,623,064	14,012,253	56,091,049
Management and staff loans	<u>228,285</u>	<u>931,631</u>	<u>153,083</u>	<u>612,791</u>
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

7. Loans to customers (continued)

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
f) By performance:				
Standard loans:				
Unsecured	28,881,804	117,866,642	14,135,386	56,583,950
Substandard loans:				
Unsecured	154,583	630,853	12,703	50,850
Doubtful loans:				
Unsecured	6,528	26,641	6,366	25,483
Losses:				
Unsecured	7,488	30,559	10,881	43,557
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
g) By type of customers:				
Individual	27,402,497	111,829,590	13,427,743	53,751,255
Group	1,647,906	6,725,105	737,593	2,952,585
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
h) By type of loan products:				
Micro loans	8,726,039	35,610,965	4,690,247	18,775,059
Small loans	9,232,460	37,677,669	4,632,675	18,544,598
Medium loans	11,091,904	45,266,061	2,723,786	10,903,315
Special loans	-	-	2,118,628	8,480,868
	<u>29,050,403</u>	<u>118,554,695</u>	<u>14,165,336</u>	<u>56,703,840</u>
i) By interest rate (per month):				
Micro loans (US\$50 - US\$1,000)		3%-4%		3%-4%
Small loans (US\$1,001 - US\$2,500)		2.5%		2.5%
Medium loans (US\$2,501 - US\$3,000)		2%		2%
Special loans (US\$3,001 - US\$10,000)		2%		2%

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.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

8. Other receivables

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Interest receivable	484,685	1,978,000	243,067	972,997
Contract deposits	45,400	185,277	29,996	120,074
Other receivables	45,829	187,028	22,229	88,983
	<u>575,914</u>	<u>2,350,305</u>	<u>295,292</u>	<u>1,182,054</u>

9. Statutory deposits

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits on:				
Registered share capital	135,230	551,874	25,583	102,409
Customers' deposits	14,148	57,738	14,148	56,634
	<u>149,378</u>	<u>609,612</u>	<u>39,731</u>	<u>159,043</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 (5%) 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 ceases its operations in Cambodia. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

The statutory deposit on registered capital placed with NBC in US\$ earns interest at the rate of 3/8 six-month SIBOR with the effective annual rate in 2008 ranging from 1.18% to 1.77% per annum (2007: 2.02%). The statutory deposit relating to customers' deposits does not earn interest.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

10. Property and equipment

	Motor vehicles US\$	Computer equipment US\$	Equipment US\$	Furniture and fixtures US\$	Total US\$	KHR'000
Cost						
Balance as at 1 January 2008	398,608	198,251	22,894	47,011	666,764	2,721,064
Additions	295,660	56,084	6,679	20,182	378,605	1,545,087
Disposals	(5,912)	(23,670)	(2,907)	-	(32,489)	(132,587)
Written off/reclassification	-	(1,704)	(2,146)	(6,307)	(10,157)	(41,451)
At 31 December 2008	688,356	228,961	24,520	60,886	1,002,723	4,092,113
Less: Accumulated depreciation						
Balance as at 1 January 2008	131,657	111,297	18,030	22,823	283,807	1,158,216
Charge for the year	116,086	59,196	2,751	6,968	185,001	754,989
Disposals	(5,448)	(12,671)	(1,938)	-	(20,057)	(81,852)
Written off/reclassification	-	(3,663)	(2,794)	(4,212)	(10,669)	(43,540)
At 31 December 2008	242,295	154,159	16,049	25,579	438,082	1,787,813
Net book value						
At 31 December 2008	446,061	74,802	8,471	35,307	564,641	2,304,300
At 31 December 2007	266,951	86,954	4,864	24,188	382,957	

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

11. Intangible assets

	Micro Banker License			
	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Cost				
Balance at 1 January	28,000	112,084	28,000	113,596
Additions	18,000	73,458	-	-
Translation difference	-	2,184	-	(1,512)
	<u>46,000</u>	<u>187,726</u>	<u>28,000</u>	<u>112,084</u>
Less: Accumulated amortisation				
Balance at 1 January	13,829	55,358	5,389	21,863
Charge for the year	13,952	56,938	8,440	33,785
Translation difference	-	1,078	-	(290)
	<u>27,781</u>	<u>113,374</u>	<u>13,829</u>	<u>55,358</u>
Net book value				
Balance at 31 December	<u>18,219</u>	<u>74,352</u>	<u>14,171</u>	<u>56,726</u>

12. Deferred tax assets

Deferred tax assets comprise of:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Property and equipment	(14,933)	(60,942)	(9,043)	(36,199)
Provision for retirement benefits	21,167	86,382	13,721	54,925
Provision for bonus	39,798	162,416	-	-
	<u>46,032</u>	<u>187,856</u>	<u>4,678</u>	<u>18,726</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

12. Deferred tax assets (continued)

Movement in deferred tax assets during the year is as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	4,678	18,726	(2,743)	(11,128)
Credit to income statement	41,354	168,766	7,421	29,706
Translation difference	-	364	-	148
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	46,032	187,856	4,678	18,726
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13. Deposits from customers

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Loan-linked savings	907,814	3,704,789	398,855	1,596,617
General savings	286,425	1,168,900	259,765	1,039,839
	<hr/>	<hr/>	<hr/>	<hr/>
	1,194,239	4,873,689	658,620	2,636,456
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The loan-linked savings is a compulsory saving deposit on loans disbursed as required by the Company and bears no interest. The loan-linked savings is to be refunded at the end of the loan cycle.

