



**VisionFund (Cambodia) Ltd**

**Financial Statements**

**and**

**Auditors' Report**

**31 December 2007**

## **Corporate Information**

Company	VisionFund (Cambodia) Ltd
Registration No	Co.1846/03E
Registered office	No. 20, Street 71, Sangkat Tonle Bassac Khan Chamka Morn, Phnom Penh Cambodia
Shareholders	VisionFund International World Vision International
Board of Directors	Ms Esther Halim Mr Talmage Mark Payne Ms Nop Vanthy Mr Rommel Caringal Mr Jonathan Peter Hartley Mr Neil Rodrigues Mr Om Seng Bora
Auditors	KPMG Cambodia Ltd
Principal bankers	Acleda Bank Plc Ltd ANZ Royal Bank

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## **Report of the Board of Directors**

The Board of Directors presents its report together with the audited financial statements of VisionFund (Cambodia) Ltd (“the Company”) for the year ended 31 December 2007.

### **Principal activity**

The principal activity of the Company is to provide micro-finance services to the rural population of Cambodia through its head office in Phnom Penh and various provincial branches in the Kingdom of Cambodia.

### **Financial results**

The financial results of the Company for the year ended 31 December 2007 are set out in the income statement on page 7.

### **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 action had been taken in relation to the writing off of bad loans and the making of provision for doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate provision 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 provision for doubtful loans in the financial statements of the Company inadequate to any substantial extent.

### **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 loans, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company had been written down to amounts 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.

# **VisionFund (Cambodia) Ltd**

## **Valuation methods**

At the date of this report, the Board of Directors is not aware of any circumstances that have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Company 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; and
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of its business operations.

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

## **Change of circumstances**

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

## **Items of an unusual nature**

The results of the operations of the Company for the year ended 31 December 2007 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, which affect substantially the results of the operations of the Company for the current financial year in which this report is made.

## **The Board of Directors**

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

- Ms Esther Halim, chairperson
- Mr Talmage Mark Payne, member
- Ms Ruth Louise Ellison, member (resigned on 17 August 2007)
- Mr Fredrick Christopher Arulandam, member (resigned on 17 August 2007)
- Ms Nop Vanthy, member
- Mr Rommel Caringal, member
- Mr Jonathan Peter Hartley, member
- Mr Neil Rodrigues, member (appointed on 17 October 2007)
- Mr Om Seng Bora, non-voting member

# **VisionFund (Cambodia) Ltd**

## **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 adjustments or disclosures to be made in the financial statements.

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

The Board of Directors is responsible for ascertaining that the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2007, 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:

- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- comply with International Financial Reporting 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;
- maintain adequate accounting records and an effective system of internal controls;
- 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
- control and direct the Company effectively in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

*On behalf of the Board of Directors*

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Esther Halim  
*Chairperson*

## **REPORT OF THE INDEPENDENT AUDITORS**

**To the shareholders**

**VisionFund (Cambodia) Ltd**

We have audited the accompanying financial statements of VisionFund (Cambodia) Ltd (“the Company”), which comprise the balance sheet as at 31 December 2007, and the income statement, the 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 6 to 46.

### **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 International Financial Reporting 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 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 give a true and fair view of the financial position of VisionFund (Cambodia) Ltd as at 31 December 2007, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the guidelines issued by the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

We draw attention to Note 2(a) to the financial statements. In accordance with National Bank of Cambodia requirements, the assets, liabilities, revenues and expenses are presented in their Khmer Riel (“KHR”) equivalents using a method of translation that does not comply with International Financial Reporting Standards. We have reviewed the KHR equivalents and found them to be accurately translated, on the basis described in Note 2(a).

**KPMG Cambodia Ltd**

**Phnom Penh**

31 March 2008

# VisionFund (Cambodia) Ltd

## Balance sheet As at 31 December 2007

	Note	2007		2006	
		US\$	KHR'000	US\$	KHR'000
<b>ASSETS</b>					
Cash on hand	4	58,595	234,556	46,324	187,936
Deposits with banks	5	2,397,997	9,599,182	566,053	2,296,477
Loans to customers	6	10,693,374	42,805,576	5,986,506	24,287,255
Other receivables	7	187,715	751,423	96,371	390,977
Receivables from a related party	8	4,320	17,293	3,890	15,782
Statutory deposit	9	45,448	181,928	37,466	152,000
Property and equipment	10	148,746	595,430	108,874	441,702
Intangible assets	11	1,192	4,772	9,478	38,452
Deferred tax assets	12	5,797	23,205	7,526	30,532
<b>TOTAL ASSETS</b>		<b>13,543,184</b>	<b>54,213,365</b>	<b>6,862,488</b>	<b>27,841,113</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposits from customers	13	148,677	595,154	-	-
Payables to related parties	14	4,223,804	16,907,887	3,061,111	12,418,927
Other accruals and payables	15	462,972	1,853,277	142,913	579,798
Provision for income tax	16	159,034	636,613	61,648	250,106
Long-term borrowings	17	4,590,267	18,374,839	300,000	1,217,100
Total liabilities		<b>9,584,754</b>	<b>38,367,770</b>	<b>3,565,672</b>	<b>14,465,931</b>
<b>Equity</b>					
Share capital	18	757,916	3,040,000	757,916	3,040,000
Hybrid capital	19	1,937,107	7,754,239	1,937,107	7,858,843
Retained earnings		1,263,407	5,057,418	601,793	2,441,474
Translation differences		-	(6,062)	-	34,865
Total equity		<b>3,958,430</b>	<b>15,845,595</b>	<b>3,296,816</b>	<b>13,375,182</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>13,543,184</b>	<b>54,213,365</b>	<b>6,862,488</b>	<b>27,841,113</b>

The notes set out on pages 11 to 46 form an integral part of these financial statements

