



**MICRO-ENTERPRISE DEVELOPMENT
PROGRAM
(WORLD VISION CAMBODIA)**

Financial Statements
For the period from 1 October 2002
to 30 November 2003

Micro-Enterprise Development Program World Vision Cambodia

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Report of the steering committee

The steering committee have pleasure in submitting their report and the audited financial statements of the Micro-Enterprise Development (“MED”) Program of World Vision Cambodia (“the Program”) for the period from 1 October 2002 to 30 November 2003.

Principal activity

The principal activity of the MED Program is to provide micro-finance services to the rural population of Cambodia. Its mission is to be a Christian company that provides financial services to help the poor liberate themselves from poverty.

Financial results

The financial results of the MED Program for the period from 1 October 2002 to 30 November 2003 are set out in the income statement on page 6.

Reserves and provisions

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

Bad and doubtful loans

Before the financial statements of the MED Program were prepared, the steering committee took reasonable steps to ascertain that action had been taken in relation to writing off bad loans and providing for doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate provisions had been made for bad and doubtful loans.

At the date of this report, the steering committee is not aware of any circumstances which would render the amounts written off for bad loans, or the amount of the provision for doubtful loans in the financial statements of the MED Program as inadequate to any substantial extent.

Current assets

Before the financial statements of the MED Program were prepared, the steering committee 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 value as shown in the accounting records have been written down to realisable amounts.

At the date of this report, the steering committee is not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the MED Program as misleading.

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Valuation methods

At the date of this report, the steering committee 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 MED Program 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 MED Program which has arisen since the end of the period which secures the liabilities of any other person; and
- (b) any contingent liability in respect of the MED Program that has arisen since the end of the period other than in the ordinary course of its business operations.

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

Change of circumstances

At the date of this report, the steering committee are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the MED Program, which would render any amount stated in the financial statements as misleading.

Items of an unusual nature

The results of the operations of the MED Program for the period from 1 October 2002 to 30 November 2003 were not, in the opinion of the steering committee, 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 period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the steering committee, which affect substantially the results of the operations of the MED Program for the current period in which this report is made.

The steering committee

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

- Mr Talmage Mark Payne, Chairman
- Ms Kerry Anne McKenzie, Member
- Ms Ruth Louise Ellison, Member
- Mr Fredrick Christopher Arulandam, Member
- Mr Ray Sano, Member
- Ms Nop Vanthy, Member
- Mr Rommel Caringal, Member
- Mr Myles Harrison, Member

Micro-Enterprise Development Program World Vision Cambodia

Responsibilities of the steering committee in respect of the financial statements

The steering committee 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 MED Program as at 30 November 2003, and of the results of its operations and its cash flows for the period then ended. In preparing these financial statements, the steering committee 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 accounting principles generally followed in Cambodia or, if there have been any departures in the interest of true and fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) maintain adequate accounting records and an effective system of internal controls;
- (iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the MED Program will continue operations in the foreseeable future; and
- (v) control and direct the MED Program effectively in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The steering committee confirms that the MED Program has complied with the above requirements in preparing the financial statements.

On behalf of the steering committee

Mr Talmage Mark Payne
Chairman

Date:

**Report of the independent auditors
To the steering committee and donors of the Micro-Enterprise
Development Program of World Vision Cambodia**

We have audited the accompanying balance sheet of Micro-Enterprise Development (“MED”) Program of World Vision Cambodia (“the Program”) as at 30 November 2003 and the related statements of income, changes in equity and cash flows for the period from 1 October 2002 to 30 November 2003 as set out on pages 5 to 28. The preparation of the financial statements is the responsibility of the management of the MED Program. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Micro-Enterprise Development Program for the preceding period from 1 October 2001 to 30 September 2002 were audited by another firm of auditors whose report dated 28 January 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with prevailing independent audit practices in Cambodia. These require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the MED Program as at 30 November 2003, and of the results of its operations and its cash flows for the period from 1 October 2002 to 30 November 2003 in accordance with the accounting principles followed in Cambodia.

As indicated in note 2(a) the accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with the accounting principles generally accepted in countries and jurisdictions other than Cambodia.