The general savings comprise voluntary saving deposit and term deposit and bears interest at rates ranging from 4% to 8% (2007: 3% - 7%) per annum for Khmer Riel and from 3% to 7% (2007: 1% - 4%) per annum for US Dollar. The interest charge is accrued to individual customers' accounts on a monthly basis. Voluntary saving deposits can be withdrawn at anytime by the depositors.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

13. Deposits from customers (continued)

The deposits from customers are analysed as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
a) By maturity:				
Within 1 month	174,222	711,000	124,371	497,857
2 to 3 months	10,915	44,544	-	-
4 to 12 months	101,288	413,356	267,016	1,068,865
More than 12 months	907,814	3,704,789	267,233	1,069,734
	<u>1,194,239</u>	<u>4,873,689</u>	<u>658,620</u>	<u>2,636,456</u>
b) By currency:				
US Dollar	1,016,059	4,146,536	609,652	2,440,437
Thai Baht	75,085	306,422	28,474	113,982
Khmer Riel	103,095	420,731	20,494	82,037
	<u>1,194,239</u>	<u>4,873,689</u>	<u>658,620</u>	<u>2,636,456</u>
c) By location:				
Head office - Phnom Penh	167,306	682,776	130,628	522,904
Phnom Penh branch	164,931	673,084	60,660	242,822
Provincial branches				
Pursat - Sampov Meas	101,997	416,250	90,742	363,240
Kampong Thom				
- Steoung Sen	151,606	618,704	77,669	310,909
- Stung	107,154	437,295	43,552	174,339
Banteay Meanchey	187,682	765,930	85,490	342,217
Kampong Cham	65,598	267,705	17,716	70,917
Siem Reap	190,046	775,578	152,163	609,108
Kampong Chhnang	16,265	66,377	-	-
Battambang	41,654	169,990	-	-
	<u>1,194,239</u>	<u>4,873,689</u>	<u>658,620</u>	<u>2,636,456</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

14. Borrowings

		2008		2007	
		US\$	KHR'000	US\$	KHR'000
Developing World					
Market	(i)	6,418,407	26,193,519	2,000,000	8,006,000
Global Microfinance					
Facility	(ii)	1,500,000	6,121,500	1,500,000	6,004,500
Symbiotics	(iii)	2,350,000	9,590,350	1,125,000	4,503,375
BlueOrchard					
Finance S.A	(iv)	1,750,000	7,141,750	1,000,000	4,003,000
Incofin	(v)	3,000,000	12,243,000	1,000,000	4,003,000
Alterfin	(vi)	3,650,000	14,895,650	650,000	2,601,950
MicroCredit					
Enterprises	(vii)	450,000	1,836,450	600,000	2,401,800
Nord-Sud Development	(viii)	300,000	1,224,300	300,000	1,200,900
OIKOS	(ix)	130,000	530,530	130,000	520,390
KIVA Microfunds	(x)	304,367	1,242,122	-	-
Oxfam Novib	(xi)	270,371	1,103,384	378,300	1,514,335
ASN-Novib Fonds		-	-	2,100,000	8,406,300
Norwegian Investment					
Fund for Developing					
Countries					
("NORFUND")		-	-	1,000,000	4,003,000
		<u>20,123,145</u>	<u>82,122,555</u>	<u>11,783,300</u>	<u>47,168,550</u>

The above borrowings are analysed as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
a) By maturity:				
Within one year	2,845,371	11,611,959	1,425,000	5,704,275
2 to 5 years	17,225,774	70,298,384	10,358,300	41,464,275
Over 5 years	52,000	212,212	-	-
	<u>20,123,145</u>	<u>82,122,555</u>	<u>11,783,300</u>	<u>47,168,550</u>
b) By currency:				
US Dollar	18,934,367	77,271,152	10,605,000	42,451,815
Khmer Riel	-	-	800,000	3,202,400
Thai Baht	1,188,778	4,851,403	-	-
Euro	-	-	378,300	1,514,335
	<u>20,123,145</u>	<u>82,122,555</u>	<u>11,783,300</u>	<u>47,168,550</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

14. Borrowings (continued)

(i) Developing World Market

The Company entered into a loan agreement with Developing World Market (“DWM”) on 9 August 2007 for US\$2,000,000 with a fixed interest rate of 8.90% per annum payable semi-annually in arrears. The loan is given for a period of five years maturing on 31 August 2012. The loan is unsecured and shall be repayable by a single payment on maturity.

On 31 March 2008, the Company entered into another loan agreement with DWM for US\$1,000,000 in Thai Baht and US\$1,500,000. The loan in Thai Baht is given for a period of 3 years and bears interest at the rate of 6.8% per annum plus 3 month BIBOR payable quarterly in arrears; the principal amount will be due for full payment on 30 April 2011. The loan in US dollar is given for a period of 5 years and bears interest at the rate of 8.9% per annum payable semi-annually in arrears; the principal amount will be repaid in two equal instalments on 3 March 2012 and on 3 September 2012 respectively. Both loans are unsecured.

On 5 November 2008, the Company entered into another loan agreement with DWM for US\$3,000,000 with a fixed interest rate of 8.80% per annum payable semi-annually in arrears. The loan is given for a period of 5 years maturing on 31 October 2013. The loan is unsecured and shall be repayable in three equal instalments beginning on 31 October 2012 and semi-annually thereafter until maturity.

(ii) Global Microfinance Facility

The Company entered into a loan agreement with Global Microfinance Facility (“GMF”) on 25 April 2006 for US\$750,000 with an interest rate of 9.50% per annum payable on a quarterly basis. The loan is unsecured and will be due for full repayment on 1 May 2009.

On 8 February 2007, the Company entered into another loan agreement with GMF for US\$750,000 with an interest rate of 9.25% per annum payable on a quarterly basis. The loan is unsecured and given for a period of 3 years and will mature on 2 May 2010.

