

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

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CONTENTS

	PAGES
Report of the Board of Directors	1 - 4
Independent auditor's report	5 - 6
Balance sheet	7
Income statement	8
Statement of changes in equity	9
Statement of cash flow	10
Notes to the financial statements	11 - 47
APPENDIX: Notes on compliance with the Central Bank's Prakas *	i - viii

* The Appendix does not form part of the audited financial statements.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors (“the Directors”) hereby submits its report together with the audited financial statements of Sathapana Limited, formerly known as Cambodian Entrepreneur Building Limited (“the Company”) for the year ended 31 December 2008.

PRINCIPAL ACTIVITY

The principal activity of the Company is to provide micro-finance services to the entrepreneurial poor, especially women in urban and rural areas of Cambodia through its head office in Phnom Penh and its various provincial and district offices in the Kingdom of Cambodia. The Company was granted an indefinite life license on 19 April 2006 to operate micro-finance services.

FINANCIAL PERFORMANCE AND DIVIDENDS

The financial performance for the year ended 31 December 2008 is set out in the income statement on page 8.

On 23 April 2008, dividends amounting to US\$291,007 were declared and paid from the Company’s net income for the year ended 31 December 2007.

SHARE CAPITAL

On 23 April 2008, the Company increased its share capital by US\$800,000 through conversion from retained earnings. The share capital of the Company as at 31 December 2008 is US\$3,033,510.

BAD AND DOUBTFUL LOANS

Before the financial statements of the Company were drawn up, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad loans and the making of allowance for bad and doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate allowance had been made for bad and doubtful loans.

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

ASSETS

Before the financial statements of the Company were drawn up, the Directors took reasonable steps to ensure that any assets which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company have been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- (a) no 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) no contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of its business operations.

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

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are 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 in any material respect.

ITEMS OF AN UNUSUAL NATURE

The financial performance of the Company for the year ended 31 December 2008 was not, in the opinion of the Directors, materially affected by any items, transactions or events of a material and unusual nature.

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

SIGNIFICANT EVENTS

At the date of this report, no significant events have occurred after the balance sheet date which would require adjustments or disclosure other than as disclosed in the financial statements.

THE BOARD OF DIRECTORS

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

- Dr. Bun Mony, Chairman (executive)
- Mr. Var Muth, Director (executive)
- Mr. Davis Golding, Director (non-executive)
- Mr. Eelco Baan, Director (non-executive)
- Mr. Michael Th. Moormann, Director (non-executive)
- Dr. Phai Touch, Director (non-executive)
- Mr. Hun Monivann, Director (non-executive)

DIRECTORS' INTERESTS

The interests of the Directors in shares of the Company during the year and as at the date of this report are as follows:

Directors	Holding %	Number of shares of US\$10 each
Dr. Bun Mony	1.30%	3,939
Mr. Var Muth	0.45%	1,379

DIRECTORS' BENEFITS

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

No Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Company or with a firm of which the Director is a member, or with a company in which the director has a material financial interest other than as disclosed in the financial statements.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible for ascertaining that the financial statements are properly drawn up so as to present fairly the financial position of the Company as at 31 December 2008, and of its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) maintain adequate accounting records and an effective system of internal controls;
- (iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- (v) control and direct 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.

APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and its financial performance and its cash flows for the year ended in accordance with the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards were approved by the Board of Directors.

On behalf of the Board of Directors



Dr. Bun Mony
Chairman

Date: 17 April 2009

Independent auditor's report

To the Shareholders of Sathapana Limited

We have audited the accompanying financial statements of Sathapana Limited, formerly known as Cambodian Entrepreneur Building Limited ("the Company") which comprise the balance sheet as of 31 December 2008 and the statement of income, statement of changes in equity and statement of cash flow for the year then ended, a summary of significant accounting policies and other explanatory notes on pages 7 to 47.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies 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 audit opinion.


Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards.

Other matter

The financial statements of the Company for the year ended 31 December 2007 were audited by another auditor whose report, dated 24 March 2008, expressed an unqualified opinion on financial statements.

For PricewaterhouseCoopers (Cambodia) Limited


By Senaka Fernando
Director



Phnom Penh, Kingdom of Cambodia
Date: 17 April 2009

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
ASSETS					
Cash on hand	4	521,714	267,663	2,129,115	1,071,455
Balances with the Central Bank	5	255,071	165,813	1,040,945	663,749
Balances with other banks	6	1,760,767	311,488	7,185,690	1,246,887
Loans to customers	7	37,125,862	22,174,418	151,510,643	88,764,195
Other receivables	8	980,991	591,250	4,003,423	2,366,774
Property and equipment	9	785,800	405,078	3,206,850	1,621,527
Intangible assets	10	11,789	18,578	48,111	74,368
Total assets		41,441,994	23,934,288	169,124,777	95,808,955
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from customers	11	1,854,786	1,401,342	7,569,382	5,609,572
Borrowings	12	29,900,285	16,402,500	122,023,063	65,659,208
Subordinated debts	13	2,200,000	1,000,000	8,978,200	4,003,000
Other liabilities	14	757,038	473,512	3,089,472	1,895,468
Current income tax liabilities	15	422,597	250,565	1,724,618	1,003,012
Provident fund obligations	16	304,756	76,554	1,243,709	306,446
Total liabilities		35,439,462	19,604,473	144,628,444	78,476,706
EQUITY					
Share capital	17	3,033,510	2,233,510	12,379,754	8,940,740
Share premium		174,960	174,960	714,012	700,365
Retained earnings		2,794,062	1,921,345	11,402,567	7,691,144
Total equity		6,002,532	4,329,815	24,496,333	17,332,249
Total liabilities and equity		41,441,994	23,934,288	169,124,777	95,808,955

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 US\$	2007 US\$	2008 KHR'000 (Unaudited)	2007 KHR'000 (Unaudited)
Interest income	18	8,731,753	4,828,055	35,634,284	19,326,704
Interest expense	19	<u>(2,824,780)</u>	<u>(1,549,047)</u>	<u>(11,527,927)</u>	<u>(6,200,835)</u>
Net interest income		5,906,973	3,279,008	24,106,357	13,125,869
Other operating income	20	613,696	457,153	2,504,493	1,829,983
General and administrative expenses	21	<u>(3,820,682)</u>	<u>(2,132,097)</u>	<u>(15,592,203)</u>	<u>(8,534,784)</u>
Operating income		2,699,987	1,604,064	11,018,647	6,421,068
Provision for bad and doubtful loans	7	<u>(203,122)</u>	<u>(139,256)</u>	<u>(828,941)</u>	<u>(557,442)</u>
Profit before income tax		2,496,865	1,464,808	10,189,706	5,863,626
Income tax expense	15	<u>(508,829)</u>	<u>(300,785)</u>	<u>(2,076,531)</u>	<u>(1,204,042)</u>
Net profit for the year		<u>1,988,036</u>	<u>1,164,023</u>	<u>8,113,175</u>	<u>4,659,584</u>

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

**SATHAPANA LIMITED
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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Share capital US\$	Share premium US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2007	2,233,510	174,960	757,322	3,165,792
Net profit for the year	-	-	1,164,023	1,164,023
Balance at 31 December 2007	<u>2,233,510</u>	<u>174,960</u>	<u>1,921,345</u>	<u>4,329,815</u>
Equivalent in KHR'000 (Unaudited)	<u>8,940,740</u>	<u>700,365</u>	<u>7,691,144</u>	<u>17,332,249</u>
Balance as at 1 January 2008	2,233,510	174,960	1,921,345	4,329,815
Conversion of retained earnings into share capital	800,000	-	(800,000)	-
Net profit for the year	-	-	1,988,036	1,988,036
Dividends paid	-	-	(291,007)	(291,007)
Currency revaluation	-	-	(24,312)	(24,312)
Balance as at 31 December 2008	<u>3,033,510</u>	<u>174,960</u>	<u>2,794,062</u>	<u>6,002,532</u>
Equivalent in KHR'000 (Unaudited)	<u>12,379,754</u>	<u>714,012</u>	<u>11,402,567</u>	<u>24,496,333</u>

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
Cash flows from operating activities					
Cash used in operations	22	(11,659,118)	(7,572,393)	(47,580,862)	(30,312,289)
Income tax paid	15	(336,797)	(126,570)	(1,374,469)	(506,660)
Provident fund paid	16	(8,117)	-	(33,125)	-
Net cash used in operating activities		<u>(12,004,032)</u>	<u>(7,698,963)</u>	<u>(48,988,456)</u>	<u>(30,818,949)</u>
Cash flows from investing activities					
Purchase of property and equipment		(704,572)	(352,588)	(2,875,358)	(1,411,410)
Purchase of intangible assets		(5,000)	(14,804)	(20,405)	(59,260)
Proceeds from disposal of property and equipment		<u>14,414</u>	<u>7,880</u>	<u>58,824</u>	<u>31,543</u>
Net cash used in investing activities		<u>(695,158)</u>	<u>(359,512)</u>	<u>(2,836,939)</u>	<u>(1,439,127)</u>
Cash flows from financing activities					
Proceeds from borrowings		17,237,785	10,600,000	70,347,401	42,431,800
Repayments of borrowings		(2,540,000)	(2,430,000)	(10,365,740)	(9,727,290)
Dividends paid		<u>(291,007)</u>	<u>-</u>	<u>(1,187,600)</u>	<u>-</u>
Net cash generated from financing activities		<u>14,406,778</u>	<u>8,170,000</u>	<u>58,794,061</u>	<u>32,704,510</u>
Net increase in cash and cash equivalents					
		1,707,588	111,525	6,968,666	446,434
Cash and cash equivalents at beginning of year		580,788	469,263	2,324,894	1,903,800
Currency translation		<u>-</u>	<u>-</u>	<u>45,302</u>	<u>(25,340)</u>
Cash and cash equivalents at end of year	23	<u>2,288,376</u>	<u>580,788</u>	<u>9,338,862</u>	<u>2,324,894</u>

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

1. GENERAL INFORMATION

Sathapana Limited formerly known as Cambodian Entrepreneur Building Ltd (“the Company”) is engaged in providing micro-financing activities through 14 provincial branches located in Phnom Penh, Siem Reap, Kampong Cham, Kampong Thom, Kandal, Banteay Meanchey, Battambang, Pursat, Kampong Chhnang, Kampong Speu, Kampot, Takeo, Prey Veng and Sihanouk Ville provinces.