KPMG Cambodia

Date: 6 August 2004

Micro-Enterprise Development Program World Vision Cambodia

Balance sheet as at 30 November 2003

	Note	30.11.2003 US\$	30.9.2002 US\$
Assets			
Cash and bank balances	4	147,677	308,564
Loans to customers	5	729,641	207,953
Property and equipment	6	94,614	52,340
Other assets	7	4,186	-
		976,118	568,857
Liabilities and equity			
Due to a related party	8	49,828	-
Community savings fund	9	7,004	20,752
Other payables and accruals		32,500	10,234
		89,332	30,986
Equity			
Loan capital grant	10	789,286	475,667
Property and equipment grant	11	73,172	60,370
Retained earnings		24,328	1,834
		886,786	537,871
Total liabilities and equity		976,118	568,857

The accompanying notes form part of these financial statements

Micro-Enterprise Development Program World Vision Cambodia

Income statement

For the period from 1 October 2002 to 30 November 2003

	Note	1.10.2002 to 30.11.2003 US\$	1.2.2001 to 30.9.2002 US\$
Interest income		228,715	48,017
Other operating income		19,607	7,102
		248,322	55,119
Provision for bad and doubtful loans	5	3,723	1,292
Administrative expenses	12	382,292	307,114
		386,015	308,406
Loss from operations		(137,693)	(253,287)
Grant income		160,187	255,121
Net income for the period		22,494	1,834

The accompanying notes form part of these financial statements

Micro-Enterprise Development Program World Vision Cambodia

Statement of changes in equity For the period from 1 October 2002 to 30 November 2003

	Loan capital grant US\$	Property and equipment grant US\$	Retained earnings US\$	Total US\$
As at 1 February 2001	-	-	-	-
Grants received during the period	564,824	60,730	-	625,554
Grants refunded during the period	(89,157)	(360)	-	(89,517)
Net profit for the period	-	-	1,834	1,834
As at 30 September 2002	<u>475,667</u>	<u>60,370</u>	<u>1,834</u>	<u>537,871</u>
Grants received during the period	358,667	33,510	-	392,177
Grants refunded during the period	(34,995)	(21,520)	-	(56,515)
Net profit for the period	-	-	22,494	22,494
Exchange gains/(losses) - net	(10,053)	-	-	(10,053)
Adjustments	-	812	-	812
As at 30 November 2003	<u><u>789,286</u></u>	<u><u>73,172</u></u>	<u><u>24,328</u></u>	<u><u>886,786</u></u>

The accompanying notes form part of these financial statements

Micro-Enterprise Development Program World Vision Cambodia

Cash flow statement

For the period from 1 October 2002 to 30 November 2003

	1.10.2002 to 30.11.2003 US\$	1.2.2001 to 30.9.2002 US\$
Cash flows from operating activities		
Net income for the period	22,494	1,834
Adjustments for:		
Depreciation of property and equipment	17,839	8,031
Loss on write-off of property and equipment	10,222	-
Provision for bad and doubtful loans	3,723	1,292
	54,278	11,157
Operating profit before changes in working capital		
Changes in working capital:		
Loans to customers	(525,411)	(209,246)
Other assets	(4,186)	-
Payables	58,346	30,986
	(416,973)	(167,103)
Net cash used in operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(70,335)	(60,370)
	(70,335)	(60,370)
Net cash used in investing activities		
Cash flows from financing activities		
Net subsidies for loan capital grant	313,619	475,667
Net subsidies for property and equipment grant	12,802	60,370
	326,421	536,037
Net cash generated from financing activities		
Net (decrease)/increase in cash and cash equivalents	(160,887)	308,564
Cash and cash equivalents at beginning of period	308,564	-
	147,677	308,564
Cash and cash equivalents at end of period	147,677	308,564

The accompanying notes form part of these financial statements

Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

1. Principal activities

(a) Background

The Micro-Enterprise Development (“MED”) Program of World Vision Cambodia (“WVC”) upholds WVC’s vision that all Cambodian people live in peace, justice and prosperity. In particular the MED Program complements this vision by contributing to poverty alleviation through continued access of financial services to the poor in and around the areas covered by the Area Development Program. Access to affordable and stable financial services is intended to generate jobs and stimulate asset creation.

The principal activity of the MED Program is to provide micro-finance services to the rural population of Cambodia. Its mission is to be a Christian company that provides financial services to help the poor liberate themselves from poverty.