(iii) Symbiotics

The Company entered into a promissory note with Symbiotics on 8 October 2007 for US\$500,000 with interest at the rate of 9.25% per annum payable semi-annually in arrears. The loan is unsecured and is given for a period of 2 years maturing on 8 October 2009.

On 28 July 2008, the Company entered into another promissory note with Symbiotics for US\$1,000,000 with interest at the rate of 8.50% per annum payable semi-annually in arrears. The loan is unsecured and is given for a period of 2 years maturing on 28 July 2010.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

14. Borrowings (continued)

(iii) Symbiotics (continued)

On 3 September 2008, the Company entered into another promissory note with Symbiotics for US\$1,000,000 with interest at the rate of 8.50% per annum payable semi-annually in arrears. The loan is unsecured and is given for a period of 2 years maturing on 3 September 2010.

(iv) BlueOrchard Finance S.A

The Company entered into a promissory note with Blue Orchard Finance S.A on 2 April 2007 for US\$500,000 with interest at the rate of 9.50% per annum payable semi-annually in arrears. The loan is unsecured and is given for a period of 2 years maturing on 2 April 2009.

On 2 July 2007, the Company entered into another promissory note with Blue Orchard Finance S.A for US\$500,000 maturing within 2 years. The loan bears interest at the rate of 9.50% per annum payable semi-annually in arrears. The loan is unsecured with the principal being repaid in two instalments on 2 January 2009 and 2 July 2009.

On 30 June 2008, the Company entered into another promissory note with Blue Orchard Finance S.A for US\$1,000,000 maturing within 2 years. The loan bears interest at the rate of 8.47% per annum payable semi-annually in arrears. The loan is unsecured with the principal being repaid in full on 30 June 2010.

(v) Incofin

The Company entered into a loan agreement with Incofin on 26 October 2007 for US\$1,000,000 with interest at the rate of 9% per annum payable semi-annually in arrears. The loan is repayable in 5 years and is secured by the outstanding loans to customers.

On 21 October 2008, the Company entered into another loan agreement with Incofin for US\$2,000,000 with interest at the rate of 8.50% per annum payable quarterly in arrears. The loan is repayable in 3 years and is secured by outstanding loans to customers.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

14. Borrowings (continued)

(vi) Alterfin

The Company entered into a loan agreement with Alterfin on 20 December 2006 for an expansion of its credit facilities for US\$200,000 with interest at the rate of 4.25% per annum plus 12 months LIBOR, calculated on a monthly basis. The loan is for a period of three years and will be repaid in two instalments, on 26 December 2009 and on 26 June 2010, respectively.

On 25 June 2007, the Company renewed its existing loan of US\$450,000, that was entered into a loan agreement on 26 January 2006 with Alterfin, with interest at the rate of 4% per annum plus 12 months LIBOR, calculated on a monthly basis. The loan is given for a period of three years and will be repaid in two instalments, one 26 June 2009 and on 26 December 2009, respectively.

On 27 February 2008, the Company entered into a promissory note with Alterfin for US\$1,000,000 with interest at the rate of 8.60% per annum payable semi-annually in arrears. The loan is unsecured and is given for a period of 3 years maturing on 27 February 2011.

On 5 May 2008, the Company entered into another promissory note with Alterfin for US\$1,000,000 with interest at the rate of 8.60% per annum payable semi-annually in arrears. The loan is unsecured and is given for a period of 3 years maturing on 5 May 2011.

On 19 November 2008, the Company entered into another promissory noted with Alterfin for US\$1,000,000 with interest at the rate of 9.50% per annum payable semi-annually in arrears. The loan is unsecured and is given for a period of 3 years maturing on 19 November 2011.

(vii) Micro Credit Enterprises

The Company entered into a loan agreement with Micro Credit Enterprises on 1 March 2007 for US\$600,000 with interest at the rate of 9.50% per annum payable semi-annually in arrears. The principal amount will be due for full repayment on 31 May 2010. The loan is unsecured.

(viii) Nord-Sud Development

The Company entered into a promissory note with Nord-Sud Development on 21 April 2008 for US\$300,000 with interest at the rate of 2% per annum plus 12 months LIBOR, calculated on a monthly basis. The principal amount will be due for full repayment on 21 April 2010. The loan is unsecured.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

14. Borrowings (continued)

(ix) OIKOS

The Company entered into a debt bond with OIKOS on 30 April 2005 for US\$130,000 with interest at the rate of 6% per annum payable annually in arrears. The loan is for a period of 11 years, with 5 years' grace period on repayment of principal and therefore will mature on 30 March 2015. Repayment of principal and interest will be paid in five equal annual instalments starting from 30 March 2015. The loan is provided against a guarantee whereby Dan Church Aid assumes primary responsibility until the loan has been fully repaid.

(x) KIVA Microfunds

The Company entered into a loan agreement with KIVA Microfunds "KIVA" on 16 January 2008 for a loan with interest rate of 0%. Loan is disbursed upon request from the Company through access to the Website maintained by KIVA and subject to a maximum of US\$150,000 per month. The loan is unsecured and the principal will be billed by KIVA on a monthly basis.

(xi) Oxfam Novib

The Company entered into a loan agreement with Oxfam Novib on 5 September 2006 for an amount of EUR300,000 (equivalent in THB14,026,080) with interest at the rate of 10.50% per annum payable semi-annually in arrears. The loan is given for a period of 3 years and will mature on 31 August 2009. The loan is secured by the assignment of 125% of the total outstanding amount of the loan portfolio in favour of the lender.

