

HATTHA KAKSEKAR LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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HATTHA KAKSEKAR LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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*** This Appendix does not form part of the financial statements**

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Hattha Kaksekar Limited (“HKL or the Company”) presents its report together with the audited financial statements of HKL for the year ended 31 December 2005.

HATTHA KAKSEKAR LIMITED

Hattha Kaksekar, a non-governmental organisation (“NGO”) established in November 1996, has created HKL in order to comply with Prakas No. B700-06 dated 11 January 2000, a regulation issued by the National Bank of Cambodia (“Central Bank”) on licensing of micro-finance institutions. The creation of HKL converted the NGO’s micro-lending operations into a licensed and commercially oriented micro-finance institution (“the MFI”). HKL aims to carry out the NGO’s micro-finance activities and conduct banking operations as defined in the Law on Banking and Financial Institution. This conversion was achieved by transferring and assigning all the assets and liabilities of the NGO as at 27 April 2001, the effective date of transfer, to HKL including all grant contracts and the outstanding receivables arising from these contracts as at the date of transfer, conditions and obligations relating to a bank loan, all employment contracts, conditions, obligations and benefits, leases on premises or houses for office branches or headquarters, and all others related to micro-lending operations of the NGO. The transfer and assignment of all these were effected through an agreement to transfer assets and liabilities, and the subordinated loan agreement between the NGO and MFI, both dated 27 April 2001.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of credit and saving services.

HKL operates in six branches located in Pursat, Kampong Thom, Siem Reap and Banteay Meanchey provinces and Phnom Penh, with the primary source of revenue being interest income earned on providing loans to clients. It also provides savings accounts to its clients and the public in these provinces.

RESULTS AND DIVIDENDS

The net income for the year ended 31 December 2005, after taxation, amounted to US\$253,284 (2004: US\$113,237).

No dividends were paid or declared during this year.

EVENTS SINCE THE BALANCE SHEET DATE

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

THE BOARD OF DIRECTORS (“BOD”)

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

Ms. Alka Couet, chairperson
Mr. Hout leng Tong;
Ms. Im Vandith;
Mr. Dy Davuth;
Mr. Srey Chanthly;
Mr. Leang Pichara; and
Mr. Hugo Jozet Couderé

No members held any controlling interest in the equity of the Company except for Mr. Dy Davuth who holds 84 shares of the Company, with par value of US\$30 each, representing 0.98%. No arrangements existed to which the Company is a party with the object of enabling the members to obtain an interest in the Company or in any body corporate. No member has a benefit, other than remuneration, by reason of a contract made by the Company or related party.

AUDITORS

The auditors, PricewaterhouseCoopers (Cambodia) Limited, have expressed their willingness to accept reappointment.

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

The BOD is responsible for ensuring that the financial statements are properly drawn up so as to give a true and fair view of the financial position of HKL as at 31 December 2005, and of the results of its operations and cash flows for the year then ended. In preparing these financial statements, the BOD 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 disclosure requirements of the Central Bank or, if there has been any departure in the interests of true and fair presentation, ensure this has 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 HKL will continue operations in the foreseeable future;
- v) set overall policies for HKL, ratify all decisions and actions by the BOD that have a material effect on the operations and performance of HKL, and ensure they have been properly reflected in the financial statements.

The BOD confirms that HKL has complied with these requirements in preparing the financial statements.

On behalf of the Board of Directors of Hattha Kaksekar Limited, we do hereby state that the accompanying financial statements, together with the notes thereto, present fairly, in all material respects, the financial position of Hattha Kaksekar Limited as at 31 December 2005 and the results of its operations and cash flows for the year then ended and have been properly drawn up in accordance with Cambodian Accounting Standards and guidelines issued by the Central Bank.

On behalf of the Board of Directors,

Hout Ieng Tong
General Manager

Phnom Penh, Kingdom of Cambodia
Date: pending

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF HATTHA KAKSEKAR LIMITED**

We have audited the accompanying balance sheet of Hattha Kaksekar Limited ("the Company") as of 31 December 2005, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

This report, including the opinion, has been prepared for and only for the shareholders of Hattha Kaksekar Limited and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, except where expressly agreed by our prior consent in writing.