## VisionFund (Cambodia) Ltd

### Income statement For the year ended 31 December 2007

	Note	2007		2006	
		US\$	KHR'000	US\$	KHR'000
Interest income	20	2,911,718	11,655,607	1,675,243	6,796,461
Interest expense	21	(477,843)	(1,912,806)	(161,825)	(656,524)
<b>Net interest income</b>		<u>2,433,875</u>	<u>9,742,801</u>	<u>1,513,418</u>	<u>6,139,937</u>
Other operating income	22	124,364	497,829	90,332	366,477
<b>Operating income</b>		<u>2,558,239</u>	<u>10,240,630</u>	<u>1,603,750</u>	<u>6,506,414</u>
Provision for bad and doubtful loans	6	(14,668)	(58,716)	(23,095)	(93,696)
Operating and other expenses	23	(1,821,111)	(7,289,907)	(1,250,927)	(5,075,011)
<b>Profit from operations</b>		<u>722,460</u>	<u>2,892,007</u>	<u>329,728</u>	<u>1,337,707</u>
Grant income	25	128,056	512,608	70,438	285,767
<b>Profit before income tax</b>		<u>850,516</u>	<u>3,404,615</u>	<u>400,166</u>	<u>1,623,474</u>
Income tax	26	(188,902)	(756,174)	(83,250)	(337,745)
<b>Net profit for the year</b>		<u><u>661,614</u></u>	<u><u>2,648,441</u></u>	<u><u>316,916</u></u>	<u><u>1,285,729</u></u>

*The notes set out on pages 11 to 46 form an integral part of these financial statements*

## VisionFund (Cambodia) Ltd

### Statement of changes in equity For the year ended 31 December 2007

	Share capital US\$	Hybrid capital US\$	Retained earnings US\$	Translation differences US\$	Total US\$
<b>Balance as at 1 January 2006</b>	757,916	1,902,492	284,877	-	2,945,285
Hybrid capital received during the year	-	34,615	-	-	34,615
Net profit for the year	-	-	316,916	-	316,916
<b>Balance as at 31 December 2006</b>	<u>757,916</u>	<u>1,937,107</u>	<u>601,793</u>	<u>-</u>	<u>3,296,816</u>
Net profit for the year	-	-	661,614	-	661,614
<b>Balance as at 31 December 2007</b>	<u>757,916</u>	<u>1,937,107</u>	<u>1,263,407</u>	<u>-</u>	<u>3,958,430</u>
(KHR'000 equivalents)	<u>3,040,000</u>	<u>7,754,239</u>	<u>5,057,418</u>	<u>(6,062)</u>	<u>15,845,595</u>

*The notes set out on pages 11 to 46 form an integral part of these financial statements*

## VisionFund (Cambodia) Ltd

### Statement of cash flows For the year ended 31 December 2007

		2007		2006	
		US\$	KHR'000	US\$	KHR'000
<b>Cash flows from operating activities</b>					
Net cash used in operating activities	24	(3,541,152)	(14,175,231)	(2,178,861)	(8,839,639)
<b>Cash flows from investing activities</b>					
Acquisition of property and equipment		(100,190)	(401,060)	(44,284)	(179,660)
Acquisition of intangible assets		(1,084)	(4,340)	-	-
Proceeds from disposals of property and equipment		1,090	4,363	7,850	31,847
Deposits with maturities over three months		(80,000)	(320,240)	(20,000)	(81,140)
Net cash used in investing activities		(180,184)	(721,277)	(56,434)	(228,953)
<b>Cash flows from financing activities</b>					
Hybrid capital received		-	-	34,615	140,433
Payables to related parties		1,195,284	4,784,722	2,031,093	8,240,144
Long-term loans		4,290,267	17,173,939	300,000	1,217,100
Net cash generated from financing activities		5,485,551	21,958,661	2,365,708	9,597,677
<b>Net increase in cash and cash equivalents</b>		1,764,215	7,062,153	130,413	529,085
<b>Cash and cash equivalents at the beginning of the year</b>		592,377	2,371,285	461,964	1,874,188
<b>Cash and cash equivalents at the end of the year</b>		2,356,592	9,433,438	592,377	2,403,273

## VisionFund (Cambodia) Ltd

### Statement of cash flows (continued) For the year ended 31 December 2007

Cash and cash equivalents comprised:

		2007		2006	
	Note	US\$	KHR'000	US\$	KHR'000
Cash on hand	4	58,595	234,556	46,324	187,936
Deposits with banks	5	2,397,997	9,599,182	566,053	2,296,477
<i>Less:</i>					
Deposits with maturities over three months	29	(100,000)	(400,300)	(20,000)	(81,140)
		<u>2,356,592</u>	<u>9,433,438</u>	<u>592,377</u>	<u>2,403,273</u>

*The notes set out on pages 11 to 46 form an integral part of these financial statements*

# **VisionFund (Cambodia) Ltd**

## **Notes to the financial statements For the year ended 31 December 2007**

### **1. Background and principal activity**

VisionFund (Cambodia) Ltd (“the Company”) was incorporated as a private limited liability company in Cambodia on 25 November 2003 under Registration No. Co.1846/03E issued by the Ministry of Commerce. On 18 May 2004 the Company obtained its licence as a micro-finance institution from the National Bank of Cambodia. The Company is a 99.99% owned subsidiary of VisionFund International, a company registered in the United States of America.

All assets and liabilities of the Micro-Enterprise Development Program of World Vision Cambodia, a subsidiary of World Vision International, as at 30 November 2003 were transferred to the Company against the issue of shares. The Company commenced its operations on 1 December 2003.

The principal activity of the Company is to provide micro-finance services to the rural population of Cambodia through its head office in Phnom Penh and its branches in eight provinces of Takeo, Kandal, Kampong Speu, Kampong Thom, Kampong Chhnang, Battambang, Preah Vihear and Kampong Cham.

As at 31 December 2007 the Company had 323 employees (2006: 226 employees).

### **2. Basis of preparation**

#### **(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). These are the first set of IFRS financial statements prepared by the Company and IFRS 1 has been applied. The transition to IFRS has no significant effect on the reported financial position, financial performance and cash flows of the Company.

In compliance with the National Bank of Cambodia (“NBC”) requirements, all assets, liabilities and income statement items in US\$ are presented in the financial statements in Khmer Riel (“KHR”) using the prescribed official exchange rate announced by the NBC at the balance sheet date of US\$1: KHR4,003 (2006 – KHR4,057). The method of translation is specified by NBC and does not comply with IFRS. The translation is for presentation purposes only and should not be construed as representations that the KHR amounts are convertible into US\$ at this or any other rate of exchange.

The financial statements were approved by the Board of Directors on 31 March 2008.