15. Subordinated loans

		2008		2007	
		US\$	KHR'000	US\$	KHR'000
Hattha Kaksekar					
Non-Government					
Organisation	(a)	415,743	1,696,647	415,743	1,664,219
Ministry of Economy					
and Finance - Agence					
Francaise de					
Development (AFD)	(b)	313,576	1,279,704	313,576	1,255,245
		<hr/>	<hr/>	<hr/>	<hr/>
		729,319	2,976,351	729,319	2,919,464
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

15. Subordinated loans (continued)

- (a) Hattha Kaksekar Non-Government Organisation (“HKNGO”) has made the above loan to HKL, following the transfer and assignment of all micro-finance related assets, liabilities and operations of the NGO to the HKL with the terms and conditions of the subordinated loan agreement dated 27 April 2001 as follows:
- i) The subordinated debt will not be repayable to HKNGO unless HKL ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the loan;
 - ii) The loan is a non-distributable fund; and
 - iii) Being a public grant, it will be considered as “Tier II Capital” in the context of Article 15 of Prakas No. B700-006 issued by the NBC, and shall be included in computing HKL’s capital adequacy ratio.

HKL shall pay interest to HKNGO the annual rate of 1% of the subordinated loan on a pro-rata basis. Furthermore, the agreement provides that if the HKNGO divests its investment in HKL should a shareholder purchase a part or all of the shares of HKL, the proceeds will be added to the subordinated loan and transferred to HKL.

- (b) HKL also accepts liability for repaying the total value of the loan to the Ministry of Economy and Finance of the Royal Government of Cambodia (“RGC”) under the terms and conditions of the subordinated loan agreement dated 27 December 2000, most notably, that the loan will not be repayable to the RGC unless the HKL ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the loan. HKL shall pay to RGC, through the Rural Development Bank, interest at an annual rate of 0.5%.

16. Other liabilities

	2008		2007	
	US\$	KHR’000	US\$	KHR’000
Retirement benefits	105,835	431,912	68,606	274,630
Provision for bonus *	198,989	812,074	99,362	397,746
Interest payable	571,681	2,333,030	169,662	679,157
Other tax payable	88,134	359,675	11,187	44,782
Other payables	39,511	161,245	22,622	90,556
Advance payments	-	-	11,798	47,227
	<u>1,004,150</u>	<u>4,097,936</u>	<u>383,237</u>	<u>1,534,098</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

16. Other liabilities (continued)

The movements in provision for retirement benefits were as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	68,606	274,630	51,729	209,865
Charge during the year	38,820	158,424	22,130	88,586
Payment during the year	(1,591)	(6,493)	(5,253)	(21,028)
Translation difference	-	5,351	-	(2,793)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	105,835	431,912	68,606	274,630
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*: All regular staff are entitled to participate in the annual bonus. The annual bonus is provided in April every year, calculated at 2.5 times of staff monthly salary by referring to the length of the service rendered during the year with the maximum up to 13% of net profit for the year ended 31 December 2008.

17. Amounts due to shareholders

		2008		2007	
		US\$	KHR'000	US\$	KHR'000
Catholic Organisation for Relief and Development Aid (“CORDAID”) (i)	80,000	326,480	190,848	763,964	
Solidarité Internationale Développement et Investissement (“SIDP”) (ii)	-	-	40,000	160,120	
ASN-Novib Fonds (ii)	2,286,086	9,329,517	-	-	
Norwegian Investment Fund for Developing Countries (“NORFUND”) (iii)	1,000,000	4,081,000	-	-	
OIKOCREDIT (iv)	2,364,952	9,651,369	-	-	
	<hr/>	<hr/>	<hr/>	<hr/>	
	5,731,038	23,388,366	230,848	924,084	
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

17. Amounts due to shareholders (continued)

The amounts due to shareholders are analysed as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
a) By maturity:				
Within one year	558,514	2,279,296	40,000	160,120
2 to 5 years	5,172,524	21,109,070	190,848	763,964
	<u>5,731,038</u>	<u>23,388,366</u>	<u>230,848</u>	<u>924,084</u>
b) By currency:				
US Dollar	4,447,284	18,149,366	230,848	924,084
Khmer Riel	1,283,754	5,239,000	-	-
	<u>5,731,038</u>	<u>23,388,366</u>	<u>230,848</u>	<u>924,084</u>

(i) CORDAID

The Company entered into a loan agreement with CORDAID on 26 December 2006 for US\$240,000 for the expansion of the loan portfolio by establishing new branches with interest at the rate of 6% per annum. These loans are repayable in six equal semi-annual instalments and will mature on 13 November 2009.

(ii) ASN-Novib Fonds

The Company entered into a loan agreement with ASN-Novib Fonds on 25 June 2007 for US\$1,000,000 with an interest rate of 9% per annum payable semi-annually in arrears. The loan is given for a period of 3 years to finance the expansion of the Company's loan portfolio and for on-lending activities to micro and small entrepreneurs. The principal amount will be due for full repayment on 30 June 2010. The loan is secured by the assignment of 125% of the total outstanding amount of the loan portfolio in favour of the lender.

On 24 December 2007, the Company entered into another loan agreement with ASN-Novib Fonds for US\$300,000 with interest at the rate of 8% per annum payable on a semi-annual basis. The loans are given for a period of 2 years and will mature on 31 December 2009.

On 6 June 2008, the Company entered into a subscription agreement with ASN-Novib Fonds for converting US\$787,815 of the loan outstanding to 3,843 shares at the price of US\$205 per share.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

17. Amounts due to shareholders (continued)

(ii) ASN-Novib Fonds (continued)

On 23 December 2008, the Company entered into another loan agreement with ASN-Novib Fonds for US\$300,000 in Khmer Riel and US\$700,000. The loan in Khmer Riel bears interest at the rate of 12% per annum and the US dollar loan bears interest at the rate of 9% per annum, both payable on a semi-annual basis in arrears. The US dollar loan is given for a period of 3 years maturing on 31 December 2011 and the loan in Khmer Riel is given for a period of 1 year maturing on 31 December 2009 which can be rolled-over twice at discretion of ASN-Novib Fonds for an additional period of 12 months. The loans are unsecured.