The MED Program currently operates commercially through five branches located in the provinces of Kandal–Takeo, Kampong Speu, Kampong Thom, Kampong Chhnang and Battambang.

As at 30 November 2003, the MED Program had 83 employees. (2002: 32)

(b) Conversion to Vision Fund Cambodia

World Vision Cambodia converted its micro-lending operations under the MED Program into a licensed and commercially oriented micro-finance institution, into a newly established company, Vision Fund (Cambodia) Ltd, on 25 November 2003 as approved by the Ministry of Commerce of Cambodia. This conversion was achieved by transferring substantially all the existing assets, liabilities, staff and micro-lending operations of the MED Program. The Company was transferred from, as a going concern, the micro-finance business of the MED Program as at 30 November 2003. The details of the conversion from the MED program to a limited liability company are discussed in Note 16.

Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

2. Basis of presentation

(a) General basis of accounting

The financial statements, which are expressed in United States Dollars, are prepared under the historical cost convention in accordance with the significant accounting policies disclosed in note 3.

The financial statements have been prepared in accordance with the laws and accounting regulations of Cambodia. These may differ in some material respects from International Financial Reporting Standards and the generally accepted accounting principles and standards of other countries. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with generally accepted accounting principles and practices in countries or jurisdictions other than Cambodia. Furthermore, their utilisation is not designed for those who are not informed about Cambodia's accounting principles, procedures and practices.

(b) Aggregation of branches

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

3. Significant accounting policies

(a) Foreign currency transactions

Transactions in foreign currencies 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.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Loans to customers

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

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Notes to the financial statements - 30 November 2003

3. Significant accounting policies (continued)

(d) Provision for bad and doubtful loans

The adequacy of the provision for bad and doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of the clients and the performance of loans in relation to contract terms. The provision for bad and doubtful loans charged to expense is based on management's judgement of the amount necessary to maintain the provision balance at a level adequate to absorb losses.

Management provides for loan losses every month in order to maintain the allowance for doubtful loans at adequate levels. The adequacy of the allowance balance is determined by applying defined percentages to the outstanding balances in various aging categories, as follows:

Loan aging status	Percentage (%) of provision applied
31 - 60 days	10
61 - 90 days	30
More than 90 days	100

To the extent losses were previously provided on loans to be written-off, write-offs are charged against the corresponding provision when management believes that the principal amounts are unlikely to be collected. The portion of loss not previously recognised is directly charged to the income statement.

(e) Donations and grants

Grants received are recorded as income over the periods necessary to match them, on a systematic and rational basis, with the related costs which they are intended to compensate. In the case of the MED Program, the grants intended to cover the Program's operating expenses are recognised as income at the end of the same period as the relevant expense was recorded.

Funds received to finance the Program's lending operations (loan grant) and acquisition of property and equipment (property and equipment grant) are shown as direct additions to the corresponding asset and equity accounts.

(f) Income recognition

Interest income is recognised on a cash basis. Interest on loans is calculated using the declining balance method based on the loan principal amount outstanding.

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Notes to the financial statements - 30 November 2003

3. Significant accounting policies (continued)

(g) Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. For transferred property and equipment, these are stated at their transferred values represented by the respective net book values (cost less accumulated depreciation) recorded in the MED Program's accounts as at the date of transfer (see Notes 6 and 16). Where an item of property comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

Computer	20%
Motor vehicles	10% - 50%
Office furniture and fittings	10% - 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 Program. 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 property and equipment are retained in the financial statements until disposed 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.

Reversal of impairment losses recognised in prior years is recorded where there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

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Notes to the financial statements - 30 November 2003

3. Significant accounting policies (continued)

(h) Provisions

A provision is recognised in the balance sheet when the MED Program 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.

(i) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Program and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities.

Related party transactions entered into by the Program with related parties consist mainly of loan fund transactions, fixed asset grants and grant income received to cover the Program's operating expenses.