# **VisionFund (Cambodia) Ltd**

## **Notes to the financial statements (continued) For the year ended 31 December 2007**

### **2. Basis of preparation (continued)**

#### **(b) Basis of measurement**

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

#### **(c) Functional and presentation currency**

The national currency of Cambodia is the Riel (“KHR”). However as the Company transacts and maintains its accounting records primarily in United States dollars (“US\$”) management have determined the United States dollar to be the Company’s functional and presentation currency 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.

#### **(d) Use of estimate and judgements**

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

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

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 3. Significant accounting policies

#### (a) Basis of aggregation

The Company's financial statements comprise the financial statements of the head office and its branches. All inter-branch balances and transactions have been eliminated.

#### (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.

#### (c) Segment reporting

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

#### (d) 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 that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

#### (e) Loans to customers

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

In accordance with Prakas B 700-51K issued by the National Bank of Cambodia on 17 February 2000, overdue loans are defined as all outstanding principal where principal or interest are past due unless the payment terms of interest or principal have been adjusted.

In general, loans are not allowed to be restructured. However, on a rare case by case basis, loans are allowed to be restructured once per cycle. The maximum additional extension of the term is up to 5 months and 50% of the original amount only.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 3. Significant accounting policies (continued)

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

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

Classification	Number of days past due	Provision
Short-term loans (less than one year)		
Standard	1 – 30 days	0%
Sub-standard	31 – 60 days	10%
Doubtful	61 – 90 days	30%
Loss	Over 90 days	100%
Long-term loans (more than one year)		
Standard	1 – 30 days	0%
Sub-standard	31 – 180 days	10%
Doubtful	181 – 360 days	30%
Loss	Over 360 days	100%

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

Loans are written off to the income statement when the loans remain unpaid after 180 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 is written off when, in the judgment of the management, there is no prospect of recovery, taking into consideration the realisable value of the collateral, if any.

Recoveries on loans previously written off are disclosed as other operating income.

#### (g) Deposits with banks

Deposits with banks are carried at cost.

#### (h) 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.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 3. Significant accounting policies (continued)

#### (i) Property and equipment

##### (i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within “other income” in the income statement.

##### (ii) *Subsequent costs*

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

##### (iii) *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of the individual assets at the following annual rates:

Motor vehicles	10% - 50%
Computer equipment	33.33%
Office furniture and fittings	10% - 20%
Buildings	5% - 10%

Fully depreciated items of property and equipment are retained on the balance sheet until disposed or written off.

#### (j) Intangible assets

Intangible assets consist of computer software and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised over their useful life, not exceeding three years. Costs associated with the development or maintenance of computer software are recognised as expenses when incurred.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 3. Significant accounting policies (continued)

#### (k) Impairment

##### (i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(f).

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

##### (ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 3. Significant accounting policies (continued)

#### (l) Provisions

A provision is recognised if, as a result of a past event, Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

#### (m) Borrowings

Borrowings are stated at cost.

#### (n) 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.

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

#### (o) Income and expense recognition

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

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

Expenses are recognised on an accrual basis.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 3. Significant accounting policies (continued)

#### (p) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of lease.

#### (q) Income tax

Income tax expense 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 in 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 recognised 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. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the law that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 4. Cash on hand

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	2,573	10,300	2,104	8,536
Provincial branches				
Battambang	10,849	43,429	6,572	26,662
Kampong Cham	738	2,954	-	-
Kampong Chhnang	15,132	60,573	6,974	28,294
Kampong Speu	6,365	25,479	2,372	9,623
Kampong Thom	8,125	32,524	7,931	32,176
Kandal	4,420	17,693	6,900	27,993
Preah Vihear	1,835	7,346	4,054	16,447
Takeo	8,558	34,258	9,417	38,205
	<u>58,595</u>	<u>234,556</u>	<u>46,324</u>	<u>187,936</u>

The above amounts are analysed by currency as follows:

US Dollar	28,899	115,683	17,353	70,401
Khmer Riel	29,696	118,873	28,971	117,535
	<u>58,595</u>	<u>234,556</u>	<u>46,324</u>	<u>187,936</u>

#### 5. Deposits with banks

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	1,998,598	8,000,388	351,225	1,424,920
Provincial branches				
Battambang	131,895	527,976	111,428	452,063
Kampong Cham	13,174	52,735	-	-
Kampong Chhnang	39,352	157,526	11,648	47,256
Kampong Speu	63,677	254,899	32,974	133,776
Kampong Thom	57,027	228,279	17,983	72,957
Kandal	35,593	142,479	25,056	101,652
Preah Vihear	20,058	80,292	14,487	58,774
Takeo	38,623	154,608	1,252	5,079
	<u>2,397,997</u>	<u>9,599,182</u>	<u>566,053</u>	<u>2,296,477</u>

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 5. Deposits with banks (continued)

Deposits with banks mature within one year and are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>a) By currency:</b>				
US Dollar	2,210,431	8,848,355	421,779	1,711,157
Khmer Riel	187,566	750,827	144,274	585,320
	<u>2,397,997</u>	<u>9,599,182</u>	<u>566,053</u>	<u>2,296,477</u>
<b>b) By type:</b>				
<i>Current account:</i>				
National Bank of Cambodia	887	3,551	1,725	6,998
Aceda Bank Plc Ltd	845	3,383	-	-
ANZ Royal Bank	9,482	37,956	16,841	68,324
<i>Savings account:</i>				
Aceda Bank Plc Ltd	778,441	3,116,099	486,044	1,971,881
ANZ Royal Bank	3,342	13,378	1,443	5,854
<i>Fixed deposit account:</i>				
Aceda Bank Plc Ltd	1,605,000	6,424,815	60,000	243,420
	<u>2,397,997</u>	<u>9,599,182</u>	<u>566,053</u>	<u>2,296,477</u>
<b>c) By interest rate (per annum):</b>		<b>2007</b>		<b>2006</b>
<i>Current account</i>		Nil		Nil
<i>Savings account:</i>				
Rural Development Bank		1.50%		-
Aceda Bank Plc Ltd		2.00% - 3.00%		2.00% - 3.00%
ANZ Royal Bank (Cambodia) Ltd		0.50%		0.50%
<i>Fixed deposit account:</i>				
Aceda Bank Plc Ltd				
Deposit within three months		4.00%		4.00%
Deposit within twelve months		6.00%		6.00%