The Company was incorporated with the Ministry of Commerce on 19 February 2003 as a result of the Memorandum and Articles of Association signed on 27 December 2002 between Cambodia Community Building (“CCB”), a local NGO established in 1996, and the Company staff. The Company obtained its license to operate as a micro-finance institution from the National Bank of Cambodia (“NBC” or “Central Bank”) on 23 April 2003. Under the micro-finance license, the Company is authorised to grant credit and offer saving services for poor and low-income households and small enterprises operating in the Kingdom of Cambodia.

The NBC granted an indefinite life micro-finance license to the Company effective from 19 April 2006.

The Company’s mission is to empower entrepreneurial poor, especially women, in urban and rural areas to develop their income-generating activities and micro-enterprises through access to micro-financing services, including credit and savings, at reasonable rates.

The registered office of the Company is located at No. 831C, Monivong Boulevard, Sangkat Phsar Daeumthkov, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia

As at 31 December 2008, the Company had 653 employees (31 December 2007: 466 employees).

The financial statements were authorised for issue by the Board of Directors on 17 April 2009. The Board of Directors has the power to amend and reissue the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Company’s financial statements have been prepared in accordance with the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards (“CAS”). In applying CAS, the Company also applies CFRS 4: Insurance Contracts and CFRS 7: Financial Instruments: Disclosures. The accounting principals applied may differ from generally accepted accounting principals adopted in other countries and jurisdictions. The accompanying financial statements are not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than the Kingdom of Cambodia.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Consequently, these financial statements are addressed only to those who are informed about Cambodian accounting principles, procedures and practices.

The financial statements have been prepared in United States dollars (“US\$”) using the historical cost convention.

The preparation of financial statements in accordance with the guidelines issued by the Central Bank and CAS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 New accounting standards and interpretations

(a) New standards and amendments effective in 2008

CAS 1 (Revised), Presentation of Financial Statements (effective 1 January 2008). The Standard (i) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events, and assesses whether the result of complying with a requirement in a standard would be so misleading that it would not give a fair presentation; (ii) bases the criteria for classifying liabilities as current or non-current solely on the conditions existing at the balance sheet date; (iii) prohibits the presentation of items of income and expense as ‘extraordinary items’; (iv) specifies disclosures about the judgements management has made in the process of applying the entity’s accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements; and (v) specifies disclosures about key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. It also requires additional disclosures on the entity’s objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. Management applies the amendment to CAS 1 and has made those disclosures from annual periods beginning 1 January 2008.

CFRS 7, Financial Instruments: Disclosures, and a complementary amendment to CAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2008). CFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, and sensitivity analysis to market risk. It replaces CAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions. It is applicable to all entities that report under CAS. The amendment to CAS 1 introduces disclosures about the level of an entity’s capital and how it manages capital.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting standards and interpretations (continued)

Management assessed the impact of CFRS 7 and the amendment to CAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of CAS 1. Management applies CFRS 7 and the amendment to CAS 1 from annual periods beginning 1 January 2008.

The following standards and revisions to existing standards (effective from 1 January 2008) did not result in substantial changes to the Company's accounting policies:

CAS 7, Cash Flow Statements
CAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
CAS 10, Events After Balance Sheet Date
CAS 12, Income Taxes
CAS 16, Property, Plant and Equipment
CAS 17, Leases
CAS 18, Revenue
CAS 21, The Effects of Changes in Foreign Exchange Rates
CAS 23, Borrowing Costs
CAS 24, Related Party Disclosures
CAS 37, Provisions, Contingent Liabilities and Contingent Assets
CAS 38, Intangible Assets

(b) Standards and amendments effective in 2008 but not relevant

The following standards and amendments are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Company's operations:

CAS 2, Inventory
CAS 11, Construction Contracts
CAS 27, Consolidated and Separate Financial Statements
CAS 40, Investment Property
CAS 41, Agriculture
CFRS 4, Insurance

2.3 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The United States dollars ("US\$") reflects the economic substance of underlying events and circumstances of the entity. The financial statements are presented in US\$, which is the Company's functional and presentation currency.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currencies (continued)

(b) Transactions and balances

Transactions in currencies other than US\$, the functional and presentation currency, are translated into US\$ at the exchange rate prevailing at the date of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in currencies other than US\$ are recognised in the income statement.

(c) Presentation currency

For the sole purpose of complying with Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia, a translation to Khmer Riel ("KHR") is provided for the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements as of and for the year ended 31 December 2008 using the average official exchange rate regulated by the National Bank of Cambodia as at the reporting date, which was US\$1 equal to KHR 4,081 (31 December 2007: US\$1 equal to KHR 4,003). Such translation amounts are unaudited and should not be construed as representations that the US\$ amounts represent, or have been or could be converted into KHR at that or any other rate.

2.4 Basis of aggregation

The financial statements comprise the financial statements of the head office and the 14 provincial branches located in Phnom Penh, Kandal, Kampong Cham, Kampong Thom, Siem Reap, Banteay Meanchey, Battambang, Pursat, Kampong Chhnang, Kampong Speu, Kampot, Takeo, Prey Veng and Sihanouk Ville provinces, after the elimination of all inter-branch balances and transactions.

2.5 Segment information

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

2.6 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash on hand, non-restricted balances with the Central Bank and balances with other banks.

2.7 Loans to customers

Loans to customers are stated in the balance sheet at the amount of the principal outstanding less any amounts written off and provision for bad and doubtful loans. Short-term loans are those with a repayment date within one year of the date the loan was advanced. Medium and long-term loans are those with a final repayment date more than one year from the date the loan was advanced.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Loans to customers (continued)

Loans are written off when there is no realistic prospect of recovery. Recovery of loans to customers previously written off is recognised in the income statement.

2.8 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 clients and the performance of loans in relation to contract terms.

In accordance with Prakas B7-02-186 dated 13 September 2002, the Company is required to classify its loan portfolio into the following four classes, depending on the financial situation of the borrowers and the timeliness of principal and interest payments.

Classification	Number of days past due	Provision
<i>Short-term loans (less than one year)</i>		
Standard	Less than 30 days	0%
Substandard	Equal to or more than 30 days	10%
Doubtful	Equal to or more than 60 days	30%
Loss	Equal to or more than 90 days	100%
<i>Long-term loans (more than one year)</i>		
Standard	Less than 30 days	0%
Substandard	Equal to or more than 30 days	10%
Doubtful	Equal to or more than 180 days	30%
Loss	Equal to or more than 360 days	100%

The specific provision is calculated as a percentage of the loan outstanding at the time the loan is classified, excluding accrued interest and is charged as an expense.

In addition to the specific provision, an additional general provision for bad and doubtful loans is made at the rate of 1.25% (31 December 2007: 1.25%) of all outstanding performing loans, net of the specific provision as at year-end, which has been approved by the Board of Directors.

2.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is possible that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Property and equipment (continued)

The Company adopted the provisions of the new Article 13 of the Law on Taxation which allows the following rates and methods of depreciation:

Office furniture and equipment – declining	25%
Computers – declining	50%
Motor vehicles – declining	25%
Leasehold improvement – straight-line	16%

Gains or losses on disposals are determined by comparing proceeds with carrying amount. Gains or losses on disposals are recognised in the income statement.

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.

2.10 Intangible assets

Intangible assets consist of computer software and are stated at cost less accumulated amortisation and accumulated impairment losses. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on a declining basis method at the rate of 50% per annum.

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-generating units).

2.12 Borrowings

Borrowings are stated at cost. Fees paid on the establishment of borrowing facilities are recognised as transaction costs of the borrowings to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a pre-payment for liquidity services and amortised over the period of the borrowings.