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Notes to the financial statements - 30 November 2003

4. Cash and bank balances

	30.11.2003 US\$	30.9.2002 US\$
<i>Head office - Phnom Penh</i>	3,520	167,554
<i>Provincial branches</i>		
Kandal – Takeo	32,734	9,807
Kampong Chnang	7,327	-
Kampng Speu	32,319	4,136
Kampong Thom	12,265	3,049
Battambang	59,512	124,018
	<hr/>	<hr/>
	147,677	308,564
	<hr/> <hr/>	<hr/> <hr/>

5. Loans to customers

	30.11.2003 US\$	30.9.2002 US\$
Village bank		
- Agricultural loans	423,340	98,108
- Small business loans	239,538	109,911
Solidarity group loans	69,948	-
Restructured loans	697	1,217
	<hr/>	<hr/>
	733,523	209,236
Provision for bad and doubtful loans	(3,882)	(1,283)
	<hr/>	<hr/>
	729,641	207,953
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Notes to the financial statements - 30 November 2003

5. Loans to customers (continued)

Agriculture and small business loans are all granted in KHR. Further details of these loans are as follows:

	Agriculture Loans	Small business loans
Term	3 to 12 months	3 to 12 months
Principal repayments	End of term	Monthly basis
Interest repayments	Monthly basis	Monthly basis
Annual interest rates	42% - 48%	42% - 48%
	30.11.2003	30.9.2002
	US\$	US\$
Village bank:		
<i>Agriculture loans</i>		
Kandal – Takeo	157,889	62,838
Kampong Chnang	35,283	-
Kampng Speu	75,079	23,302
Kampong Thom	46,832	4,026
Battambang	108,257	7,942
	<hr/>	<hr/>
	423,340	98,108
	<hr/>	<hr/>
<i>Small business loans</i>		
Kandal – Takeo	85,170	33,776
Kampong Chnang	17,859	-
Kampng Speu	66,853	10,724
Kampong Thom	10,233	1,775
Battambang	59,423	63,636
	<hr/>	<hr/>
	239,538	109,911
	<hr/>	<hr/>

Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

5. Loans to customers (continued)

	30.11.2003 US\$	30.9.2002 US\$
Solidarity group loans:		
Kandal – Takeo	16,479	-
Kampong Chnang	3,341	-
Kampong Speu	34,918	-
Kampong Thom	12,916	-
Battambang	2,294	-
	<hr/>	<hr/>
	69,948	-
	<hr/>	<hr/>
Restructured loans		
Battambang	697	1,217
	<hr/>	<hr/>
	733,523	209,236
	<hr/> <hr/>	<hr/> <hr/>

The movements in the provision for bad and doubtful loans are as follows:

	30.11.2003 US\$	30.9.2002 US\$
Balance at beginning of period	1,283	-
Provision for the period	3,723	1,292
Written off during the period	(1,068)	-
Exchange differences	(56)	(9)
	<hr/>	<hr/>
Balance at end of period	3,882	1,283
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the financial statements - 30 November 2003

6. Property and equipment

	Motor vehicles US\$	Computer US\$	Office furniture & fitting US\$	Total US\$
Cost				
At 30 September 2002	32,168	12,754	15,449	60,371
Additions	54,560	12,991	2,784	70,335
Reversals	-	(1,854)	(9,718)	(11,572)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 November 2003	86,728	23,891	8,515	119,134
	<hr/>	<hr/>	<hr/>	<hr/>
Less: Accumulated depreciation				
At 30 September 2002	3,881	3,068	1,082	8,031
Charge for the period	11,925	4,730	1,184	17,839
Reversal	-	(563)	(787)	(1,350)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 November 2003	15,806	7,235	1,479	24,520
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
As at 30 November 2003	70,922	16,656	7,036	94,614
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 30 September 2002	28,287	9,686	14,367	52,340
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Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

7. Other assets

	30.11.2003 US\$	30.9.2002 US\$
Advance to employees *	2,476	-
Prepaid insurance	1,260	-
Prepaid office rent	450	-
	<hr/>	<hr/>
	4,186	-
	<hr/> <hr/>	<hr/> <hr/>

* This represents amounts held by the Program's credit agents awaiting disbursement to customers as loans.

8. Due to a related party

This represents the amount payable to World Vision Cambodia ("WVC"). The amount is non-trade related, interest free and with no fixed terms of repayment.

9. Community saving fund

The community savings fund represents the balances held on behalf of the Village Bank Management Committees ("VBMC's"). All loan disbursements are required to deposit money with the VBMC's who are primarily responsible for the custody of the cash but have chosen to deposit cash with the Program for safekeeping. The funds are non-interest bearing and can be withdrawn at anytime.