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 6. Loans to customers

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Battambang	2,488,747	9,962,454	1,404,120	5,696,515
Kampong Cham	214,747	859,632	-	-
Kampong Chhnang	1,470,207	5,885,239	802,000	3,253,714
Kampong Speu	1,519,099	6,080,953	895,636	3,633,595
Kampong Thom	1,268,043	5,075,976	747,437	3,032,352
Kandal	1,727,234	6,914,118	911,210	3,696,779
Preah Vihear	528,199	2,114,381	279,149	1,132,508
Takeo	1,484,202	5,941,260	955,475	3,876,362
	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>
Provision for bad and doubtful loans	(7,104)	(28,437)	(8,521)	(34,570)
	<u>10,693,374</u>	<u>42,805,576</u>	<u>5,986,506</u>	<u>24,287,255</u>

Loans to customers mature within 24 months and are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>a) By maturity</b>				
Within 1 month	278,963	1,116,689	224,476	910,699
2 to 3 months	955,651	3,825,471	681,715	2,765,718
4 to 12 months	5,833,560	23,351,740	3,693,556	14,984,757
More than 12 months	3,632,304	14,540,113	1,395,280	5,660,651
	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>
<b>b) By currency:</b>				
US dollars	4,133,362	16,545,848	2,541,853	10,312,298
Khmer Riel	6,567,116	26,288,165	3,453,174	14,009,527
	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

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

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>c) By economic sector:</b>				
Agriculture loans	7,068,881	28,296,731	3,651,530	14,814,258
Small business loans	3,631,597	14,537,282	2,343,497	9,507,567
	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>
<b>d) By residency status:</b>				
Residents	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>
<b>e) By relationship:</b>				
External customers	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>
<b>f) By performance:</b>				
Standard loans				
Secured	5,538,490	22,170,575	3,188,644	12,936,329
Unsecured	5,139,747	20,574,407	2,789,350	11,316,393
Sub-standard loans				
Secured	8,391	33,589	5,342	21,672
Unsecured	2,409	9,643	669	2,714
Doubtful loans				
Secured	6,109	24,455	2,962	12,017
Unsecured	1,630	6,525	1,470	5,964
Loss loans				
Secured	1,254	5,020	574	2,329
Unsecured	2,448	9,799	6,016	24,407
	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 6. Loans to customers (continued)

As of 31 December 2007, there were no rescheduled/renegotiated/refinanced loans.

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>g) By type of customer:</b>				
Community bank	5,146,234	20,600,375	2,797,506	11,349,482
Individual	3,391,595	13,576,554	485,150	1,968,254
Solidarity group	2,162,649	8,657,084	2,712,371	11,004,089
	<u>10,700,478</u>	<u>42,834,013</u>	<u>5,995,027</u>	<u>24,321,825</u>

Type of customer	Interest rate	Loan term	Repayment of principal	Payment of interest
Community bank	3%-4% per month	3-12 months	Anytime	Monthly
Individual	2%-4% per month	3-24 months	Anytime	Monthly
Solidarity group	3%-4% per month	3-12 months	Anytime	Monthly

Group loans are granted in both Khmer Riel and US Dollars while individual loans are mainly granted in US Dollars.

### h) By interest rate (per annum):

	2007	2006
Community bank	36% - 48%	36% - 48%
Individual	24% - 48%	24% - 48%
Solidarity group	36% - 48%	36% - 48%

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

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Opening balance	8,521	34,109	14,451	58,628
Increase in provision	14,668	58,716	23,095	93,696
Provision utilised in the year	(16,280)	(65,169)	(29,284)	(118,805)
Exchange differences	195	781	259	1,051
Closing balance	<u>7,104</u>	<u>28,437</u>	<u>8,521</u>	<u>34,570</u>
Specific provision in accordance with NBC	<u>7,104</u>	<u>28,437</u>	<u>8,521</u>	<u>34,570</u>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 7. Other receivables

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Interest receivable	183,956	736,376	94,205	382,190
Receivables from employees	-	-	162	657
Other receivables	3,759	15,047	2,004	8,130
	<u>187,715</u>	<u>751,423</u>	<u>96,371</u>	<u>390,977</u>

#### 8. Receivables from a related party

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
World Vision Cambodia	4,320	17,293	3,890	15,782
	<u>4,320</u>	<u>17,293</u>	<u>3,890</u>	<u>15,782</u>

#### 9. Statutory deposit

A statutory deposit is maintained with the NBC in compliance with Prakas No. B7-00-06 and B7-06-209 on the Licensing of Micro-Finance Institutions, the amount of which is determined by a defined percentage (5%) of the Company's registered share capital and customers' deposits with the Company.

The statutory deposit 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.

Prior to September 2006, the statutory deposit placed with NBC earned no interest. From September 2006, it earns interest at the rate of 3% per annum.

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits on:				
Registered share capital	38,010	152,154	37,466	152,000
Customers' deposits	7,438	29,774	-	-
	<u>45,448</u>	<u>181,928</u>	<u>37,466</u>	<u>152,000</u>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 10. Property and equipment

	<b>Motor vehicles US\$</b>	<b>Computer equipment US\$</b>	<b>Office furniture &amp; fittings US\$</b>	<b>Buildings US\$</b>	<b>Total US\$</b>
<b>Cost</b>					
At 1 January 2007	69,900	112,888	13,734	6,148	202,670
Additions	12,155	79,370	8,665	-	100,190
Disposals	(2,015)	-	-	-	(2,015)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	80,040	192,258	22,399	6,148	300,845
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>					
At 1 January 2007	19,138	69,165	5,365	128	93,796
Charge for the year	13,622	42,485	2,975	615	59,697
Disposals	(1,394)	-	-	-	(1,394)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	31,366	111,650	8,340	743	152,099
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>					
At 31 December 2007	48,674	80,608	14,059	5,405	148,746
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2006	50,762	43,723	8,369	6,020	108,874
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 10. Property and equipment (continued)