(iii) Norwegian Investment Fund for Developing Countries

The Company entered into a loan agreement with the Norwegian Investment Fund for Developing Countries (“NORFUND”) on 26 September 2007 for US\$1,000,000 with interest at the rate of 9% per annum payable semi-annually in arrears. The loan is given for a period of 3 years to finance the expansion of the Company’s loan portfolio and for on-lending activities to micro and small entrepreneurs. The principal amount will be due for full repayment on 30 October 2010. The loan is secured by the assignment of 125% of the total outstanding amount of the loan portfolio in favour of the lender.

On 6 June 2008, the Company entered into a subscription agreement with NORFUND for converting US\$787,815 of the loan outstanding to 3,843 shares at the price of US\$205 per share.

(iv) OIKOCREDIT

The Company entered into a loan agreement with Oikocredit on 25 January 2008 for US\$2,500,000 with the interest at the rate of 9% per annum payable semi-annually. The loan is secured by a promissory note from the Company to Oikocredit covering 100% of the total outstanding loan amount and interest outstanding. The loan is given for a period of 5 years maturing on 13 March 2013.

On 6 June 2008, the Company entered into a subscription agreement with Oikocredit for converting US\$1,115,200 of the loan outstanding to 5,440 shares at the price of US\$205 per share.

On 17 July 2008, the Company entered into another loan agreement with Oikocredit for KHR4,000,000,000 with interest at the rate of 11% per annum payable semi-annually for the first year to be adjusted annually based on 1 Year Euribor at the beginning of the invoicing period + country risk + annual ADB projected inflation +2.25% for the remaining period of the loan. The loan is given for a period of 3 years maturing on 8 August 2011. The loan is secured by a promissory note from the Company to Oikocredit covering 100% of the total outstanding loan amount and interest outstanding and by a guarantee from the High Outreach Guarantee fund for 30% of the loan outstanding.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

18. Deferred grant income

Deferred grant income from Agence Francaise de Development (“AFD”) is as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	120,227	481,269	170,245	690,684
Amortisation of grant income during the year	(60,043)	(245,035)	(50,018)	(200,222)
Translation difference	-	9,377	-	(9,193)
Balance at end of year	60,184	245,611	120,227	481,269

19. Income tax

(a) Provision for income tax

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	197,394	790,168	137,510	557,878
Income tax expense	513,555	2,095,818	180,822	723,830
Income tax paid	(284,499)	(1,161,040)	(120,938)	(484,115)
Translation difference	-	15,396	-	(7,425)
Balance at end of year	426,450	1,740,342	197,394	790,168

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.

(b) Income tax expense

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Current income tax	513,555	2,095,818	180,822	723,830
Deferred tax	(41,354)	(168,766)	(7,421)	(29,706)
	472,201	1,927,052	173,401	694,124

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

19. Income tax (continued)

(b) Income tax expense (continued)

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

	2008			2007		
	US\$	KHR'000	%	US\$	KHR'000	%
Profit before income tax	<u>2,335,889</u>	<u>9,532,762</u>		<u>888,605</u>	<u>3,557,086</u>	
Income tax using statutory rate	467,178	1,906,553	20	177,721	711,417	20.00
Tax effect of:						
Non-deductible expenses	5,023	20,499	0.2	1,468	5,876	0.16
Non-taxable income	-	-	-	(2,253)	(9,019)	(0.25)
Effect of timing difference	<u>-</u>	<u>-</u>	-	<u>(3,535)</u>	<u>(14,150)</u>	<u>(0.40)</u>
Effective income tax rate	<u>472,201</u>	<u>1,927,052</u>	20.2	<u>173,401</u>	<u>694,124</u>	19.51

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

20. Share capital

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and paid up 27,168 (2007: 13,397) ordinary shares of US\$100 each	<u>2,716,800</u>	<u>11,087,261</u>	<u>1,339,700</u>	<u>5,362,819</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

20. Share capital (continued)

Shareholders	2008		2007	
	% of ownership	Number of shares	% of ownership	Number of shares
HKNGO	20.015%	5,439	40.60%	5,439
OIKOCREDIT	20.015%	5,440	-	-
SIDI	15.00%	4,075	25.60%	3,430
ASN-Novib Fonds	14.15%	3,843	-	-
NORFUND	14.15%	3,843	-	-
CORDAID	6.95%	1,887	14.09%	1,887
HKSA	7.68%	2,086	15.57%	2,086
Mr. Dy Davuth	2.04%	555	4.14%	555
	100%	27,168	100%	13,397

During the Board of Directors meeting on 20-21 March 2008, the Board of Directors approved the increased in share capital from USD\$1,339,700 to USD\$2,716,800. The 13,771 new shares were sold to the new investors at a price of USD\$205 per share, resulting in a share premium of USD\$1,445,955. 13,126 new shares were made through a conversion of loans to share capital.

On 4 June 2008, upon approval from the National Bank of Cambodia (“NBC”), the Company increased its registered share capital from US\$1,339,700 to US\$2,716,800 through the issuance of an additional 13,771 shares with a par value of US\$100 per share.

In the same meeting, the Board of Directors declared a cash dividend amounting to USD\$143,039 which is equivalent to 20% of the 2007 audited net profit.