In 2002 the community savings fund represented the account maintained for interest earned by the Area Development Program ("ADP") credit scheme of WVC in the Battambang area, which was kept by the Program on a temporary basis. This fund, which was non-interest bearing, could be withdrawn anytime upon ADP's request.

**Micro-Enterprise Development Program
World Vision Cambodia**

Notes to the financial statements - 30 November 2003

10. Loan capital grant

	WV-USA and CANADA US\$	WV-NZL AUSAID US\$	ADPs US\$	WV-Hong Kong US\$	Total US\$
As at 1 February 2001	-	-	-	-	-
Funds received during the period	39,764	95,215	429,845	-	564,824
Refund during the period	(38)	(9,063)	(80,056)	-	(89,157)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2002	39,726	86,152	349,789	-	475,667
Receipt during the period	75,729	118,582	148,698	15,658	358,667
Refund during the period	(12,807)	(21,515)	(636)	(37)	(34,995)
Unrealised exchange gains/(losses) - net	(834)	(1,806)	(7,413)	-	(10,053)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 November 2003	101,814	181,413	490,438	15,621	789,286
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

11. Property and equipment grant

	WV-USA and CANADA US\$	WV-NZL AUSAID US\$	ADPs US\$	Total US\$
As at 1 February 2001	-	-	-	-
Receipt during the period	14,149	36,769	9,812	60,730
Refund during the period	(360)	-	-	(360)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2002	13,789	36,769	9,812	60,370
Receipt during the period	4,844	23,166	5,500	33,510
Write off/reversal	(2,720)	(10,008)	(8,792)	(21,520)
Adjustments	1,730	102	(1,020)	812
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 November 2003	17,643	50,029	5,500	73,172
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

12. Administrative expenses

	1.10.2002 to 30.11.2003 US\$	1.2.2001 to 30.9.2002 US\$
Salaries and staff benefits	240,693	233,488
Staff development and training	14,377	7,789
Office supplies	28,296	7,526
Management support committee costs	17,927	16,949
Occupancy expenses	11,974	6,389
Foreign exchange losses	592	276
Depreciation	17,839	8,031
Incentive expenses	5,129	-
Communication	7,421	4,253
Travel	24,946	13,512
Promotion and advertising	3,314	3,048
Professional fees	8,608	5,844
Others	1,176	9
	382,292	307,114
	382,292	307,114

13. Related party transactions

Significant related party transactions entered into by the MED Program during the period is as follows:

	1.10.2002 to 30.11.2003 US\$	1.2.2001 to 30.9.2002 US\$
Grant income received	160,187	255,121
Management support committee costs	17,927	16,949
	177,114	272,070
	177,114	272,070

Micro-Enterprise Development Program

World Vision Cambodia

Notes to the financial statements - 30 November 2003

14. Financial risk management policies

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

a) *Operational risk*

The operational risk losses which would result from inadequate or failed internal processes, people and systems are 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.

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

b) *Credit risk*

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or counter parties through its lending and investing activities. The primary exposure to credit risk arises through its loans and advances.

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 Credit Policy to ensure that the overall objectives in the area of lending are achieved i.e., 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, including the Program's own internal grading system.

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.

Micro-Enterprise Development Program

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Notes to the financial statements - 30 November 2003

14. Financial risk management policies (continued)

(i) Foreign currency exchange risk

Foreign currency exchange risk refers to the adverse exchange rate movements on foreign currency exchange positions taken from time to time. The Program maintains a policy of not exposing itself to large foreign exchange positions. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and cut-loss limits.

(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. Interest rate risk is managed through close monitoring of returns on investment, market pricing, cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

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 Program 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.

15. Fair values of assets and liabilities

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

It is not possible to establish the fair value of the amount due to a related party (refer note 8), as this is interest free with no specific terms of repayment.

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Notes to the financial statements - 30 November 2003

16. Transfer of World Vision Cambodia's Micro-finance activities to Vision Fund (Cambodia) Ltd

World Vision Cambodia converted its micro-lending operations under the MED Program into a licensed and commercially oriented micro-finance institution. This conversion was achieved by transferring substantially all the existing assets, liabilities, staff and micro-lending operations of the MED Program to a newly established company, Vision Fund (Cambodia) Ltd. The Company was transferred from, as a going concern, the micro-finance business of the MED Program as at 30 November 2003.