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

In our opinion, the financial statements set out on page 5 to page 36 give a true and fair view, in all material respects, of the financial position of the Company as of 31 December 2005, and of the results of its operations and cash flows for the year then ended in accordance with Cambodian Accounting Standards and guidelines issued by the Central Bank.

We draw attention to Note 2 to the financial statements. Each balance of the financial statements was translated into Khmer Riel at the official rate of exchange as at the reporting date as regulated by the Central Bank, in accordance with Announcement No. B795-139-AN issued on 5 December 1995 by the Central Bank. The financial statements which were expressed in Khmer Riel do not form part of the audited financial statements and we therefore do not express an opinion on the financial statements expressed in Khmer Riel.

PRICEWATERHOUSECOOPERS (CAMBODIA) LIMITED
Phnom Penh, Kingdom of Cambodia
Date: pending

HATTHA KAKSEKAR LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2005**

	Notes	31 December 2005		31 December 2004	
		US\$	Riels' 000	US\$	Riels' 000
		(At year-end exchange rate)		(At year-end exchange rate)	
ASSETS					
Cash on hand	3	34,503	141,876	21,186	85,316
Deposits with the Central Bank	4	13,922	57,247	13,922	56,064
Balances with banks	5	292,273	1,201,827	492,081	1,981,610
Loans and advances to customers	7	3,577,782	14,711,840	2,237,619	9,010,892
Grants receivable	8	19,209	78,987	68,018	273,908
Other receivables		14,744	60,626	27,372	110,227
Accrued interest income		8,846	36,375	15,747	63,413
Property and equipment	9	154,635	635,859	86,276	347,433
Total Assets		<u>4,115,914</u>	<u>16,924,637</u>	<u>2,962,221</u>	<u>11,928,863</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
Borrowings	10	2,116,733	8,704,006	1,360,914	5,480,401
Subordinated debts	11	777,641	3,197,660	777,641	3,131,560
Customers' deposits	12	170,323	700,368	97,427	392,339
Deferred grant income	13	71,537	294,160	64,968	261,626
Accruals and other liabilities	14	221,998	912,856	163,181	657,128
Deferred tax liabilities	15	6,308	25,938	-	-
Total Liabilities		<u>3,364,540</u>	<u>13,834,988</u>	<u>2,464,131</u>	<u>9,923,054</u>
SHAREHOLDERS' EQUITY					
Share capital	16	257,850	1,060,279	257,850	1,038,362
Legal reserve		9,691	39,849	4,030	16,229
Retained earnings		483,833	1,989,521	236,210	951,218
Total Shareholders' Equity		<u>751,374</u>	<u>3,089,649</u>	<u>498,090</u>	<u>2,005,809</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>4,115,914</u>	<u>16,924,637</u>	<u>2,962,221</u>	<u>11,928,863</u>

The accompanying notes from pages 9 to 36 are an integral part of these financial statements.

HATTHA KAKASEKAR LIMITED

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Share capital US\$	Legal Reserve US\$	Retained earnings US\$	Total US\$	Total Riels' 000 (At year-end exchange rate)
2004					
As at 1 January 2004	257,850	2,110	124,892	384,852	1,530,172
Net income for the year	-	-	113,237	113,238	456,009
Legal reserve	-	1,920	(1,920)	-	-
Currency revaluation at balance sheet date	-	-	-	-	19,628
2005					
As at 1 January 2005	257,850	4,030	236,209	498,090	2,005,809
Net income for the year	-	-	253,284	253,284	1,041,504
Legal reserve	-	5,661	(5,661)	-	-
Currency revaluation at balance sheet date	-	-	-	-	42,336
As at 31 December 2005	<u>257,850</u>	<u>9,691</u>	<u>483,832</u>	<u>751,374</u>	<u>3,089,649</u>