2.13 Subordinated debts

Subordinated debts are treated as part of the Company's liabilities and included in the Company's net worth computation under the NBC's regulations. Foreign exchange differences on the subordinated debts of the Company are taken through the income statement.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are re-measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.15 Provident fund

The Company provides its employees with benefits under the provident fund policy. Employees who complete the probationary period have the option of participating in the provident fund scheme. The fund is sourced from the following:

- Employees may contribute up to 5% of their monthly salary, and the Company contributes twice that amount. This contribution is charged to the income statement.
- The Company contributes interest on the cumulative balance of the provident fund computed at 6.5% per annum. This contribution is charged to the income statement.

The provident fund will be paid to an employee (who has contributed to the fund) upon retirement, resignation or termination due to permanent disability or death. The portion of the employee's contribution and interest is paid in full accordingly, while the portion of the Company's contribution is paid in accordance with the following conditions:

Years of service (*)	Percentage of contribution by the Company
Equal to or less than 1 year	0%
More than 1 year	20%
More than 2 years	40%
More than 3 years	60%
More than 4 years	80%
More than 5 years	100%

(*): Years of service are exclusive of the probationary period.

Those who have been terminated due to serious misconduct are entitled to his/her contribution plus interest only, regardless of how long they have been employed by the Company.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Interest income and expense

Interest income on loans to customers, balances with the Central Bank and balances with other banks are recognised on an accrual basis. Where a loan becomes non-performing, the recording of interest income on loans to customers is suspended until it is realised on a cash basis.

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

2.17 Leases

Leases in which a significant portion of risks and rewards of ownership of assets are retained by the leaser are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the reporting date in Cambodia where the Company operates and generates taxable income.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws 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 relate 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.

2.19 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.

In accordance with the Law on Banking and Financial Institutions, related parties are defined as parties who hold, directly or indirectly, at least 10% of the entity's capital or voting rights and include any individual who participates in the administration, direction, management or internal control of the Company.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Rounding of amounts

The presenting amounts in the financial statements have been rounded off to the nearest dollars and thousand Khmer Riel amounts, respectively.

2.21 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation of the financial statements.

	As per reported US\$	Reclassification US\$	As per reclassified US\$
<i>Balance sheet</i>			
Deposits and placements with banks	313,125	(313,125)	-
Statutory deposits	164,176	(164,176)	-
Balances with the Central Bank	-	165,813	165,813
Balances with other banks	-	311,488	311,488
Borrowings	17,402,500	(1,000,000)	16,402,500
Subordinated debts	-	1,000,000	1,000,000
Other liabilities	550,066	(76,554)	473,512
Provident fund obligations	-	76,554	76,554
<i>Income statement</i>			
Provision for bad and doubtful loans	139,433	(177)	139,256
Printing and office expenses	1,848	114,791	116,639
Legal and professional fees	15,400	27,280	42,680
Utilities expenses	-	62,378	62,378
Repairs and maintenance	8,117	26,474	34,591
Transportation costs	-	71,694	71,694
Communication expenses	8,696	30,848	39,544
Marketing and advertising costs	-	8,435	8,435
Other expenses	361,242	(341,723)	19,519

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The Company makes estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans to customers

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas No. B7-02-186 dated 13 September 2002 on the classification and provisioning for bad and doubtful debts. The National Bank of Cambodia requires microfinance institutions to classify their loan portfolios into four classes and a minimum mandatory level of specific provision is made depending on the classification concerned and regardless of the assets (except for cash) pledged as collateral. For the purpose of loan classification, the Company is required to take into account the borrower's historical payment experience and financial condition.

(b) Income tax

Taxes are calculated on the basis of current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of tax expenses will be made following inspection by the tax authorities.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CASH ON HAND

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Head office	18,712	4,726	76,364	18,918
Branches	<u>503,002</u>	<u>262,937</u>	<u>2,052,751</u>	<u>1,052,537</u>
	<u>521,714</u>	<u>267,663</u>	<u>2,129,115</u>	<u>1,071,455</u>

5. BALANCES WITH THE CENTRAL BANK

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Statutory capital deposit	151,676	111,676	618,990	447,039
Reserve deposit	97,500	52,500	397,898	210,158
Current accounts	<u>5,895</u>	<u>1,637</u>	<u>24,057</u>	<u>6,552</u>
	<u>255,071</u>	<u>165,813</u>	<u>1,040,945</u>	<u>663,749</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

5. BALANCES WITH THE CENTRAL BANK (continued)

(i) Statutory capital deposit

In compliance with Prakas B7-00-006 and Prakas B7-06-209 on the Licensing of Micro-finance Institutions, the Company is required to maintain a statutory capital deposit with the NBC of 5% of registered capital. This deposit is refundable should the Company voluntarily liquidate and have no deposit liabilities.

(ii) Reserve deposit

The reserve deposit represents the minimum reserve requirement which is calculated at 5% of the total deposits from customers as required by Prakas B7-02-45 on the Maintenance of Reserve Requirement for Microfinance Institutions.

(ii) Interest rates

Reserve deposit and current accounts are non-interest bearing. The statutory capital deposit in US\$ earns interest at 3/8 SIBOR ranging from 1.17% to 1.77%. The interest payment is settled semi-annually.

6. BALANCES WITH OTHER BANKS

	2008 US\$	2007 US\$	2008 KHR'000 (Unaudited)	2007 KHR'000 (Unaudited)
<i>Current accounts:</i>				
Aceda Bank Plc Ltd	190,681	682	778,169	2,730
<i>Savings accounts:</i>				
Aceda Bank Plc Ltd	1,569,236	307,677	6,404,052	1,231,631
Canadia Bank Plc	-	343	-	1,373
Cambodia Asia Bank Ltd	525	512	2,143	2,050
Rural Development Bank of Cambodia	325	2,274	1,326	9,103
	<u>1,760,767</u>	<u>311,488</u>	<u>7,185,690</u>	<u>1,246,887</u>

Current accounts do not earn interest. The annual interest rates on savings accounts with other banks are summarised as follows:

	2008	2007
Aceda Bank Plc Ltd	2.00%	2.00%
Canadia Bank Plc	-	0.75% - 2.00%
Cambodia Asia Bank Ltd	2.50%	2.50%
Rural Development Bank of Cambodia	1.00% - 1.50%	1.00% - 1.50%

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

7. LOANS TO CUSTOMERS

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Group loans	435,939	365,352	1,779,067	1,462,504
Individual loans	<u>37,159,879</u>	<u>22,089,755</u>	<u>151,649,466</u>	<u>88,425,289</u>
	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>
Provision for bad and doubtful loans				
Specific	(17,582)	(7,150)	(71,752)	(28,621)
General	<u>(452,374)</u>	<u>(273,539)</u>	<u>(1,846,138)</u>	<u>(1,094,977)</u>
	<u>(469,956)</u>	<u>(280,689)</u>	<u>(1,917,890)</u>	<u>(1,123,598)</u>
	<u>37,125,862</u>	<u>22,174,418</u>	<u>151,510,643</u>	<u>88,764,195</u>

(a) Provision for bad and doubtful loans

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

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
At beginning of the year	280,689	154,472	1,145,492	618,351
Provision for the year	203,122	139,256	828,941	557,442
Bad debts written-off	(13,121)	(13,216)	(53,547)	(52,904)
Currency revaluation	<u>(734)</u>	<u>177</u>	<u>(2,996)</u>	<u>709</u>
At end of the year	<u>469,956</u>	<u>280,689</u>	<u>1,917,890</u>	<u>1,123,598</u>

(b) Analysis by maturity

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Less than 1 month	3,148,491	2,037,256	12,848,992	8,155,136
1 month and less than 3 months	6,464,192	4,078,304	26,380,368	16,325,451
3 months and less than 12 months	20,990,667	13,837,478	85,662,912	55,391,424
1 year and less than 5 years	<u>6,992,468</u>	<u>2,502,069</u>	<u>28,536,261</u>	<u>10,015,782</u>
	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

7. LOANS TO CUSTOMERS (continued)

(c) Analysis by currency

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
US Dollars	31,198,577	19,380,104	127,321,393	77,578,556
Khmer Riel	<u>6,397,241</u>	<u>3,075,003</u>	<u>26,107,140</u>	<u>12,309,237</u>
	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>

(d) Analysis by economic sector

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Agriculture	8,390,859	6,263,638	34,243,096	25,073,343
Building and construction	1,381,414	1,306,390	5,637,551	5,229,479
Small trade and commerce	14,898,495	9,114,497	60,800,758	36,485,331
Services	7,048,598	5,564,628	28,765,328	22,275,206
Others	<u>5,876,452</u>	<u>205,954</u>	<u>23,981,800</u>	<u>824,434</u>
	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>

(e) Analysis by relationship

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
External customers	37,227,058	22,293,062	151,923,623	89,239,127
Staff loans	<u>368,760</u>	<u>162,045</u>	<u>1,504,910</u>	<u>648,666</u>
	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