- a) The details of the MED Program assets and liabilities transferred to Vision Fund (Cambodia) Ltd., as at the date of the transfer, which represents the carrying values as at 30 November 2003, are as follows:

	US\$
Assets	
Cash and bank balances	147,677
Loans to customers	729,641
Property and equipment	94,614
Other assets	4,186
	<hr/>
Total assets transferred	976,118
	<hr/>
Liabilities	
Due from a related party	49,828
Community savings fund	7,004
Other payables and accruals	32,500
	<hr/>
Total liabilities transferred	89,332
	<hr/>
Net assets transferred	886,786
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Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

16. Transfer of World Vision Cambodia's Micro-finance activities to Vision Fund (Cambodia) Ltd (continued)

- b) The details of transfer price consideration in exchange for the net assets acquired are as follows:

	US\$
Issuance of shares	757,916
Recognised as loan capital grant	55,698
Recognised as property and equipment grant	73,172
	<hr/>
Total consideration	886,786
	<hr/> <hr/>

In accordance with the memorandum of agreement, World Vision Cambodia can elect to convert the amount recognised as loan capital and property and equipment grants relating to the net assets transferred, into equity by issuance of additional shares and filing of amendment to the registered capital with the Ministry of Commerce.

- c) Net cash inflow from transfer of the Micro-finance activities:

	US\$
Total transfer price	886,786
Less: Cash and bank balances	(147,677)
Shares of stock issued to WVC	(757,916)
	<hr/>
Net cash inflow from the transfer	(18,807)
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17. Comparative figures

The current period financial statements include the period from 1 October 2002 to 30 November 2003 under the MED Program. The comparative figures for the fiscal year ended 30 September 2002 represent the last reported financial statements of the funds under the MED Program.

Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

18. Currency analysis

The aggregate amount of assets and liabilities by currency denomination:

	30 November 2003			30 September 2002		
	US\$	KHR'000	Total	US\$	KHR'000	Total
Assets						
Cash and bank balances	22,135	125,542	147,677	9,806	298,758	308,564
Loans to customers	-	729,641	729,641	-	207,953	207,953
Property and equipment	94,614	-	94,614	52,340	-	52,340
Other assets	1,710	2,476	4,186	-	-	-
Total assets	118,459	857,659	976,118	62,146	506,711	568,857
Liabilities						
Due to a related party	49,828	-	49,828	-	-	-
Community saving fund	-	7,004	7,004	-	20,752	20,752
Other payables and accruals	16,474	16,026	32,500	6,960	3,274	10,234
Net liabilities	66,302	23,030	89,332	6,960	24,026	30,986
Net asset position	52,157	834,629	886,786	55,186	482,685	537,871

Micro-Enterprise Development Program World Vision Cambodia

Notes to the financial statements - 30 November 2003

19. Maturity profile of assets and liabilities

As at 30 November 2003

	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\$
Assets							
Cash and bank balances	147,677	147,677	-	-	-	-	-
Loans to customers	729,641	-	-	729,641	-	-	-
Property and equipment	94,614	-	-	-	-	-	94,614
Other assets	4,186	-	-	4,186	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	976,118	147,677	-	733,827	-	-	94,614
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities							
Due to related party	49,828	49,828	-	-	-	-	-
Community savings fund	7,004	7,004	-	-	-	-	-
Other payables and accruals	32,500	32,500	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	89,332	89,332	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net liquidity surplus	886,786	58,345	-	733,827	-	-	94,614
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**Micro-Enterprise Development Program
World Vision Cambodia**

Notes to the financial statements - 30 November 2003

19. Maturity profile of assets and liabilities (continued)

As at 30 September 2002

	Total US\$	From Less than 1 month US\$	From 1 month to 3 months US\$	From 3 months to 1 year US\$	1 year to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$
Assets							
Cash and bank balances	308,564	308,564	-	-	-	-	-
Loans to customers	207,953	-	-	207,953	-	-	-
Property and equipment	52,340	-	-	-	-	-	52,340
Total assets	568,857	308,564	-	207,953	-	-	52,340
Liabilities							
Community savings fund	20,752	20,752	-	-	-	-	-
Other payables and accruals	10,234	10,234	-	-	-	-	-
Total liabilities	30,986	30,986	-	-	-	-	-
Net liquidity surplus	537,871	277,578	-	207,953	-	-	52,340