	<b>Motor vehicles KHR'000</b>	<b>Computer equipment KHR'000</b>	<b>Office furniture &amp; fittings KHR'000</b>	<b>Buildings KHR'000</b>	<b>Total KHR'000</b>
<b>Cost</b>					
At 1 January 2007	279,810	451,891	54,977	24,610	811,288
Additions	48,656	317,718	34,685	-	401,059
Disposals	(8,066)	-	-	-	(8,066)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	320,400	769,609	89,662	24,610	1,204,281
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>					
At 1 January 2007	76,609	276,867	21,476	512	375,464
Charge for the year	54,529	170,067	11,909	2,462	238,967
Disposals	(5,580)	-	-	-	(5,580)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	125,558	446,934	33,385	2,974	608,851
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>					
At 31 December 2007	194,842	322,675	56,277	21,636	595,430
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	205,941	177,385	33,953	24,423	441,702
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 11. Intangible assets

	Computer software	
	US\$	KHR'000
<b>Cost</b>		
At 1 January 2007	29,086	116,431
Additions	1,084	4,340
	<hr/>	<hr/>
At 31 December 2007	30,170	120,771
	<hr/> <hr/>	<hr/> <hr/>
<b>Accumulated amortisation</b>		
At 1 January 2007	19,608	78,491
Charge for the year	9,370	37,508
	<hr/>	<hr/>
At 31 December 2007	28,978	115,999
	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>		
At 31 December 2007	1,192	4,772
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2006	9,478	38,452
	<hr/> <hr/>	<hr/> <hr/>

### 12. Deferred tax assets

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Deferred tax liabilities	(50,615)	(202,612)	(20,403)	(82,775)
Deferred tax assets	56,412	225,817	27,929	113,307
	<hr/>	<hr/>	<hr/>	<hr/>
	5,797	23,205	7,526	30,532
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Movements of deferred tax liabilities in the year were as follows:

Opening balance	20,403	81,673	5,480	22,232
Additions in the year	30,212	120,939	14,923	60,543
	<hr/>	<hr/>	<hr/>	<hr/>
Closing balance	50,615	202,612	20,403	82,775
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 12. Deferred tax assets (continued)

The movements of deferred tax liabilities are attributable to the following:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Deferred income	13,165	52,700	-	-
Depreciation of property and equipment	1,109	4,439	253	1,026
Staff bonus	-	-	4,429	17,969
Unrealised exchange gain	15,938	63,800	10,241	41,548
	<u>30,212</u>	<u>120,939</u>	<u>14,923</u>	<u>60,543</u>

Movements of deferred tax assets in the year were as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Opening balance	27,929	111,800	20,794	84,361
Additions in the year	28,483	114,017	7,135	28,946
Closing balance	<u>56,412</u>	<u>225,817</u>	<u>27,929</u>	<u>113,307</u>

The movements of deferred tax assets are attributable to the following:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Provident fund	9,240	36,987	5,109	20,727
Life insurance	2,911	11,653	2,026	8,219
Staff bonus	16,322	65,337	-	-
Other	10	40	-	-
	<u>28,483</u>	<u>114,017</u>	<u>7,135</u>	<u>28,946</u>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 13. Deposits from customers

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Voluntary savings	236	945	-	-
Social investor term deposits	148,441	594,209	-	-
	<u>148,677</u>	<u>595,154</u>	<u>-</u>	<u>-</u>
	<u><u>148,677</u></u>	<u><u>595,154</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The social investor term deposits are available for the public and bear interest at rates ranging from 4% to 10.5% per annum.

The deposits from customers are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>(a) By currency:</b>				
US Dollar	146,317	585,707	-	-
Khmer Riel	2,360	9,447	-	-
	<u>148,677</u>	<u>595,154</u>	<u>-</u>	<u>-</u>
	<u><u>148,677</u></u>	<u><u>595,154</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<b>b) By maturity:</b>				
Within 1 month	-	-	-	-
2 to 3 months	35,781	143,231	-	-
4 to 12 months	101,060	404,543	-	-
More than 12 months	11,836	47,380	-	-
	<u>148,677</u>	<u>595,154</u>	<u>-</u>	<u>-</u>
	<u><u>148,677</u></u>	<u><u>595,154</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 14. Payables to related parties

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Accounts payable - World				
Vision Cambodia	-	-	35,930	145,768
Term loans - VisionFund				
International	4,215,218	16,873,517	3,019,934	12,251,872
Interest payable	5,448	21,809	5,247	21,287
Payable to Micro Insurance Program	3,138	12,561	-	-
	<u>4,223,804</u>	<u>16,907,887</u>	<u>3,061,111</u>	<u>12,418,927</u>

Long-term loans from VisionFund International are unsecured and bear interest at rates ranging from 6.98% to 9.30% per annum (2006: from 6.98% to 7.91%). Interest is due on a quarterly basis while the principal is to be repaid at the end of the loan terms.

The details of loans are as follows:

Date of loan	Principal amount US\$	Interest rate per annum	Maturity date
March 2005	100,000	6%	March 2010
June 2005	40,461	6%	January 2010
August 2005	94,815	6%	August 2010
December 2005	53,565	6%	December 2010
February 2006	151,523	6%	December 2010
May 2006	370,000	8.8%	June 2009
August 2006	214,444	6.98%	June 2011
October 2006	96,396	8.8%	June 2011
December 2006	248,730	7.27%	June 2011
December 2006	250,000	9.3%	June 2009
February 2007	182,673	7.27%	June 2011
February 2007	350,000	9.24%	June 2009
March 2007	230,000	10%	June 2009
March 2007	55,529	8.5%	June 2011
June 2007	1,400,000	10.35%	June 2009
July 2007	250,000	10.35%	June 2009
November 2007	127,082	8.90%	December 2012
	<u>4,215,218</u>		

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 15. Other accruals and payables

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Accruals				
Provident fund	113,797	455,529	67,596	274,237
Life insurance	34,132	136,630	19,579	79,432
Staff bonus	81,612	326,693	-	-
Incentives	-	-	1,299	5,270
Taxes	17,308	69,284	7,288	29,568
Interest payable	68,499	274,202	-	-
Professional fees	27,965	111,944	7,261	29,458
Deferred income*	65,824	263,493	-	-
Other accruals	31,499	126,091	28,184	114,342
Other payables	22,336	89,411	11,706	47,491
	<u>462,972</u>	<u>1,853,277</u>	<u>142,913</u>	<u>579,798</u>

\* This represents a grant received from Plan International Cambodia for activities to be implemented in 2008.