21. Interest income

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	6,689,850	27,301,278	2,879,518	11,526,710
Deposits with banks	27,450	112,023	8,229	32,941
	6,717,300	27,413,301	2,887,747	11,559,651

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

22. Interest expenses

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Borrowings	1,969,897	8,039,150	726,147	2,906,766
Deposits from customers	9,568	39,047	5,510	22,057
Others	-	-	1,223	4,896
	<u>1,979,465</u>	<u>8,078,197</u>	<u>732,880</u>	<u>2,933,719</u>

23. Grant income

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Amortisation of grant income from AFD	60,043	245,035	50,018	200,222
Asian Development Bank	6,388	26,070	20,626	82,566
Consultative Group to Assist the Poor ("CGAP")	-	-	6,000	24,018
Save the Children	-	-	1,904	7,622
Others	-	-	644	2,578
	<u>66,431</u>	<u>271,105</u>	<u>79,192</u>	<u>317,006</u>

24. Other operating income

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Foreign exchange gain - net	17,007	69,406	40,997	164,111
Gain on disposal of property and equipment	-	-	11,263	45,086
Recovery on loan previously written off	21,319	87,003	-	-
Other income	80,818	329,818	43,771	175,215
	<u>119,144</u>	<u>486,227</u>	<u>96,031</u>	<u>384,412</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

25. Salaries and staff benefits

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	989,088	4,036,469	525,403	2,103,188
Bonus	239,537	977,550	99,362	397,746
Medical benefits	9,275	37,851	7,579	30,339
Retirement benefits	38,820	158,424	22,130	88,586
Other staff benefits	69,086	281,940	42,161	168,770
Training costs	37,751	154,062	17,851	71,458
Perdiem and allowances	40,866	166,774	29,771	119,173
Board of Directors meeting allowances	28,946	118,129	6,963	27,873
	<u>1,453,369</u>	<u>5,931,199</u>	<u>751,220</u>	<u>3,007,133</u>

26. General and administrative expenses

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Depreciation	185,001	754,989	120,514	482,418
Amortisation	13,952	56,938	8,440	33,785
Rental	152,651	622,969	90,970	364,153
Travelling & vehicle expenses	162,280	662,265	72,214	289,073
Office supplies	116,006	473,420	46,593	186,512
Processing fees on borrowings	102,321	417,572	69,754	279,225
Communication	72,187	294,595	37,567	150,381
Marketing and advertising	66,699	272,199	49,098	196,539
Consultancy and professional fees	46,694	190,559	39,542	158,286
Utilities	43,158	176,128	21,586	86,409
Bank charges	34,223	139,664	8,514	34,082
Repairs and maintenance	21,346	87,113	19,326	77,362
Security expenses	17,977	73,364	10,807	43,260
License fee	12,895	52,624	6,604	26,436
Others	18,409	75,127	13,637	54,589
	<u>1,065,799</u>	<u>4,349,526</u>	<u>615,166</u>	<u>2,462,510</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

27. Net cash used in operating activities

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	2,335,889	9,532,762	888,605	3,557,086
Adjustments for:				
Depreciation	185,001	754,989	120,514	482,418
Amortisation	13,952	56,938	8,440	33,785
Provision for bad and doubtful loans	68,353	278,949	75,099	300,621
Loss/(gain) on disposal of property and equipment	4,719	19,258	(11,263)	(45,086)
Property and equipment (reclassified)/ written off	(512)	(2,089)	1,641	6,569
Operating profit before changes in operating assets and liabilities	2,607,402	10,640,807	1,083,036	4,335,393
Increase in operating assets:				
Loans to customers	(14,900,242)	(60,807,887)	(8,233,597)	(32,959,089)
Other receivables	(280,622)	(1,145,218)	(116,578)	(466,662)
Statutory deposits	(109,647)	(447,469)	(25,484)	(102,012)
Increase/(decrease) in operating liabilities:				
Deposits from customers	535,619	2,185,861	401,446	1,606,988
Other liabilities	620,913	2,533,946	200,043	800,772
Deferred grant income	(60,043)	(245,036)	(50,018)	(200,222)
Cash used in operations	(11,586,620)	(47,284,996)	(6,741,152)	(26,984,832)
Income tax paid	(284,499)	(1,161,040)	(120,938)	(484,115)
Net cash used in operating activities	(11,871,119)	(48,446,036)	(6,862,090)	(27,468,947)

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

28. Cash and cash equivalents

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	74,593	304,414	57,919	231,850
Deposits with banks	5,789,268	23,626,003	1,545,902	6,188,246
	<u>5,863,861</u>	<u>23,930,417</u>	<u>1,603,821</u>	<u>6,420,096</u>

29. Related party transactions

The Company entered into significant transactions with its shareholders and related parties during the year as follows:

(a) Compensation

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
<i>Board of Directors</i>				
Fee and related expenses	28,946	118,129	6,963	27,873
	<u>28,946</u>	<u>118,129</u>	<u>6,963</u>	<u>27,873</u>
<i>Key management</i>				
Salaries and short-term benefits	185,745	758,025	15,168	60,718
	<u>185,745</u>	<u>758,025</u>	<u>15,168</u>	<u>60,718</u>

(b) Loans to management and staff

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	153,083	612,791	19,237	78,044
Loans advanced during the year	173,104	706,437	175,988	704,480
Loan payments received	(97,902)	(399,538)	(42,142)	(168,694)
Translation difference	-	11,941	-	(1,039)
	<u>228,285</u>	<u>931,631</u>	<u>153,083</u>	<u>612,791</u>

Loans are provided to management and staff of the Company over a two year period with the interest rates ranging between 10%-15.6% per annum.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