The accompanying notes from pages 9 to 36 are an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Notes	31 December 2005		31 December 2004	
		US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Interest income	17	963,357	3,961,324	589,847	2,375,314
Interest expense	18	<u>151,265</u>	<u>622,002</u>	<u>48,483</u>	<u>195,241</u>
Net interest income		812,092	3,339,322	541,364	2,180,073
Grant income	19	70,545	290,081	34,234	137,860
Other income		<u>77,128</u>	<u>317,150</u>	<u>74,348</u>	<u>299,399</u>
Net operating income		959,765	3,946,553	649,946	2,617,332
Operating expenses					
Salaries and staff benefits	20	325,371	1,337,926	266,983	1,075,141
General and administrative expenses	21	208,493	857,323	155,153	624,801
Grant related expenses	22	46,434	190,937	34,234	137,860
Depreciation	9	<u>40,668</u>	<u>167,227</u>	<u>32,592</u>	<u>131,248</u>
Total operating expenses		620,966	2,553,413	488,962	1,969,050
Provision for doubtful loans	7	<u>21,397</u>	<u>87,984</u>	<u>413</u>	<u>1,663</u>
Total expenses		<u>642,363</u>	<u>2,641,397</u>	<u>489,375</u>	<u>1,970,713</u>
Income before income tax		317,402	1,305,156	160,571	646,619
Income tax expense	23	<u>64,118</u>	<u>263,653</u>	<u>47,334</u>	<u>190,614</u>
NET INCOME FOR THE YEAR		<u>253,284</u>	<u>1,041,503</u>	<u>113,237</u>	<u>456,005</u>

The accompanying notes from pages 9 to 36 are an integral part of these financial statements.

HATTHA KAKASEKAR LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Notes	31 December 2005		31 December 2004	
		US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Operating activities					
Net profit before tax		317,402	1,305,157	160,571	646,619
Adjustments for:					
Provision for doubtful loans	7	21,397	87,984	413	1,663
Depreciation of property and equipment	9	40,668	167,227	32,592	131,248
Gain disposal of property and equipment		(2,349)	(9,659)	(644)	(2,593)
Cash flows from operating profits before changes in operating assets and liabilities		377,118	1,550,709	192,932	776,937
Changes in operating assets and liabilities:					
Loans and advances to customers		(1,361,560)	(5,598,735)	(1,037,130)	(4,176,523)
Grants receivable		48,809	200,703	43,975	177,087
Other receivable		12,628	51,926	(16,430)	(66,164)
Accrued interest income		6,901	28,377	27,410	110,380
Customer's deposits		72,896	299,748	35,001	140,949
Deferred grant income		6,569	27,012	(47,025)	(189,370)
Accruals and other liabilities		4,679	19,240	10,010	40,310
Deferred tax liability		6,308	25,938	-	-
Tax paid		(9,980)	(41,038)	(11,819)	(47,595)
Net cash outflow from operating activities		(835,632)	(3,436,120)	(803,076)	(3,233,989)
Investing activity					
Purchases of property and equipment	9	(117,930)	(484,928)	(37,609)	(151,451)
Proceeds from disposal of property and equipment		11,252	46,268	11,570	46,592
Net cash outflow from investing activities		(106,678)	(438,660)	(26,039)	(104,859)
Financing activities					
Proceeds from borrowings		1,449,999	5,962,396	1,340,080	5,396,502
Repayments of borrowings		(694,180)	(2,854,468)	(79,166)	(318,801)
Net cash inflow from operating activities		755,819	3,107,928	1,260,914	5,077,701
Net (decrease)/increase in cash and cash equivalents		(186,491)	(766,852)	431,799	1,738,853
Cash and cash equivalents as at beginning of the year		513,442	2,067,631	81,643	324,612
Currency revaluation at balance sheet date		-	43,644	-	4,166
Cash and cash equivalents as at end of the year	6	326,951	1,344,423	513,442	2,067,631

The accompanying notes from pages 9 to 36 are an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. GENERAL