#### 16. Provision for income tax

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Opening balance	61,648	246,777	76,069	308,612
Income tax expense	187,173	749,253	75,462	306,149
Income tax paid in the year	(89,787)	(359,417)	(89,883)	(364,655)
Closing balance	<u>159,034</u>	<u>636,613</u>	<u>61,648</u>	<u>250,106</u>

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 17. Long-term borrowings

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
BlueOrchard	2,000,000	8,006,000	-	-
ANZ Royal Bank	1,300,000	5,203,900	300,000	1,217,100
Oikocredit	1,026,507	4,109,108	-	-
Plan International Cambodia	263,760	1,055,831	-	-
	<u>4,590,267</u>	<u>18,374,839</u>	<u>300,000</u>	<u>1,217,100</u>
Closing balance	4,590,267	18,374,839	300,000	1,217,100

Loans from BlueOrchard are unsecured. Interest is paid on a semi-annual basis while the principal is to be repaid at the end of the loan terms on 16 November 2009.

Loans from ANZ Royal Bank are secured by a standby letter of credit issued by the Bank of America. The repayment of the loans will be made at the maturity dates on 30 September 2009 and 28 September 2011.

Long-term loans from Oikocredit are unsecured. Interest is due on a quarterly basis while the principal is to be repaid at the end of the loan terms on 19 July 2011.

Long-term loans from Plan International Cambodia are unsecured. The loans are to be drawn down in three tranches in January 2007, December 2007 and December 2008 respectively. Interest is due on an annual basis while principal is to be repaid at the end of the three year terms.

Long-term borrowings are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>a) By currency:</b>				
US Dollar	3,563,760	14,265,731	300,000	1,217,100
Khmer Riel	1,026,507	4,109,108	-	-
	<u>4,590,267</u>	<u>18,374,839</u>	<u>300,000</u>	<u>1,217,100</u>

#### b) By interest rate (per annum):

	2007	2006
US Dollar	7.13%	7.65%
Khmer Riel	12.79%	-

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 18. Share capital

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Registered:				
30,400 shares of				
KHR100,000 each	757,916	3,033,938	757,916	3,074,865
Translation differences	-	6,062	-	(34,865)
	<u>757,916</u>	<u>3,040,000</u>	<u>757,916</u>	<u>3,040,000</u>
Issued and fully paid:				
30,400 shares of				
KHR100,000 each	757,916	3,033,938	757,916	3,074,865
Translation differences	-	6,062	-	(34,865)
	<u>757,916</u>	<u>3,040,000</u>	<u>757,916</u>	<u>3,040,000</u>

As at 31 December 2007, the Company's shareholders and their respective interest are as follows:

	Number of shares	US\$	%
VisionFund International	30,399	757,891	99.99%
World Vision International	1	25	0.01%
	<u>30,400</u>	<u>757,916</u>	<u>100.00%</u>

There were no changes in the shareholders and the shareholding of the Company during the year.

On 28 December 2007, the VisionFund International ("VFI") approved the increase in the Company's registered share capital up to US\$2,660,000. The additional share capital will be transferred from loans from VFI and retained earnings. This registered capital will be divided into 104,000 shares at US\$25 each. The shares are to be held by VFI and World Vision International with VFI holding 103,999 shares and World Vision International holding 1 share. As at 31 December 2007, the Company had not yet obtained the approval from the National Bank of Cambodia.

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 19. Hybrid capital

	At 1 January 2007/ 31 December 2007 US\$
World Vision USA and Canada	238,649
World Vision New Zealand and Australia	749,836
Area Development Programs	690,525
World Vision Hong Kong and Japan	258,097
	<hr/>
	1,937,107
	<hr/> <hr/>
(KHR'000 equivalents)	7,754,239
	<hr/> <hr/>

#### 20. Interest income

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	2,891,682	11,575,403	1,666,541	6,761,157
Deposits with banks	20,036	80,204	8,702	35,304
	<hr/>	<hr/>	<hr/>	<hr/>
	2,911,718	11,655,607	1,675,243	6,796,461
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### 21. Interest expense

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Vision Fund International	342,753	1,372,040	158,297	642,211
Other	135,090	540,766	3,528	14,313
	<hr/>	<hr/>	<hr/>	<hr/>
	477,843	1,912,806	161,825	656,524
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 22. Other operating income

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Loan fees	-	-	4,505	18,277
Recovery of loans written off	3,587	14,359	10,788	43,767
Exchange gains	79,692	319,007	51,806	210,177
Other income	41,085	164,463	23,233	94,256
	<u>124,364</u>	<u>497,829</u>	<u>90,332</u>	<u>366,477</u>

#### 23. Operating and other expenses

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Personnel costs	1,029,979	4,123,006	667,464	2,707,901
Provident fund (a)	49,810	199,389	35,081	142,324
Management support committee	-	-	10,995	44,607
Staff development and training	86,845	347,640	97,272	394,633
Travel	159,151	637,081	100,662	408,386
Rental	70,588	282,564	46,205	187,454
Depreciation and amortisation	69,067	276,475	49,308	200,042
Office supplies	97,175	388,993	53,457	216,875
Repairs and maintenance	37,711	150,957	24,358	98,820
Communication	87,916	351,928	86,455	350,748
Professional fees	46,398	185,731	30,162	122,367
Promotion and advertising	25,457	101,904	4,932	20,009
Other expenses	61,014	244,239	44,576	180,845
	<u>1,821,111</u>	<u>7,289,907</u>	<u>1,250,927</u>	<u>5,075,011</u>

##### (a) Provident fund

The Company has a defined contribution retirement plan (“the Provident Fund”) for all employees. The Company’s contributions are deposited into an interest-bearing account held by the Company but not included in these financial statements. These contributions will be fully paid with interest to the employees upon their retirement or resignation.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 23. Operating and other expenses

The Provident Fund contribution is calculated as follow:

Number of working years	Percentage of annual salary pre 1 January 2006	Revised rate
Less than one year	0%	0%
One to five years	8%	10%
Five to ten years	10%	12%
Above ten years	12%	14%

This revised rate was made on 1 January 2006 to be compatible with World Vision Cambodia, a related party. The Company has no liability under the Provident Fund after making the contributions noted above.