29. Related party transactions (continued)

(c) Deposits from management and staff

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	93,525	374,381	14,459	58,660
Deposits during the year	37,510	153,078	321,147	1,285,551
Withdrawals during the year	(26,961)	(110,028)	(242,081)	(969,050)
Translation difference	-	7,295	-	(780)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	104,074	424,726	93,525	374,381
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Interest rates per annum of deposits from management and staff of the Company are as follows:

Voluntary saving deposit	3%-4%	3%
Term deposit		
- 3 months	6%-7%	3%
- 6 months	7%-9%	6%
- 12 months	9%-11%	7%

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

29. Related party transactions (continued)

(d) Transactions with shareholders:

Principal receive, principal repayments and interest expense charged are as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
HKNGO				
Interest expense	4,157	16,965	4,641	18,578
	=====	=====	=====	=====
CORDAID				
Principal repayments	110,847	452,367	137,525	550,513
Interest expense	9,086	37,080	17,727	70,961
	=====	=====	=====	=====
SIDI				
Principal receive	12,255	50,013	-	-
Principal repayments	52,255	213,252	240,000	960,720
Interest expense	5,311	21,674	12,220	48,916
	=====	=====	=====	=====
ASN-Novib Fonds				
Principal receive	973,901	3,974,490	-	-
Interest expense	101,825	415,548	-	-
	=====	=====	=====	=====
NORFUND				
Principal receive	787,815	3,215,073	-	-
Interest expense	70,178	286,396	-	-
	=====	=====	=====	=====
OIKOCREDIT				
Principal receive	3,480,152	14,202,500	-	-
Interest expense	153,970	628,352	-	-
	=====	=====	=====	=====

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

30. Commitments and contingencies

(a) Operating leases

The Company has lease commitments in respect of the lease of the Company's registered office in Phnom Penh and branches in Pursat, Kampong Thom, Siem Reap, Banteay Meanchey, Kampong Cham, Kampong Chhnang, Battambang and Phnom Penh. The total remaining rental commitments are due as follows:

	2008		2007	
	US\$	KHR'000	US\$	KHR'000
Within one year	180,515	736,682	90,852	363,681
From two to five years	359,916	1,468,817	148,496	594,429
Over five years	610	2,489	-	-
	<u>541,041</u>	<u>2,207,988</u>	<u>239,348</u>	<u>958,110</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.

31. Financial risk management policies

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

(a) 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.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

31. Financial risk management policies (continued)

(a) Operational risk (continued)

The operational risk management entail 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.

(b) Credit risk

Credit risk is the potential loss of income 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 credit 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 credit manual documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC guidelines.

(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 Khmer Riel and Thai Baht. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Management does not enter into any currency hedging transaction since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

31. Financial risk management policies (continued)

Concentration of currency risk

The aggregate amounts of assets and liabilities, by currency denomination, are as follows:

	US\$	(US\$ equivalent)		Total	
		THB	KHR		
31 December 2008					
Assets					
Cash on hand	55,648	3,942	15,003	74,593	
Deposits with banks	5,117,222	13,348	658,698	5,789,268	
Loans to customers	25,081,035	1,611,784	2,154,232	28,847,051	
Other receivables	188,045	34,330	353,539	575,914	
Statutory deposits	149,378	-	-	149,378	
Total financial assets	30,591,328	1,663,404	3,181,472	35,436,204	
Liabilities					
Deposits from customers	1,016,059	75,085	103,095	1,194,239	
Borrowings	18,934,367	1,188,778	-	20,123,145	
Subordinated loans	729,319	-	-	729,319	
Other liabilities	926,092	37,000	41,058	1,004,150	
Amounts due to shareholders	4,447,284	-	1,283,754	5,731,038	
Provision for income tax	426,450	-	-	426,450	
Total financial liabilities	26,479,571	1,300,863	1,427,907	29,208,341	
Net asset position	4,111,757	362,541	1,753,565	6,227,863	
	US\$	(US\$ equivalent)		Total	
		THB	KHR	EUR	
31 December 2007					
Total assets	14,320,291	795,174	838,541	-	15,954,006
Total liabilities	12,542,961	32,007	1,029,450	378,300	13,982,718
Net asset/(liability) position	1,777,330	763,167	(190,909)	(378,300)	1,971,288

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

31. Financial risk management policies (continued)

(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 the majority of financial assets are short-term and the interest rates are subject to changes with the market rates, the Company does not use any derivative financial instrument to hedge the 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.

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

31. Financial risk management policies (continued)

(ii) Interest rate risk (continued)

2008	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	> 1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	74,593	74,593	-
Deposits with banks	5,687,449	-	-	-	-	101,819	5,789,268	2.00%
Loans to customers								
- Performing	148,730	746,341	15,425,216	12,561,517	-	-	28,881,804	29.00%
- Non performing	19,293	24,720	106,719	17,867	-	-	168,599	-
- Specific provision	-	-	-	-	-	(24,903)	(24,903)	-
- General provision	-	-	-	-	-	(178,449)	(178,449)	-
Other receivables	-	-	-	-	-	575,914	575,914	-
Statutory deposits	-	-	-	-	-	149,378	149,378	-
Deferred tax assets	-	-	-	-	-	46,032	46,032	-
Total assets	5,855,472	771,061	15,531,935	12,579,384	-	744,384	35,482,236	
Liabilities								
Deposits from customers	174,222	10,915	101,288	907,814	-	-	1,194,239	6.71%
Borrowings	-	-	2,845,371	17,225,774	52,000	-	20,123,145	9.69%
Subordinated loans	-	-	-	-	729,319	-	729,319	0.75%
Other liabilities	-	-	-	-	-	1,004,150	1,004,150	-
Amounts due to shareholders	-	-	558,514	5,172,524	-	-	5,731,038	8.75%
Deferred grant income	-	-	-	-	-	60,184	60,184	-
Provision for income tax	-	-	-	-	-	426,450	426,450	-
Total liabilities	174,222	10,915	3,505,173	23,306,112	781,319	1,490,784	29,268,525	