7. LOANS TO CUSTOMERS (continued)

(f) Analysis by location

	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
Head Office	315,274	44,930	1,286,633	179,855
Phnom Penh	8,662,932	5,392,472	35,353,425	21,586,065
Kandal	7,925,211	5,142,334	32,342,786	20,584,763
Kampong Thom	3,191,452	1,929,833	13,024,316	7,725,121
Kampong Cham	6,234,557	3,979,783	25,443,227	15,931,071
Siem Reap	5,490,605	3,489,399	22,407,159	13,968,064
Kampong Chhnang	585,872	377,025	2,390,944	1,509,232
Pursat	592,862	354,050	2,419,470	1,417,262
Battambang	860,200	460,671	3,510,476	1,844,066
Banteay Meanchey	611,549	394,241	2,495,731	1,578,147
Kampong Speu	900,787	532,635	3,676,112	2,132,138
Kampot	544,078	357,734	2,220,382	1,432,009
Takao	592,556	-	2,418,221	-
Peam Ro	359,233	-	1,466,030	-
Sihanouk Ville	728,650	-	2,973,621	-
	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>

(g) Analysis by security on performing and non-performing loans

	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
Standard loans:				
Secured	37,531,664	22,424,367	153,166,721	89,764,741
Unsecured	-	-	-	-
Sub-standard loans:				
Secured	42,005	20,594	171,422	82,438
Unsecured	-	-	-	-
Doubtful loans:				
Secured	12,515	7,275	51,074	29,122
Unsecured	-	-	-	-
Loans loss:				
Secured	9,634	2,871	39,316	11,492
Unsecured	-	-	-	-
	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

7. LOANS TO CUSTOMERS (continued)

(h) Loans to related parties

Refer to Note 25 “Related Party Transactions and Balances” for details of loans to related parties.

(i) Interest rate

The annual interest rates that were in operation during the year are as follows:

	2008	2007
External customers	18% - 42%	24% - 42%
Staff loans	12%	12%

8. OTHER RECEIVABLES

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest receivable	572,063	330,497	2,334,589	1,322,980
Prepayments and deposits	406,582	260,753	1,659,261	1,043,794
Others	2,346	-	9,573	-
	<u>980,991</u>	<u>591,250</u>	<u>4,003,423</u>	<u>2,366,774</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

9. PROPERTY AND EQUIPMENT

	Office furniture & equipment US\$	Computers US\$	Motor vehicles US\$	Leasehold improvement US\$	Total US\$
At 1 January 2007					
Cost	126,179	87,988	247,564	-	461,731
Accumulated depreciation	(52,548)	(58,866)	(118,000)	-	(229,414)
Net book value	<u>73,631</u>	<u>29,122</u>	<u>129,564</u>	<u>-</u>	<u>232,317</u>
Year ended 31 December 2007					
Opening net book value	73,631	29,122	129,564	-	232,317
Additions	84,018	100,170	168,400	-	352,588
Disposals - net	-	-	(1,480)	-	(1,480)
Depreciation charge	(39,368)	(64,646)	(74,333)	-	(178,347)
Closing net book value	<u>118,281</u>	<u>64,646</u>	<u>222,151</u>	<u>-</u>	<u>405,078</u>
At 31 December 2007					
Cost	210,197	188,158	405,848	-	804,203
Accumulated depreciation	(91,916)	(123,512)	(183,697)	-	(399,125)
Net book value	<u>118,281</u>	<u>64,646</u>	<u>222,151</u>	<u>-</u>	<u>405,078</u>
Equivalent in KHR'000 (Unaudited)	<u>473,479</u>	<u>258,778</u>	<u>889,270</u>	<u>-</u>	<u>1,621,527</u>
Year ended 31 December 2008					
Opening net book value	118,281	64,646	222,151	-	405,078
Additions	300,217	100,654	279,170	24,531	704,572
Disposals - net	(652)	-	(12,188)	-	(12,840)
Depreciation charge	(104,595)	(82,652)	(122,299)	(1,464)	(311,010)
Closing net book value	<u>313,251</u>	<u>82,648</u>	<u>366,834</u>	<u>23,067</u>	<u>785,800</u>
At 31 December 2008					
Cost	507,294	288,812	634,523	24,531	1,455,160
Accumulated depreciation	(194,043)	(206,164)	(267,689)	(1,464)	(669,360)
Net book value	<u>313,251</u>	<u>82,648</u>	<u>366,834</u>	<u>23,067</u>	<u>785,800</u>
Equivalent in KHR'000 (Unaudited)	<u>1,278,378</u>	<u>337,286</u>	<u>1,497,050</u>	<u>94,136</u>	<u>3,206,850</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

10. INTANGIBLE ASSETS

	Computer software US\$
At 1 January 2007	
Cost	52,280
Accumulated amortisation	(29,929)
Net book value	<u>22,351</u>
Year ended 31 December 2007	
Opening net book value	22,351
Additions	14,804
Amortisation charge	(18,577)
Closing net book value	<u>18,578</u>
At 31 December 2007	
Cost	67,084
Accumulated amortisation	(48,506)
Net book value	<u>18,578</u>
Equivalent in KHR'000 (<i>Unaudited</i>)	<u>74,368</u>
Year ended 31 December 2008	
Opening net book value	18,578
Additions	5,000
Amortisation charge	(11,789)
Closing net book value	<u>11,789</u>
At 31 December 2008	
Cost	72,084
Accumulated amortisation	(60,295)
Net book value	<u>11,789</u>
Equivalent in KHR'000 (<i>Unaudited</i>)	<u>48,111</u>

11. DEPOSITS FROM CUSTOMERS

	2008 US\$	2007 US\$	2008 KHR'000 (Unaudited)	2007 KHR'000 (Unaudited)
Compulsory savings	194,140	228,125	792,285	913,184
Voluntary savings				
Savings deposits	1,178,762	845,887	4,810,528	3,386,086
Term deposits	481,884	327,330	1,966,569	1,310,302
	<u>1,854,786</u>	<u>1,401,342</u>	<u>7,569,382</u>	<u>5,609,572</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

11. DEPOSITS FROM CUSTOMERS (continued)

The compulsory savings are a deposit required as a condition of granting loans by the Company. 2% and 5% of the principal loan amount disbursed in US Dollar and Khmer Riel, respectively, are recorded as compulsory savings. The compulsory savings bears interest at 4% per annum (31 December 2007: 4% per annum). The compulsory savings are be refunded at the end of the loan cycle.

The voluntary savings are available for all customers and bear interest at the rate of 4% per annum (31 December 2007: 4% per annum).

The term deposits bear interest at the following rates:

	2008		2007	
	US\$	Riel	US\$	Riel
1-month term	4.5%	5%	4.5%	4.5%
3-month term	5%	6%	5%	5%
6-month term	5.5%	7%	5.5%	5.5%
12-month term	7.5%	9.5%	6.5%	6.5%

The deposits from customers are analysed as follows:

(a) Analysis by maturity

	2008 US\$	2007 US\$	2008 KHR'000 (Unaudited)	2007 KHR'000 (Unaudited)
Less than 1 month	1,392,228	465,895	5,611,383	1,864,978
1 month and less than 3 months	56,544	477,002	30,118	1,909,439
3 months and less than 12 months	406,014	433,351	1,927,881	1,734,704
1 year and less than 5 years	-	25,094	-	100,451
	<u>1,854,786</u>	<u>1,401,342</u>	<u>7,569,382</u>	<u>5,609,572</u>

(b) Analysis by currency

	2008 US\$	2007 US\$	2008 KHR'000 (Unaudited)	2007 KHR'000 (Unaudited)
US Dollars	1,666,315	1,277,582	6,800,232	5,114,161
Khmer Riel	188,471	123,760	769,150	495,411
	<u>1,854,786</u>	<u>1,401,342</u>	<u>7,569,382</u>	<u>5,609,572</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

12. BORROWINGS

	2008 US\$	2007 US\$	2008 KHR'000 (Unaudited)	2007 KHR'000 (Unaudited)
<i>Related parties:</i>				
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V ("FMO")	4,143,148	2,500,000	16,908,187	10,007,500
Triodos & Doen	2,500,000	2,500,000	10,202,500	10,007,500
ShoreCap International Ltd	125,000	500,000	510,125	2,001,500
	<u>6,768,148</u>	<u>5,500,000</u>	<u>27,620,812</u>	<u>22,016,500</u>
<i>Non-related parties:</i>				
Asian Development Bank's Loan through Rural Development Bank ("RDB")	-	87,500	-	350,263
Blue Orchard	2,325,000	625,000	9,488,325	2,501,875
Belgische Investerings - Maatschappij voor Ontwikkelings-landen N.V	2,625,000	340,000	10,712,625	1,361,020
Global Microfinance Facility	3,000,000	3,000,000	12,243,000	12,009,000
Oikocredit	3,682,137	2,850,000	15,026,801	11,408,550
Global Commercial Microfinance Consortium, Ltd. (c/o Deutsche Bank Ltd.)	3,500,000	3,000,000	14,283,500	12,009,000
Dual Return Fund SICAV	2,000,000	1,000,000	8,162,000	4,003,000
DWM	3,000,000	-	12,243,000	-
Norfund	3,000,000	-	12,243,000	-
	<u>23,132,137</u>	<u>10,902,500</u>	<u>94,402,251</u>	<u>43,642,708</u>
	<u>29,900,285</u>	<u>16,402,500</u>	<u>122,023,063</u>	<u>65,659,208</u>

The borrowings mature until 15 April 2012 and bear interest rates ranging from 6.21% to 12.94% (2007: 7.10% to 12.57%). None of the Company's borrowings are secured.