### 24. Net cash used in operating activities

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	850,516	3,404,615	400,166	1,623,474
Adjustments for:				
Depreciation and amortisation	69,067	276,475	49,308	200,042
(Gain)/loss on disposals of property and equipment	(469)	(1,877)	563	2,284
Provision for bad and doubtful loans	14,668	58,716	23,095	93,696
Cash generated from operations before changes in operating assets and liabilities	933,782	3,737,929	473,132	1,919,496
Decrease/(increase) in:				
Statutory deposit	(7,982)	(31,952)	(501)	(2,033)
Loans to customers	(4,721,536)	(18,900,308)	(2,578,285)	(10,460,102)
Other assets	(91,774)	(367,371)	(36,881)	(149,626)
Increase/(decrease) in:				
Deposits from customers	148,677	595,154	(605)	(2,455)
Due to related parties	(32,591)	(130,462)	33,170	134,571
Other accruals and payables	320,059	1,281,196	20,992	85,165
	(3,451,365)	(13,815,814)	(2,088,978)	(8,474,984)
Income tax paid	(89,787)	(359,417)	(89,883)	(364,655)
Net cash used in operating activities	(3,541,152)	(14,175,231)	(2,178,861)	(8,839,639)

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 25. Grant income

The Company receives grants from different World Vision offices to cover operating expenses such as personnel expenses, training, communication, professional fees and office supplies. During the year, the Company did not receive any donations in kind.

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>Related parties:</b>				
World Vision New Zealand	-	-	39,558	160,487
World Vision Canada	-	-	30,880	125,280
VisionFund International	6,261	25,063	-	-
World Vision Cambodia	52,500	210,157	-	-
<b>Non-related parties:</b>				
Khana	35,006	140,129	-	-
Plan International Cambodia	34,289	137,259	-	-
	<u>128,056</u>	<u>512,608</u>	<u>70,438</u>	<u>285,767</u>

#### 26. Income tax

##### (a) Recognised in the income statement

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>Current tax</b>				
Current year's tax expense	187,173	749,253	78,026	316,551
Over provision in prior year	-	-	(2,564)	(10,402)
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	1,729	6,921	7,788	31,596
	<u>188,902</u>	<u>756,174</u>	<u>83,250</u>	<u>337,745</u>

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 26. Income tax (continued)

#### (b) Applicable tax rates

In accordance with Cambodian law, the Company has an obligation to pay income tax at the higher of 20% of taxable profit or a minimum tax of 1% of total revenue.

Income tax at 20% of taxable profit was higher than the required minimum tax in 2007. The reconciliation of income tax computed at the statutory tax rate to the income tax expense in the income statement is shown in Note 26(c).

#### (c) Reconciliation of effective tax rate

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Profit before tax	850,516	3,404,615	400,166	1,623,474
Tax at applicable income tax rate (20%)	170,103	680,923	80,033	324,694
Non-deductible expenses	5,634	22,551	5,781	23,453
Over provision in prior years	-	-	(2,564)	(10,402)
Deferred income	13,165	52,700	-	-
Income tax	188,902	756,174	83,250	337,745

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

### 27. Related party transactions

During the year there were the following significant transactions with related parties:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
World Vision Cambodia (related company):				
Management support committee	-	-	10,995	44,606
Rental expenses	70,588	282,564	25,471	103,336

Transactions with other related parties are disclosed in Note 21 and Note 25.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 28. Commitments and contingencies

#### (a) Operating lease

The Company has commitments in respect of the office rental agreement for five years expiring in 2009 as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Within one year	12,000	48,036	12,000	48,684
From two to five years	24,000	96,072	36,000	146,052
	<u>36,000</u>	<u>144,108</u>	<u>48,000</u>	<u>194,736</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.

### 29. 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) 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 policy 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 policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC guidelines.

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

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

#### b) Operational risk

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

The operational risk management 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.

#### 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. 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.

##### (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 loan 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.

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

#### 29. 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 %
<b>Assets</b>								
Cash on hand						58,595	58,595	-
Deposits with banks	2,292,997	5,000	100,000	-	-	-	2,397,997	2.5%
Loans to customers								
- Performing	278,963	946,137	5,820,833	3,632,304	-	-	10,678,237	27.08%
- Non performing						22,241	22,241	-
- Allowance	-	-	-	-	-	(7,104)	(7,104)	-
Other receivables	-	-	-	-	-	187,715	187,715	-
Receivables from a related party	-	-	-	-	-	4,320	4,320	-
Statutory deposit	-	-	7,438	-	38,010	-	45,448	0.9%
Property and equipment	-	-	-	-	-	148,746	148,746	-
Intangible assets	-	-	-	-	-	1,192	1,192	-
Deferred tax assets	-	-	-	-	-	5,797	5,797	-
<b>Total assets</b>	<b>2,571,960</b>	<b>951,137</b>	<b>5,928,271</b>	<b>3,632,304</b>	<b>38,010</b>	<b>421,502</b>	<b>13,543,184</b>	
<b>Liabilities</b>								
Deposits from customers	-	35,781	101,060	11,836	-	-	148,677	7.25%
Payables to related parties	-	4,171	1,277	4,218,356	-	-	4,223,804	8.14%
Other accruals and payables	-	-	-	-	-	462,972	462,972	-
Provision for income tax	-	-	-	-	-	159,034	159,034	-
Long-term borrowings	-	-	-	4,590,267	-	-	4,590,267	8.26%
<b>Total liabilities</b>	<b>-</b>	<b>39,952</b>	<b>102,337</b>	<b>8,820,459</b>	<b>-</b>	<b>622,006</b>	<b>9,584,754</b>	

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

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

(ii) Interest rate risk (continued)