Hattha Kaksekar, a non-governmental organisation (“NGO”) established in November 1996, has created Hattha Kaksekar Limited (“HKL or the Company”) in order to comply with Prakas No. B700-06 dated 11 January 2000, a regulation issued by the Central Bank on licensing of micro-finance institutions. The creation of HKL converted the NGO’s micro-lending operations into a licensed and commercially oriented micro-finance institution (the “MFI”). HKL aims to carry out the NGO’s micro-finance activities and conduct banking operations as defined in the Law on Banking and Financial Institution. This conversion was achieved by transferring and assigning all the assets and liabilities of the NGO as at 27 April 2001, the effective date of transfer, to HKL including all grant contracts and the outstanding receivables arising from these contracts as at the date of transfer, conditions and obligations relating to a bank loan, all employment contracts, conditions, obligations and benefits, leases on premises or houses for office branches or headquarters, and all others related to micro-lending operations of the NGO. The transfer and assignment of all these were effected through an agreement to transfer assets and liabilities, and the subordinated loan agreement between the NGO and the MFI, both dated 27 April 2001.

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

HKL’s head office is at House No. 39, Street 432, Sangkat Boeung Trabek Khan Cham Karmon, Phnom Penh, Kingdom of Cambodia, and it operates in six branches located in Pursat, Kampong Thom, Siem Reap, Banteay Meanchey provinces and Phnom Penh. The primary source of revenue is derived from interest income earned on providing loans. It also provides saving accounts to its clients and the public.

As at 31 December 2005, the Company employed 141 employees (2004: 113 employees).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

The financial statements of the Company, which are expressed in United States Dollars ("US\$"), are prepared under the historical cost convention and drawn up in accordance with Cambodian Accounting Standards ("CAS"). The Company maintains its accounting records in US\$, the functional and widely accepted currency in Cambodia. Certain comparative figures have been reclassified to agree with the current year's presentation.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position and results of operations and cash flows in accordance with jurisdictions other than Cambodia. Consequently, these financial statements are only addressed to those who are informed about CAS.

For the sole purpose of complying with Announcement No. B795-139-AN dated 5 December 1995 of the Central Bank, each account of the financial statements has to be converted into Khmer Riel ("Riel") at the official rate of exchange regulated by the Central Bank as at reporting date. The financial statements expressed in Riel do not form part of the audited financial statements and are not for use of other parties other than the Central Bank. As at 31 December 2005, such conversion was made at the rate of US\$1 to Riels 4,112 (2004: US\$1 to Riels 4,027).

The Company's last financial statements under the Generally Accepted Accounting Principles ("GAAP") were for the year ended 31 December 2004. The change to Cambodian Accounting Standards is to follow the Cambodian regulations. As a result of the change, an adjustment has been made as follows:

	GAAP US\$	Effect of transition to CAS US\$	CAS US\$
SHAREHOLDERS' EQUITY			
Revolving fund subsidy	10,755	(10,755)	-
Retained earnings	225,455	10,755	236,210
	<u>236,210</u>	<u>-</u>	<u>236,210</u>

The revolving fund subsidy was adjusted to retained earning. As a result, the revolving fund balance reduced by US\$10,755 and retained earning was increased by the same amount.

Basis of aggregation

The financial statements include the financial statements of the Head Office and six branches located in Pursat, Kampong Thom, Siem Reap, Banteay Meanchey provinces and Phnom Penh. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances to customers

Loans are stated net of 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 loan portfolio, previous loss experience, current economic conditions and their effect on clients, the financial condition of individual clients, and the performance of individual loans in relation to contract terms. The provision for doubtful loans charged to expense is based on management's judgment of the amount necessary to maintain the provision balance at a level adequate to absorb losses.

The Company provides monthly provision for loan losses based on percentages in the table below to comply with the requirement of the Central Bank Prakas No. B-7-02-186 on classification and provisioning for bad and doubtful debts, including interest in suspense. An additional provision is made in the financial statements in order that the provision is maintained at an adequate level.