The Company has not had any defaults of principal, interest or redemption amounts during the year on its borrowings (2007: nil).

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

13. SUBORDINATED DEBTS

	<u>2008</u> <u>US\$</u>	<u>2007</u> <u>US\$</u>	<u>2008</u> <u>KHR'000</u> <i>(Unaudited)</i>	<u>2007</u> <u>KHR'000</u> <i>(Unaudited)</i>
<i>Related party:</i>				
Tridos & Doen	a 2,000,000	1,000,000	8,162,000	4,003,000
<i>Non-related party:</i>				
DWM	b 200,000	-	816,200	-
	<u>2,200,000</u>	<u>1,000,000</u>	<u>8,978,200</u>	<u>4,003,000</u>

(a) Tridos & Doen

On 19 December 2007, the NBC approved the Company's subordinated debt from Tridos & Doen, amounting to US\$2,000,000.

This subordinated debt has a 10-year term maturing on 1 January 2018 and bears an interest rate of 10% for the first five years, and from 1 January 2013 bears a rate of 12-month LIBOR plus 6% with a minimum of 10.5%.

(b) DWM

On 28 October 2008, the NBC approved the Company's subordinated debt from DWM, amounting to US\$1,000,000. As at 31 December 2008, the Company drew down its borrowing from DWM amounting to US\$200,000.

This subordinated debt has an eight-year term maturing on 31 October 2016 and bears an interest rate of 11% per annum.

14. OTHER LIABILITIES

	<u>2008</u> <u>US\$</u>	<u>2007</u> <u>US\$</u>	<u>2008</u> <u>KHR'000</u> <i>(Unaudited)</i>	<u>2007</u> <u>KHR'000</u> <i>(Unaudited)</i>
Accrued interest payable	546,552	291,516	2,230,479	1,166,939
Staff benefits payable	128,992	86,005	526,416	344,278
Accrued other taxation	59,682	63,105	243,562	252,608
Other liabilities	21,812	32,886	89,015	131,643
	<u>757,038</u>	<u>473,512</u>	<u>3,089,472</u>	<u>1,895,468</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

15. TAXATION

(a) Current income tax liability

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			(Unaudited)	(Unaudited)
At beginning of the year	250,565	76,350	1,022,556	305,630
Expenses charged during the year	508,829	300,785	2,076,531	1,204,042
Payments during the year	<u>(336,797)</u>	<u>(126,570)</u>	<u>(1,374,469)</u>	<u>(506,660)</u>
At end of the year	<u>422,597</u>	<u>250,565</u>	<u>1,724,618</u>	<u>1,003,012</u>

(b) Income tax expense

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

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

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			(Unaudited)	(Unaudited)
Profit before income tax	<u>2,496,865</u>	<u>1,464,808</u>	<u>10,189,706</u>	<u>5,863,626</u>
Tax calculated at a rate of 20%	499,373	292,962	2,037,941	1,172,727
Tax effect of non-deductible expenses	<u>9,456</u>	<u>7,823</u>	<u>38,590</u>	<u>31,315</u>
Income tax expense	<u>508,829</u>	<u>300,785</u>	<u>2,076,531</u>	<u>1,204,042</u>

c) Other tax matters

The Company's tax returns are subject to periodic examination by the Tax Department. Some areas of tax laws and regulations may be open to different interpretation; therefore the tax amounts reported in the financial statements could be changed at a later date upon final determination by the Tax Department.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

16. PROVIDENT FUND OBLIGATIONS

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Provident fund obligations	<u>304,756</u>	<u>76,554</u>	<u>1,243,709</u>	<u>306,446</u>

The movement in the provident fund obligations for the year is as follows:

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
At beginning of the year	76,554	-	312,417	-
Additions for the year:				
Employer contributions	148,524	51,774	606,126	207,251
Employee contributions	77,124	24,455	314,743	97,893
Interest (Note 19)	10,671	325	43,548	1,302
Payments	<u>(8,117)</u>	<u>-</u>	<u>(33,125)</u>	<u>-</u>
At end of the year	<u>304,756</u>	<u>76,554</u>	<u>1,243,709</u>	<u>306,446</u>

17. SHARE CAPITAL

	%	2008	2007	2008	2007
		US\$	US\$	KHR'000	KHR'000
				<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cambodia Community Building – NGO	23%	710,043	522,790	2,897,685	2,092,728
CEB Employee Company Limited	6%	184,278	135,680	752,039	543,126
Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden (“FMO”)	18%	560,277	412,520	2,286,490	1,651,318
ShoreCap International Limited	34%	1,018,635	750,000	4,157,050	3,002,250
Stichting Triodos-Doen	18%	560,277	412,520	2,286,490	1,651,318
	<u>100%</u>	<u>3,033,510</u>	<u>2,233,510</u>	<u>12,379,754</u>	<u>8,940,740</u>

On 23 April 2008, the Company increased its share capital by US\$800,000 through conversion from retained earnings. The increase in share capital was approved by the NBC on 19 June 2008 and the Company by-law registered with the Ministry of Commerce was amended on 9 October 2008.

The total authorised number of shares is 303,351 shares (2007: 223,351 shares) with a par value of US\$10 per share (2007: US\$10 per share). All issued shares are fully paid.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

17. SHARE CAPITAL (continued)

Included in CEB Employee Company Limited are shares amounting to US\$39,390 and US\$13,790 (2007: US\$29,000 and US\$10,150) held by two directors, Dr. Bun Mony and Mr. Var Muth respectively.

18. INTEREST INCOME

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loans to customers	8,712,025	4,811,515	35,553,774	19,260,494
Balances with the Central Bank and other banks	<u>19,728</u>	<u>16,540</u>	<u>80,510</u>	<u>66,210</u>
	<u><u>8,731,753</u></u>	<u><u>4,828,055</u></u>	<u><u>35,634,284</u></u>	<u><u>19,326,704</u></u>

19. INTEREST EXPENSE

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Long-term borrowings	2,703,402	1,471,099	11,032,584	5,888,809
Short-term borrowings	30,200	40,570	123,246	162,402
Deposits from customers	80,507	37,053	328,549	148,323
Provident funds (Note 16)	<u>10,671</u>	<u>325</u>	<u>43,548</u>	<u>1,301</u>
	<u><u>2,824,780</u></u>	<u><u>1,549,047</u></u>	<u><u>11,527,927</u></u>	<u><u>6,200,835</u></u>

20. OTHER OPERATING INCOME

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loan and penalty fees	602,374	377,999	2,458,288	1,513,130
Gain on foreign exchange	3,317	34,758	13,537	139,136
Other income	<u>8,005</u>	<u>44,396</u>	<u>32,668</u>	<u>177,717</u>
	<u><u>613,696</u></u>	<u><u>457,153</u></u>	<u><u>2,504,493</u></u>	<u><u>1,829,983</u></u>

The Company did not receive any donations in-kind or subsidies during the year.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

21. GENERAL AND ADMINISTRATION EXPENSES

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Personnel and other related costs	2,089,896	1,204,212	8,528,866	4,820,461
Depreciation and amortisation	322,799	196,924	1,317,343	788,287
Printing and office expenses	269,332	116,639	1,099,144	466,906
Office rental	268,026	145,996	1,093,814	584,422
Legal and professional fees	152,494	42,680	622,328	170,848
Staff training and conferences	139,871	81,158	570,814	324,875
Insurance and motor vehicle operating expenses	136,227	94,146	555,942	376,866
Utilities expenses	91,463	62,378	373,261	249,699
Repairs and maintenance	77,662	34,591	316,939	138,468
Transportation costs	76,283	71,694	311,311	286,991
Communication expenses	59,554	39,544	243,040	158,295
Marketing and advertising costs	43,270	8,435	176,585	33,765
Bank charges and service fees	18,327	14,181	74,792	56,767
Other expenses	75,478	19,519	308,024	78,134
	<u>3,820,682</u>	<u>2,132,097</u>	<u>15,592,203</u>	<u>8,534,784</u>

22. CASH USED IN OPERATIONS

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit before income tax	2,496,865	1,464,808	10,189,706	5,863,626
Adjustments for:				
Depreciation and amortisation	322,799	196,924	1,317,343	788,287
Provision for bad and doubtful loans	203,122	139,256	828,941	557,442
Bad debts written off	(13,121)	(13,216)	(53,547)	(52,904)
Gain on disposal of property and equipment	(1,574)	(6,400)	(6,423)	(25,619)
Provision for provident fund obligations	236,319	76,554	964,418	306,446
Currency revaluation	(25,046)	177	(102,213)	709
Operating profit before changes in operating assets and liabilities	3,219,364	1,858,103	13,138,225	7,437,987
<i>Changes in operating assets and liabilities</i>				
Increase in loans to customers	(15,140,711)	(10,128,312)	(61,789,242)	(40,543,633)
Increase in other receivables	(389,741)	(340,663)	(1,590,533)	(1,363,675)
Increase in reserve deposits	(45,000)	-	(183,645)	-
Increase in statutory capital deposits	(40,000)	(39,100)	(163,240)	(156,517)
Increase in deposits from customers	453,444	861,254	1,850,505	3,447,600
Increase in other liabilities	283,526	216,325	1,157,068	865,949
Cash used in operations	<u>(11,659,118)</u>	<u>(7,572,393)</u>	<u>(47,580,862)</u>	<u>(30,312,289)</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