2006	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 %
<b>Assets</b>								
Cash on hand	-	-	-	-	-	46,324	46,324	-
Deposits with banks	487,487	40,000	20,000	-	-	18,566	566,053	1.53%
Loans to customers								
- Performing	224,476	681,715	3,693,556	1,378,247	-	-	5,977,994	27.80%
- Non performing	-	-	-	-	-	17,033	17,033	-
- Allowance	-	-	-	-	-	(8,521)	(8,521)	-
Other receivables	-	-	-	-	-	96,371	96,371	-
Receivables from a related party	-	-	-	-	-	3,890	3,890	-
Statutory deposit	-	-	-	-	37,466	-	37,466	0.90%
Property and equipment	-	-	-	-	-	108,874	108,874	-
Intangible assets	-	-	-	-	-	9,478	9,478	-
Deferred tax assets	-	-	-	-	-	7,526	7,526	-
<b>Total assets</b>	<b>711,963</b>	<b>721,715</b>	<b>3,713,556</b>	<b>1,378,247</b>	<b>37,466</b>	<b>299,541</b>	<b>6,862,488</b>	
<b>Liabilities</b>								
Payables to related parties	35,930	3,874	1,401,373	1,619,934	-	-	3,061,111	5.17%
Other accruals and payables	-	-	-	-	-	142,913	142,913	-
Provision for income tax	-	-	-	-	-	61,648	61,648	-
Long-term borrowings	-	-	-	300,000	-	-	300,000	7.65%
<b>Total liabilities</b>	<b>35,930</b>	<b>3,874</b>	<b>1,401,373</b>	<b>1,919,934</b>	<b>-</b>	<b>204,561</b>	<b>3,565,672</b>	

# **VisionFund (Cambodia) Ltd**

## **Notes to the financial statements (continued) For the year ended 31 December 2007**

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

#### **d) Liquidity risk**

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

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

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

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

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

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

The maturities of financial assets and liabilities as at 31 December 2007 are as follows:

	Total US\$	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\$
<b>Assets</b>							
Cash on hand	58,595	58,595	-	-	-	-	-
Deposits with banks	2,397,997	2,292,997	5,000	100,000	-	-	-
Loans to customers							
- Performing	10,678,237	278,963	946,137	5,820,833	3,632,304	-	-
- Non performing	22,241	-	9,514	12,727	-	-	-
- Allowance	(7,104)	-	-	-	-	-	(7,104)
Other receivables	187,715	187,715	-	-	-	-	-
Receivables from a related party	4,320	4,320	-	-	-	-	-
Statutory deposit	45,448	-	-	7,438	-	-	38,010
Deferred tax assets	5,797	-	-	-	-	-	5,797
<b>Total assets</b>	<b>13,393,246</b>	<b>2,822,590</b>	<b>960,651</b>	<b>5,940,998</b>	<b>3,632,304</b>	<b>-</b>	<b>36,703</b>
<b>Liabilities</b>							
Deposits from customers	148,677	-	35,781	101,060	11,836	-	-
Payables to related parties	4,223,804	-	4,171	1,277	4,218,356	-	-
Other accruals and payables	462,972	161,365	83,716	101,916	-	-	115,975
Provision for income tax	159,034	-	159,034	-	-	-	-
Long-term borrowings	4,590,267	-	-	-	4,590,267	-	-
<b>Total liabilities</b>	<b>9,584,754</b>	<b>161,365</b>	<b>282,702</b>	<b>204,253</b>	<b>8,820,459</b>	<b>-</b>	<b>115,975</b>
<b>Net liquidity surplus/(deficiency)</b>	<b>3,808,492</b>	<b>2,661,225</b>	<b>677,949</b>	<b>5,736,745</b>	<b>(5,188,155)</b>	<b>-</b>	<b>(79,272)</b>

## VisionFund (Cambodia) Ltd

### Notes to the financial statements (continued) For the year ended 31 December 2007

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

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

The maturities of financial assets and liabilities as at 31 December 2006 are as follows:

	Total US\$	Less than 1 month US\$	1 month to 3 months US\$	From 3 months to 1 year US\$	From 1 year to 5 years US\$	From Over 5 years US\$	No fixed maturity date US\$
<b>Assets</b>							
Cash on hand	46,324	46,324	-	-	-	-	-
Deposits with banks	566,053	506,053	40,000	20,000	-	-	-
Loans to customers							
- Performing	5,995,027	224,476	681,715	3,693,556	1,395,280	-	-
- Allowance	(8,521)	-	-	-	-	-	(8,521)
Other receivables	96,371	96,371	-	-	-	-	-
Receivables from a related party	3,890	3,890	-	-	-	-	-
Statutory deposit	37,466	-	-	-	-	-	37,466
Deferred tax assets	7,526	-	-	-	-	-	7,526
<b>Total assets</b>	<b>6,744,136</b>	<b>877,114</b>	<b>721,715</b>	<b>3,713,556</b>	<b>1,395,280</b>	<b>-</b>	<b>36,471</b>
<b>Liabilities</b>							
Payables to related parties	3,061,111	35,930	3,874	1,401,373	1,619,934	-	-
Other accruals and payables	142,913	68,056	7,261	-	-	-	67,596
Provision for taxation	61,648	-	61,648	-	-	-	-
Long-term borrowings	300,000	-	-	-	300,000	-	-
<b>Total liabilities</b>	<b>3,565,672</b>	<b>103,986</b>	<b>72,783</b>	<b>1,401,373</b>	<b>1,919,934</b>	<b>-</b>	<b>67,596</b>
<b>Net liquidity surplus/(deficiency)</b>	<b>3,178,464</b>	<b>773,128</b>	<b>648,932</b>	<b>2,312,183</b>	<b>(524,654)</b>	<b>-</b>	<b>(31,125)</b>

# VisionFund (Cambodia) Ltd

## Notes to the financial statements (continued) For the year ended 31 December 2007

### 30. Fair values of 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 2007.

### 31. Currency analysis

The aggregate amounts of financial assets and liabilities as at 31 December 2007, by currency denomination, is as follows:

	US\$	KHR (US\$ equivalent)	Total
<b>Assets</b>			
Cash on hand	28,899	29,696	58,595
Deposits with banks	2,210,431	187,566	2,397,997
Loans to customers	4,130,162	6,563,212	10,693,374
Other receivables	64,901	122,814	187,715
Receivables from a related party	4,284	36	4,320
Statutory deposit	7,316	38,132	45,448
Total financial assets	6,445,993	6,941,456	13,387,449
<b>Liabilities</b>			
Deposits from customers	146,317	2,360	148,677
Payables to related parties	4,223,804	-	4,223,804
Other accruals and payables	450,554	12,418	462,972
Long-term borrowings	3,563,760	1,026,507	4,590,267
Total financial liabilities	8,384,435	1,041,285	9,425,720
Net (liability)/asset position	(1,938,442)	5,900,171	3,961,729