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

31. Financial risk management policies (continued)

(ii) Interest rate risk (continued)

2007	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	> 1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	57,919	57,919	-
Deposits with banks	1,545,902	-	-	-	-	-	1,545,902	2.25%
Loans to customers								
- Performing	1,030,028	-	-	13,105,358	-	-	14,135,386	29.00%
- Non performing	-	4,156	6,787	19,007	-	-	29,950	-
- Specific provision	-	-	-	-	-	(14,063)	(14,063)	-
- General provision	-	-	-	-	-	(136,111)	(136,111)	-
Other receivables	-	-	-	-	-	295,292	295,292	-
Statutory deposits	-	-	-	-	39,731	-	39,731	2.02%
Deferred tax assets	-	-	-	-	-	4,678	4,678	-
Total assets	2,575,930	4,156	6,787	13,124,365	39,731	207,715	15,958,684	
Liabilities								
Deposits from customers	124,371	-	267,016	267,233	-	-	658,620	0.84%
Borrowings	-	-	1,425,000	10,358,300	-	-	11,783,300	8.50%
Subordinated loans	-	-	-	-	729,319	-	729,319	0.75%
Other liabilities	-	-	-	-	-	383,237	383,237	-
Amounts due to shareholders	-	-	40,000	190,848	-	-	230,848	6.50%
Deferred grant income	-	-	-	-	-	120,227	120,227	-
Provision for income tax	-	-	-	-	-	197,394	197,394	-
Total liabilities	124,371	-	1,732,016	10,816,381	729,319	700,858	14,102,945	

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

31. Financial risk management policies (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate liabilities at fair value through profit or loss, and the Company does not have derivatives as at the period end. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

The Company does not have significant variable-rate instruments. Therefore, no cash flow sensitivity analysis for variable-rate instruments was presented.

(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.

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

31. Financial risk management policies (continued)

(d) Liquidity risk (continued)

The maturities of financial assets and liabilities as at 31 December 2008 are as follows:

2008	Less than 1 month US\$	From 1 month to 3 months US\$	From 3 months to 1 year US\$	From 1 year to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
Assets							
Cash on hand	74,593	-	-	-	-	-	74,593
Deposits with banks	5,789,268	-	-	-	-	-	5,789,268
Loans to customers							
- Performing	148,730	746,341	15,425,216	12,561,517	-	-	28,881,804
- Non performing	19,293	24,720	106,719	17,867	-	-	168,599
- Specific provision	-	-	-	-	-	(24,903)	(24,903)
- General provision	-	-	-	-	-	(178,449)	(178,449)
Other receivables	-	-	-	-	-	575,914	575,914
Statutory deposits	-	-	-	-	-	149,378	149,378
Deferred tax assets	-	-	-	-	-	46,032	46,032
Total assets	6,031,884	771,061	15,531,935	12,579,384	-	567,972	35,482,236
Liabilities							
Deposits from customers	174,222	10,915	101,288	907,814	-	-	1,194,239
Borrowings	-	-	2,845,371	17,225,774	52,000	-	20,123,145
Subordinated loans	-	-	-	-	-	729,319	729,319
Other liabilities	-	-	-	-	-	1,004,150	1,004,150
Amounts due to shareholders	-	-	558,514	5,172,524	-	-	5,731,038
Deferred grant income	-	-	-	-	-	60,184	60,184
Provision for income tax	-	-	-	-	-	426,450	426,450
Total liabilities	174,222	10,915	3,505,173	23,306,112	52,000	2,220,103	29,268,525

Hattha Kaksekar Limited

Notes to the financial statements (continued)

31 December 2008

31. Financial risk management policies (continued)

(d) Liquidity risk (continued)

2007	Less than 1 month US\$	From 1 month to 3 months US\$	From 3 months to 1 year US\$	From 1 year to 5 years US\$	No fixed maturity date US\$	Total US\$
Assets						
Cash on hand	57,919	-	-	-	-	57,919
Deposits with banks	1,545,902	-	-	-	-	1,545,902
Loans to customers						
- Performing	1,030,028	-	-	13,105,358	-	14,135,386
- Non performing	-	4,156	6,787	19,007	-	29,950
- Specific provision	-	-	-	-	(14,063)	(14,063)
- General provision	-	-	-	-	(136,111)	(136,111)
Other receivables	-	-	-	-	295,292	295,292
Statutory deposits	-	-	-	-	39,731	39,731
Deferred tax assets	-	-	-	-	4,678	4,678
Total assets	2,633,849	4,156	6,787	13,124,365	189,527	15,958,684
Liabilities						
Deposits from customers	124,371	-	267,016	267,233	-	658,620
Borrowings	-	-	1,425,000	10,358,300	-	11,783,300
Subordinated loans	-	-	-	-	729,319	729,319
Other liabilities	6,218	17,107	169,628	-	190,284	383,237
Amounts due to shareholders	-	-	40,000	190,848	-	230,848
Deferred grant income	-	-	-	-	120,227	120,227
Provision for income tax	-	197,394	-	-	-	197,394
Total liabilities	130,589	214,501	1,901,644	10,816,381	1,039,830	14,102,945

Hattha Kaksekar Limited

Notes to the financial statements (continued) 31 December 2008

32. 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 2008.

33. Comparative figures

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

	2007	
	As restated US\$	As previously presented US\$
Income statement:		
Salaries and staff benefits	751,220	622,087
General and administrative expenses	615,166	744,299
	<u> </u>	<u> </u>