23. CASH AND CASH EQUIVALENTS

	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
Cash on hand	521,714	267,663	2,129,115	1,071,455
Balances with the Central Bank	5,895	1,637	24,057	6,553
Balances with other banks	<u>1,760,767</u>	<u>311,488</u>	<u>7,185,690</u>	<u>1,246,886</u>
	<u>2,288,376</u>	<u>580,788</u>	<u>9,338,862</u>	<u>2,324,894</u>

24. COMMITMENTS

Operating lease commitments

Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
No later than 1 year	320,680	96,083	1,308,695	384,620
Later than 1 year and no later than 5 years	818,436	1,114,250	3,340,037	4,460,343
Later than 5 years	<u>426,962</u>	<u>-</u>	<u>1,742,432</u>	<u>-</u>
	<u>1,566,078</u>	<u>1,210,333</u>	<u>6,391,164</u>	<u>4,844,963</u>

25. RELATED PARTY TRANSACTIONS AND BALANCES

The Company entered into a number of transactions with related parties in the normal course of business. The volumes of related party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

(a) Loans to Directors and key management personnel

	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
At beginning of the year	28,618	-	116,790	-
Loans issued during the year	80,000	47,500	326,480	190,143
Loans repaid during the year	<u>(34,278)</u>	<u>(18,882)</u>	<u>(139,889)</u>	<u>(75,585)</u>
At end of the year	<u>74,340</u>	<u>28,618</u>	<u>303,381</u>	<u>114,558</u>
Interest income earned	<u>8,074</u>	<u>2,763</u>	<u>32,950</u>	<u>11,060</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Loans to Directors and key management personnel (continued)

No provisions have been recognised in respect of loans given to related parties. The loan to directors and key management carried an interest rate at 12% per annum (2007: 12% per annum).

(b) Deposits from Directors and key management personnel

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
At beginning of the year	2,008	-	8,195	-
Deposits received during the year	113,110	63,680	461,602	254,911
Deposits repaid during the year	<u>(115,018)</u>	<u>(61,672)</u>	<u>(469,388)</u>	<u>(246,873)</u>
At end of the year	<u>100</u>	<u>2,008</u>	<u>409</u>	<u>8,038</u>
Interest expense on deposits	<u>207</u>	<u>88</u>	<u>845</u>	<u>352</u>

(c) Borrowings and subordinated debts from shareholders

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
At beginning of the year	6,500,000	4,700,000	26,526,500	18,814,100
Borrowings received during the year	2,955,648	2,500,000	12,061,999	10,007,500
Borrowings repaid during the year	<u>(687,500)</u>	<u>(700,000)</u>	<u>(2,805,688)</u>	<u>(2,802,100)</u>
At end of the year	<u>8,768,148</u>	<u>6,500,000</u>	<u>35,782,811</u>	<u>26,019,500</u>
Interest expense on borrowings	<u>803,198</u>	<u>616,594</u>	<u>3,277,851</u>	<u>2,468,226</u>

(d) Board of Directors expenses, key management compensation and other related costs

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Board of Directors expenses	<u>27,725</u>	<u>24,973</u>	<u>113,146</u>	<u>99,967</u>
<i>Key management:</i>				
Remuneration and other short-term benefits	115,321	84,170	470,625	336,933
Provident funds	<u>12,104</u>	<u>4,970</u>	<u>49,396</u>	<u>19,895</u>
	<u>155,150</u>	<u>114,113</u>	<u>633,167</u>	<u>456,795</u>

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

26. EVENTS AFTER BALANCE SHEET DATE

On 22 January 2009, the Company received a license from the NBC to conduct a deposit-taking business. In accordance with Prakas B7-07-163 on Licensing of Microfinance Deposit-Taking Institutions, after receiving the license, the Company must deposit a statutory capital guarantee and reserve requirement of at least 10% of its registered capital and 8% of its client deposits, respectively, into an account maintained with the NBC.

27. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Company does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage its risk exposure.

27.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposures arise principally in lending activities that lead to loans to customers. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management is carried out by the Company's credit committee.

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 loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, credit approval processes and procedures implemented to ensure compliance with NBC guidelines.

(a) Credit risk measurement

The Company assesses the probability of default of individual counterparties which focus on borrowers' forecast profit and cash flow. The credit committee is responsible for approving the loans to customers.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

27. FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

(b) Risk limit control and mitigation policies

The Company operates and provides loans to individuals or small-medium enterprises within the Kingdom of Cambodia. The Company manages limits and controls the concentration of credit risk whenever it is identified.

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to customers, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types secured for loans to customers are:

- Mortgages over residential properties (land, building and other properties); and
- Charges over business assets such as land and buildings; and

(c) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning. The Central Bank requires Microfinance Institutions to classify their loan portfolio into four classes and the minimum mandatory level of specific provision is made depending on the classification concerned and regardless of the assets (except for cash) pledged as collateral, as follows:

	2008	2007
Standard	0%	0%
Substandard	10%	10%
Doubtful	30%	30%
Loss	100%	100%

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
<i>Credit exposures relating to on-balance sheet assets:</i>				
Balances with other banks	1,760,767	311,488	7,185,690	1,246,886
Loans to customers	37,125,862	22,174,418	151,510,643	88,764,195
Other receivables	980,991	591,250	4,003,423	2,366,774
	<u>39,867,620</u>	<u>23,077,156</u>	<u>162,699,756</u>	<u>92,377,855</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

27. FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

The above table represents a worse case scenario of credit risk exposure to the Company at 31 December 2008 and 2007, without taking into account of any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

As shown above, 93% of total maximum exposure is derived from loans to customers (2007: 93%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from its loans to customers on the following basis:

- 99% of the loans portfolio are considered to be neither past due nor impaired (2007: 99%)
- The Company has introduced a more stringent selection and collection process upon granting loans to customers

(e) Loans to customers

Loans to customers are summarised as follows:

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loans to customers neither past due nor impaired	37,474,092	22,416,082	152,931,769	89,731,576
Loans to customers past due but not impaired	57,572	8,285	234,952	33,165
Loans to customers individually impaired	64,154	30,740	261,812	123,052
Gross	<u>37,595,818</u>	<u>22,455,107</u>	<u>153,428,533</u>	<u>89,887,793</u>
Provision for bad and doubtful loans	<u>(469,956)</u>	<u>(280,689)</u>	<u>(1,917,890)</u>	<u>(1,123,598)</u>
Net	<u>37,125,862</u>	<u>22,174,418</u>	<u>151,510,643</u>	<u>88,764,195</u>

For the purpose of loan provisioning, expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirements. The total provision for bad and doubtful loans is US\$469,956 (2007: US\$280,689) which represents the specific provision for the individual loans.

(i) Loans to customers neither past due nor impaired

Loans to customers not past due are not considered impaired, unless other information is available to indicate the contrary.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

27. FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

(ii) Loans to customers past due but not impaired

Loans to customers less than 30 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount loans, by class, to customers that were past due but not impaired are as follows:

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Past due up to 30 days	<u>57,572</u>	<u>8,285</u>	<u>234,952</u>	<u>33,165</u>
Value of collateral (*)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(iii) Loans to customers individually impaired

In accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning, loans past due more than 30 days are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

	2008	2007	2008	2007
	US\$	US\$	KHR'000	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Past due 30-60 days	24,884	10,394	101,552	41,607
Past due 60-90 days	10,041	6,021	40,977	24,102
Past due 90-180 days	11,864	5,817	48,417	23,285
Past due 180-360 days	17,365	8,390	70,866	33,586
Past due 360 days or more	-	118	-	472
	<u>64,154</u>	<u>30,740</u>	<u>261,812</u>	<u>123,052</u>
Value of collateral (*)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(*): Most of the customers' collateral are only land or house title receipts (which are not official land title deeds), as the Company mainly issued loans to the entrepreneurial poor in the provinces. The Company does not internally or externally perform the revaluation of collateral. Since there are no legal official land title deeds obtained, management believes that the value of collateral is nil. Under the Central Bank's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

27. FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

- (iv) Loans to customers renegotiated

There were no renegotiated loans to customers at 31 December 2008.

- (f) Repossessed collateral

During the year ended 31 December 2008, the Company did not obtain assets by taking possession of collateral held as security (2007: nil).

27.2 Market risk

The Company takes on exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Company does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge its risk exposure.

- (i) Foreign exchange risk

The Company operates in Cambodia and transacts in two currencies, and is exposed to currency risks, primarily with respect to the Khmer Riel.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency.