Loan status/classification	Percentages applied (%)
<i>Loan of one year or less</i>	
Standard	0
Sub standard loans (where repayments are more than 30 days overdue)	10
Doubtful loans (where repayments are more than 60 days overdue)	30
Loss (where repayments are more than 90 days overdue)	100
<i>Loan of more than one year</i>	
Standard	0
Sub standard loans (where repayments are more than 30 days overdue)	10
Doubtful loans (where repayments are more than 180 days overdue)	30
Loss (where repayments are more than 360 days overdue)	100

Loan losses (write-offs) are charged against the provision for doubtful loans when management believes that the principal amounts are unlikely to be collected.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

Deferred income taxes are calculated using a principal tax rate of 20%.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income and expense recognition

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

Expenses are recognised on an accruals basis.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged at rates calculated to write off the property and equipment on a straight-line basis over their estimated useful lives as follows:

	<i>Estimated useful lives</i>
Communication and transportation equipment	6 years
Furniture and fixtures	8 years
Office equipment	4 years

Expenditure for maintenance and repairs that do not extend the useful lives of assets are charged to the income statement. Gains or losses on sale of property, plant and equipment are recognised upon disposal of such assets.

When assets are sold, their cost and accumulated depreciation are removed from the accounts and any gain or loss resulting from their disposal is included in the income statement. Gains or losses arising from the disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of disposal.

Grants

The portion of the grants to be collected and earned subsequent to balance sheet date are shown as *Grants receivable* and *Deferred grant income*, respectively.

Grant is recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

Foreign currency translation

The financial statements are expressed in US\$. Assets and liabilities denominated in currencies other than US\$ are converted into US\$ at the rate of exchange ruling at the balance sheet date. Transactions in currencies other than US\$ are converted into US\$ at the respective rates of exchange prevailing on the transaction dates. Any resulting gains or losses are taken to the income statement.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents include cash on hand, current account with the Central Bank and balances with banks with less than 90 days' maturity from the date of acquisition.

Legal reserve

The legal reserve is calculated based on 5% of net profit for the year, at a maximum of 10% of the registered capital of the Company.

Related parties

Related parties are those individuals and companies where 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.

3. CASH ON HAND

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Sampov Meas	3,903	16,049	1,034	4,163
Steoung Sen (Kampong Thom)	2,894	11,900	3,241	13,051
Head Office	14,364	59,065	1,883	7,583
Phnom Penh	2,499	10,276	-	-
Banteay Meanchey	5,727	23,549	10,100	40,673
Stung (Kampong Thom)	4,015	16,510	1,834	7,386
Siem Reap	1,101	4,527	3,094	12,460
	<u>34,503</u>	<u>141,876</u>	<u>21,186</u>	<u>85,316</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

4. DEPOSITS WITH THE CENTRAL BANK

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Capital guarantee deposit	12,900	53,045	12,900	51,948
Reserve requirement for savings deposits	847	3,482	847	3,411
Current account	175	720	175	705
	<u>13,922</u>	<u>57,247</u>	<u>13,922</u>	<u>56,064</u>

Following the Central Bank's Prakas No B700-006 on the "Licensing of Micro-finance Institution", each licensed MFI shall maintain an amount equal to 5% of its registered capital in a non-interest earning permanent account with the Central Bank.

5. BALANCES WITH BANKS

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Savings accounts				
Canadia Bank	26,575	109,276	11,033	44,430
Cambodian Public Bank Limited ("CPBL")	129,594	532,891	349,182	1,406,156
Acleda Bank	135,827	558,521	38,806	156,272
Current account				
CPBL	4	16	92,901	374,112
Rural Development Bank ("RDB")	273	1,123	159	640
	<u>292,273</u>	<u>1,201,827</u>	<u>492,081</u>	<u>1,981,610</u>

Savings accounts earn interest at rates ranging from 0.50% to 1.5% whereas the current account does not earn interest.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported in the cash flow statement comprise the following:

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Cash on hand	34,503	141,876	21,186	85,316
Current account with the Central Bank	175	720	175	705
Balances with banks	<u>292,273</u>	<u>1,201,827</u>	<u>492,081</u>	<u>1,981,610</u>
	<u>326,951</u>	<u>1,344,423</u>	<u>513,442</u>	<u>2,067,631</u>

7. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis by branches

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Banteay Meanchey	834,310	3,430,683	676,725	2,725,172
Siem Reap	888,710	3,654,376	528,439	2,128,024
Sampov Meas, Pursat	598,951	2,462,887	471,744	1,899,713
Stung, Kampong Thom	550,644	2,264,248	357,750	1,440,659
Steoung Sen, Kampong Thom	472,842	1,944,325	337,024	1,357,196
Phnom Penh	308,072	1,266,792	-	-
Head office	<u>17,596</u>	<u>72,355</u>	<u>612</u>	<u>2,464</u>
	3,671,125	15,095,666	2,372,294	9,553,228
Provision for doubtful loans	<u>(93,343)</u>	<u>(383,826)</u>	<u>(134,675)</u>	<u>(542,336)</u>
Loans receivable	<u>3,577,782</u>	<u>14,711,840</u>	<u>2,237,619</u>	<u>9,010,892</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

b) Analysis by performing and non-performing loans

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Standard loans				
-unsecured	3,624,894	14,905,564	2,323,252	9,355,736
Substandard loans				
-unsecured	19,132	78,671	11,694	47,092
Doubtful loans				
-unsecured	10,321	42,440	3,710	14,940
Losses				
-unsecured	16,778	68,991	33,638	135,460
	<u>3,671,125</u>	<u>15,095,666</u>	<u>2,372,294</u>	<u>9,553,228</u>

c) Analysis by industries

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Agriculture	1,110,849	4,567,811	403,290	1,624,049
Trade and commerce	1,434,212	5,897,481	1,186,146	4,776,610
Service	361,405	1,486,097	521,905	2,101,711
Transportation	209,234	860,370	94,892	382,130
Construction	57,065	234,651	94,892	382,130
Household/family	216,843	891,658	-	-
Other categories	281,517	1,157,598	71,169	286,598
	<u>3,671,125</u>	<u>15,095,666</u>	<u>2,372,294</u>	<u>9,553,228</u>

d) Analysis by relationship

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Non-related parties	3,653,529	15,023,311	2,368,786	9,539,101
Loans to management and staff	<u>17,596</u>	<u>72,355</u>	<u>3,508</u>	<u>14,127</u>
	<u>3,671,125</u>	<u>15,095,666</u>	<u>2,372,294</u>	<u>9,553,228</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

e) Analysis by type of customers

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Individual	3,671,125	15,095,666	2,372,294	9,553,228
	<u>3,671,125</u>	<u>15,095,666</u>	<u>2,372,294</u>	<u>9,553,228</u>

f) Analysis by currency

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
In US\$	3,328,282	13,685,896	2,192,329	8,828,509
In Thai Baht ("THB")	216,150	888,809	173,223	697,569
In Khmer Riels	126,693	520,961	6,742	27,150
	<u>3,671,125</u>	<u>15,095,666</u>	<u>2,372,294</u>	<u>9,553,228</u>

g) Analysis by maturity

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Maturity within one year	2,936,900	12,076,533	1,897,836	7,642,586
Over one year but within three years	734,225	3,019,133	474,458	1,910,642
Over three years but within five years	-	-	-	-
Over five years	-	-	-	-
	<u>3,671,125</u>	<u>15,095,666</u>	<u>2,372,294</u>	<u>9,553,228</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

h) Provision for bad and doubtful loans

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Specific provision in accordance with Central Bank	21,788	89,592	35,921	144,654
General provision	71,555	294,234	98,754	397,682
	<u>93,343</u>	<u>383,826</u>	<u>134,675</u>	<u>542,336</u>