The management monitors its foreign exchange risk against functional currencies. However, the Company is not required to hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward contracts.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2008. Included in the table are the Company's financial instruments at carrying amount by currency in US\$ equivalent.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

27. FINANCIAL RISK MANAGEMENT (continued)

27.2 Market risk (continued)

(i) Foreign exchange risk (continued)

	US\$		
	US\$	KHR'000	Total
As at 31 December 2008			
Assets			
Cash on hand	293,558	228,156	521,714
Balances with the Central Bank	255,071	-	255,071
Balances with other banks	1,571,007	189,760	1,760,767
Loans to customers	30,808,591	6,317,271	37,125,862
Other receivables	851,814	129,177	980,991
Total financial assets	33,780,041	6,864,364	40,644,405
Liabilities			
Deposits from customers	1,666,315	188,471	1,854,786
Borrowings	27,062,500	2,837,785	29,900,285
Subordinated debts	2,200,000	-	2,200,000
Other liabilities	635,924	121,114	757,038
Total financial liabilities	31,564,739	3,147,370	34,712,109
Net financial position	2,215,302	3,716,994	5,932,296
As at 31 December 2007			
Total financial assets	20,354,502	3,156,130	23,510,632
Total financial liabilities	19,152,585	124,769	19,277,354
Net financial position	1,201,917	3,031,361	4,233,278

(ii) Price risk

The Company is not exposed to securities price risk because it does not hold any investment held and classified on the balance sheet either as available for sale or at fair value through profit or loss. The Company currently does not have a policy to manage its price risk.

(iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes but may reduce losses in the event that unexpected movements arise. The Company at this stage does not have a policy to set limits on the level of mismatch of interest rate reprising that may be undertaken; however, the management regularly monitors the mismatch.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at the carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

27. FINANCIAL RISK MANAGEMENT (continued)

27.2 Market risk (continued)

(iii) Interest rate risk (continued)

	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
As at 31 December 2008							
Assets							
Cash on hand	-	-	-	-	-	521,714	521,714
Balances with the Central Bank	-	-	151,676	-	-	103,395	255,071
Balances with other banks	1,760,767	-	-	-	-	-	1,760,767
Loans to customers	3,148,491	6,464,192	20,990,667	6,992,468	-	(469,956)	37,125,862
Other receivables	-	-	-	-	-	980,991	980,991
Total financial assets	<u>4,909,258</u>	<u>6,464,192</u>	<u>21,142,343</u>	<u>6,992,468</u>	<u>-</u>	<u>1,136,144</u>	<u>40,644,405</u>
Liabilities							
Deposits from customers	1,392,228	56,544	406,014	-	-	-	1,854,786
Borrowings	1,062,500	950,000	6,904,100	20,983,685	-	-	29,900,285
Subordinated debts	-	-	-	-	2,200,000	-	2,200,000
Other liabilities	-	-	-	-	-	757,038	757,038
Total financial liabilities	<u>2,454,728</u>	<u>1,006,544</u>	<u>7,310,114</u>	<u>20,983,685</u>	<u>2,200,000</u>	<u>757,038</u>	<u>34,712,109</u>
Total interest repricing gap	<u>2,454,530</u>	<u>5,457,648</u>	<u>13,832,229</u>	<u>(13,991,217)</u>	<u>(2,200,000)</u>	<u>379,106</u>	<u>5,932,296</u>
As at 31 December 2007							
Total financial assets	<u>2,348,062</u>	<u>4,078,304</u>	<u>13,949,154</u>	<u>2,502,069</u>	<u>-</u>	<u>633,043</u>	<u>23,510,632</u>
Total financial liabilities	<u>465,895</u>	<u>1,152,002</u>	<u>1,298,351</u>	<u>14,887,594</u>	<u>1,000,000</u>	<u>473,512</u>	<u>19,277,354</u>
Total interest repricing gap	<u>1,882,167</u>	<u>2,926,302</u>	<u>12,650,803</u>	<u>(12,385,525)</u>	<u>(1,000,000)</u>	<u>159,531</u>	<u>4,233,278</u>

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

27. FINANCIAL RISK MANAGEMENT (continued)

27.3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

(a) Liquidity risk management process

The Company's management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the reviewing daily cash position, and projections for the next day, week and month, as these are key periods for liquidity management. The management monitors the movement of the main depositors and lenders and projections of their withdrawal.

(b) Funding approach

The Company's main sources of liquidity arise from the shareholders' paid-up capital and customers' deposits. The sources of liquidity are reviewed regularly through management's review of maturity of term deposits, key depositors, borrowings and subordinated debts.

(c) Non-derivative cash flows

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on the expected undiscounted cash flows.

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

27. FINANCIAL RISK MANAGEMENT (continued)

27.3 Liquidity risk (continued)

(c) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
As at 31 December 2008							
Liabilities							
Deposits from customers	1,393,028	60,857	434,370	-	-	-	1,888,255
Borrowings	657,318	1,106,167	6,528,448	36,234,159	-	-	44,526,092
Subordinated debts	50,273	-	170,733	1,117,049	4,105,201	-	5,443,256
Other liabilities	370,418	136,482	250,138	-	-	-	757,038
Total financial liabilities (contractual maturing dates)	<u>2,471,037</u>	<u>1,303,506</u>	<u>7,383,689</u>	<u>37,351,208</u>	<u>4,105,201</u>	<u>-</u>	<u>52,614,641</u>
Total financial assets (expected maturing dates)	<u>6,017,968</u>	<u>6,480,955</u>	<u>21,039,292</u>	<u>7,325,931</u>	<u>-</u>	<u>(219,741)</u>	<u>40,644,405</u>
As at 31 December 2007							
Liabilities							
Deposits from customers	1,094,603	185,961	133,125	-	-	-	1,413,689
Borrowings	141,010	863,799	2,838,735	16,558,177	-	-	20,401,721
Subordinated debts	25,000	-	75,000	400,000	1,600,000	-	2,100,000
Other liabilities	221,555	219,408	4,359	-	-	28,190	473,512
Total financial liabilities (contractual maturing dates)	<u>1,482,168</u>	<u>1,269,168</u>	<u>3,051,219</u>	<u>16,958,177</u>	<u>1,600,000</u>	<u>28,190</u>	<u>24,388,922</u>
Total financial assets (expected maturing dates)	<u>2,954,913</u>	<u>4,090,876</u>	<u>13,894,610</u>	<u>2,686,746</u>	<u>-</u>	<u>(116,513)</u>	<u>23,510,632</u>

SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

27. FINANCIAL RISK MANAGEMENT (continued)

27.3 Liquidity risk (continued)

(d) Off-balance sheet items

Operating lease commitments

Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as disclosed in Note 24.

27.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

The Company did not have financial instruments measured at fair value.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair value of those financial assets and liabilities not presented on the Company's balance sheet at their fair value.

	Carrying value		Fair value	
	2008	2007	2008	2007
	US\$	US\$	US\$	US\$
Financial assets				
Balances with other banks	1,760,767	311,488	1,760,767	311,488
Loans to customers	37,125,862	22,174,418	37,125,862	22,174,418
Other receivables	980,991	591,250	980,991	591,250
	<u>39,867,620</u>	<u>23,077,156</u>	<u>39,867,620</u>	<u>23,077,156</u>
Financial liabilities				
Deposits from customers	1,854,786	1,401,342	1,854,786	1,401,342
Borrowings	29,900,285	16,402,500	29,900,285	16,402,500
Subordinated debts	2,200,000	1,000,000	2,200,000	1,000,000
Other liabilities	757,038	473,512	757,038	473,512
	<u>34,712,109</u>	<u>19,277,354</u>	<u>34,712,109</u>	<u>19,277,354</u>

i. Balances with other banks

Balances with other banks include current accounts which are non-interest bearing and savings deposits. The fair value of balances with other banks approximates the carrying amount.

ii. Loans to customers

Loans to customers are net of provision for doubtful and bad loans and their carrying value approximates fair value. The provision for doubtful and bad loans is made under the requirements of the Central Bank's Prakas.

**SATHAPANA LIMITED
(FORMERLY KNOWN AS CAMBODIAN ENTREPRENEUR BUILDING LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

27. FINANCIAL RISK MANAGEMENT (continued)

27.4 Fair value of financial assets and liabilities (continued)

iii. Deposits from customers and borrowings

The fair value of deposits from customers approximates the carrying amount. The fair value of deposits from customers with no stated maturities which include non-interest bearing is the amount repayable on demand.

The fair value of fixed interest-bearing deposits and borrowings are not quoted in an active market. Their value approximates the carrying amount.

27.5 Capital management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirement set by the NBC;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The NBC requires all licensed microfinance institutions to i) maintain the minimum capital requirements, and ii) comply with solvency, liquidity and other requirements.

The table below summarises the composition of regulatory capital:

	2008 US\$	2007 US\$	2008 KHR'000 <i>(Unaudited)</i>	2007 KHR'000 <i>(Unaudited)</i>
Tier 1 Capital				
Share capital	3,033,510	2,233,510	12,379,754	8,940,740
Share premium	174,960	174,960	714,012	700,365
Retained earnings	2,794,062	1,921,345	11,402,567	7,691,144
	<u>6,002,532</u>	<u>4,329,815</u>	<u>24,496,333</u>	<u>17,332,249</u>
Tier 2 Capital				
Subordinated debts (*)	<u>2,200,000</u>	<u>1,000,000</u>	<u>8,978,200</u>	<u>4,003,000</u>
Less: Loans to related parties	<u>(74,340)</u>	<u>(28,618)</u>	<u>(303,382)</u>	<u>(114,558)</u>
Total regulatory capital	<u>8,128,192</u>	<u>5,301,197</u>	<u>33,171,151</u>	<u>21,220,691</u>

(*) This represents subordinated debts approved by the NBC.

APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2008**

1. SOLVENCY RATIO, Prakas No. B7-07-133

A licensed microfinance institution shall at all times maintain a solvency ratio of more than 15%. As at 31 December 2008, the solvency ratio of the Company was 20.02%.

The net worth and solvency ratio calculation are detailed in Schedule 1.

2. LIQUIDITY RATIO, Prakas No. B7-02-48

A licensed microfinance institution shall at all times maintain a liquidity ratio of at least 100%. As at 31 December 2008, the liquidity ratio of the Company was 1,369.60%.

The liquidity ratio calculation is detailed in Schedule 2.

3. NET OPEN POSITION IN FOREIGN CURRENCY, Prakas No. B7-07-134

A licensed microfinance institution shall at all times maintain a net open position in foreign currencies in either any foreign currency or an overall net open position in all foreign currencies, whether long or short, which shall not exceed 20% of the Company's net worth. As at 31 December 2008, the net open position in Khmer Riel was 10.41%.

The net open position calculation is detailed in Schedule 3.

4. RESERVE REQUIREMENT, Prakas No. B7-02-45

A licensed Microfinance Institution shall deposit 5% of its deposits into an account maintained with the Central Bank. As at 31 December 2008, the reserve requirement was KHR 338,855,000, and the Company has deposited KHR 397,898,000 with the Central Bank.

The reserve requirement calculation is detailed in Schedule 4.

**5. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,
Prakas No. B7-02-186**

Licensed microfinance institutions shall classify their loan portfolios into the following four classes, depending on the financial situation of the borrower and the timeliness of principal and interest payments.

Loan term of one year or less than one year

- **Standard:** good financial condition and punctual payment of principal and interest
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more
- **Doubtful:** some payments of principal and/or interest are overdue by 60 days or more
- **Loss:** some payments of principal and/or interest are overdue by 90 days or more

APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2008

5. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,
Prakas No. B702-186 (continued)

Loan term of more than one year

- **Standard:** good financial condition and punctual payment of principal and interest
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more
- **Doubtful:** some payments of principal and/or interest are overdue by 180 days or more
- **Loss:** some payments of principal and/or interest are overdue by 360 days or more

Specific provisions on the loans are classified as follows:

- **Sub-standard:** 10% regardless of the collateral value except cash
- **Doubtful** : 30% regardless of the collateral value except cash
- **Loss** : 100%

As at 31 December 2008, the specific provision provided by the Company was KHR 71,752,000 which is in compliance with the Central Bank's Prakas.

Loan classification, provision and delinquency ratio calculation are detailed in Schedule 5.

SCHEDULE 1
NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2008

	<u>KHR '000</u>
I- Sub-total A: Items to be added	
- Capital or endowment	12,379,754
- Reserve, other than revaluation reserves	-
- Premium related to capital (share premiums)	714,012
- Provision for general banking risks, with the prior agreement of the NBC	-
- Retained earnings	3,289,392
- Audited net profit for the latest financial year	8,113,175
- Other items approved by the NBC	-
	<u>24,496,333</u>
II- Sub-total B: Items to be deducted	
- For shareholders, directors, managers and their next of kin	
> Unpaid portion of capital	-
> Advances, loans, security and the agreement of the persons concerned as defined above	303,382
- Holding of own shares at their book value	-
- Accumulated losses	-
- Formation expenses	-
- Losses determined on dates other than the end of the annual accounting period (including provisions to be made for doubtful debt and securities)	-
	<u>303,382</u>
III- Total C: BASE NET WORTH = A – B	<u>24,192,951</u>
IV- Sub-total D: Items to be added	
- Revaluation reserves, with the prior agreement of the NBC	-
- Subordinated debt, with the prior agreement of the NBC, up to 100% of base net worth	8,978,200
- Other items, with the prior agreement of the NBC, could be included in the calculation of net worth and shall not be more than the base net worth	-
	<u>8,978,200</u>
V- Sub-total E: Items to be deducted	
- Equity participation in banking and financial institutions	-
- Other items	-
	<u>-</u>
VI- Total F: TOTAL NET WORTH = C + D – E	<u><u>33,171,151</u></u>

SCHEDULE 1
NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2008

	<u>KHR'000</u>		
I- Numerator (A)			
Net worth			33,171,151
II- Denominator (B)			
Assets (*)	KHR'000	Weighting	
- Cash	2,129,115	0%	-
- Gold	-	0%	-
- Claims on the NBC	1,040,945	0%	-
- Assets collateralized by deposits	-	0%	-
- Claims on sovereigns rated AAA to AA-	-	0%	-
- Claims on sovereigns rated A+ to A-	-	20%	-
- Claims on banks rated AAA to AA-	-	20%	-
- Claims on sovereigns rated BBB to BBB-	-	50%	-
- Claims on banks rated A+ to A-	-	50%	-
- All other assets	165,651,335	100%	165,651,335
- All off-balance sheet items	-	100%	-
	<u>168,821,395</u>		<u>165,651,335</u>
III- Solvency ratio (A/B)			<u><u>20.02%</u></u>

(*): The denominator of the ratio shall comprise the aggregate of the assets (net amount after deduction of provision and depreciation) and off-balance sheet items, weighted to their degree of risk. It excludes the items which are deducted in calculating the net worth according to the provisions of the Prakas on the calculation of microfinance institutions' net worth.

SCHEDULE 2
LIQUIDITY RATIO AS AT 31 DECEMBER 2008

	<u>KHR'000</u>	
1- Numerator: liquid assets		
- Cash on hand		2,129,115
- Balance with the Central Bank		1,040,945
- Balances with other banks		<u>7,185,690</u>
Sub-Total (A)		<u>10,355,750</u>
Less:		
- Amount owed to the Central Bank		-
- Amount owed to other banks		<u>-</u>
Sub-total (B)		<u>-</u>
Net liquidity (A – B)		10,355,750
Plus:		
- Portion of loans outstanding maturing in less than one month		<u>12,848,992</u>
Liquid assets (L)		<u>23,204,742</u>
2- Denominator: Adjusted amount of deposits (A)		
Category of deposits	KHR'000	%
- Voluntary savings	6,777,096	25%
		<u>1,694,274</u>
LIQUIDITY RATIO (L/A)		<u><u>1,369.60%</u></u>

SCHEDULE 3
NET OPEN POSITION IN FOREIGN CURRENCY AS AT 31 DECEMBER 2008

Currency	Assets KHR'000	Liabilities and capital KHR'000	Net open position (NOP) KHR'000	NOP/ Net worth %	Limit %
US\$	141,111,297	144,565,587	(3,454,290)	-10.41%	20%
KHR	28,013,480	24,559,190	3,454,290	10.41%	20%
Total	<u>169,124,777</u>	<u>169,124,777</u>	<u>-</u>		
Net worth			<u>33,171,151</u>		

SCHEDULE 4
RESERVE REQUIRMENT AS AT 31 DECEMBER 2008

	<u>KHR'000</u>
1- Voluntary	
1-1 Demand	-
1-2 Saving (5%-8% per annum)	4,810,528
1-3 Term	1,966,569
1-4 Other	-
	<u> </u>
1-5 Total reservable deposits	<u>6,777,097</u>
2- Compulsory	
2-1 Program (12% per annum)	-
2-2 Program	792,285
2-3 Program	-
	<u> </u>
2-4 Total compulsory savings	<u>792,285</u>
3- Total savings mobilised	<u>7,569,382</u>
5% Reservable deposits	<u><u>338,855</u></u>

SCHEDULE 5
LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO
AS AT 31 DECEMBER 2008

Loan classification	Amount KHR'000	Rate %	Specific Provision KHR'000
1-Loans of one year or less			
1-1 Standard	43,577,555	0%	-
1-2 Substandard past due ≥ 30 days	33,627	10%	3,359
1-3 Doubtful past due ≥ 60 days	4,608	30%	1,379
1-4 Loss past due ≥ 90 days	39,316	100%	39,308
Sub-total 1	<u>43,655,106</u>		<u>44,046</u>
2-Loans of more than one year			
2-1 Standard	109,589,166	0%	-
2-2 Substandard past due ≥ 30 days	137,795	10%	13,773
2-3 Doubtful past due ≥ 180 days	46,466	30%	13,933
2-4 Loss past due ≥ 360 days	-	100%	-
Sub-total 2	<u>109,773,427</u>		<u>27,706</u>
Grand total 1+2	<u><u>153,428,533</u></u>		<u><u>71,752</u></u>
All loans past due > 30 days (A)			261,811
Loans outstanding (B)			<u>153,428,533</u>
Delinquency ratio (A/B)			<u><u>0.17%</u></u>