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

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Opening balance	134,675	553,784	176,248	709,751
Provision for the year	21,397	87,984	413	1,663
Write-offs	(62,729)	(257,942)	(41,986)	(169,078)
Closing balance	<u>93,343</u>	<u>383,826</u>	<u>134,675</u>	<u>542,336</u>

The details of interest rates in the year 2005 are as follows:

	US\$ Loan	THB Loan	Monthly interest Riel Loan	Loan Term in Months
Agricultural loans				
Amount up to:				
- US\$500	4%	4%	4%	3 – 10
Other loans				
Amounts up to:				
- US\$250	3%	4%	4%	3 – 10
- US\$1,000	3%	4%	3.5%	3 – 10
- US\$2,500	2.5%	3.5%	-	3 – 18
Amount over:				
- US\$2,500	2%	3%	-	3 – 24

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

The details of interest rates in the year 2004 are as follows:

	Monthly interest			Loan Term in Months
	US\$ Loan	THB Loan	Riel Loan	
Agricultural loans				
Amount up to:				
- US\$500	4%	4%	4%	3 – 10
Other loans				
Amounts up to:				
- US\$250	3%	4%	4%	3 – 10
- US\$1,000	3%	4%	3.5%	3 – 10
- US\$2,500	2.5%	3.5%	-	3 – 18
Amount over:				
- US\$2,500	2%	3%	-	3 – 24

8. GRANTS RECEIVABLE

The details of grants receivable are as follows:

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Ministry of Economy and Finance - Agence Francaise de Development (AFD) – Technical assistance	<u>19,209</u>	<u>78,987</u>	<u>68,018</u>	<u>273,908</u>
	<u>19,209</u>	<u>78,987</u>	<u>68,018</u>	<u>273,908</u>

AFD's grant for technical assistance consists of:

1. remuneration for a technical advisor for a period of three years to look after the Company's operation and strategy,
2. staff capacity building, local and overseas training, and
3. installation of management information systems.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

9. PROPERTY AND EQUIPMENT

	Transportation equipment US\$	Office equipment US\$	Communication equipment US\$	Furniture & fixture US\$	Total US\$
As at 1 January 2004					
Cost	89,702	53,476	15,938	17,712	176,828
Accumulative depreciation	(33,829)	(31,647)	(10,619)	(8,548)	(84,643)
Net book value	55,873	21,829	5,319	9,164	92,185
Year ended 31 December 2004					
Opening net book value	55,873	21,829	5,319	9,164	92,185
Additions	7,582	19,024	6,091	4,912	37,609
Disposals – net	(2,267)	(4,913)	(3,464)	(282)	(10,926)
Depreciation charge	(14,433)	(12,825)	(2,539)	(2,795)	(32,592)
Closing net book value	46,755	23,115	5,407	10,999	86,276
Equivalent to Riels' 000	188,282	93,084	21,774	44,293	347,433
As at 1 January 2005					
Cost	89,831	58,942	19,298	22,165	190,236
Accumulative depreciation	(43,076)	(35,827)	(13,891)	(11,166)	(103,960)
Net book value	46,755	23,115	5,407	10,999	86,276
Equivalent to Riels' 000	188,282	93,084	21,774	44,293	347,433
Year ended 31 December 2005					
Opening net book value	46,755	23,115	5,407	10,999	86,276
Additions	66,693	41,667	4,542	5,028	117,930
Disposals – net	(4,392)	(3,867)	(327)	(317)	(8,903)
Depreciation charge	(19,115)	(16,075)	(2,523)	(2,955)	(40,668)
Closing net book value	89,941	44,840	7,099	12,755	154,635
Equivalent to Riels' 000	369,837	184,382	29,191	52,449	635,859
As at 31 December 2005					
Cost	148,977	96,336	23,423	27,168	295,904
Accumulative depreciation	(59,036)	(51,496)	(16,324)	(14,413)	(141,269)
Net book value	89,941	44,840	7,099	12,755	154,635
Equivalent to Riels' 000	369,837	184,382	29,191	52,449	635,859

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

10. BORROWINGS

	Notes	31 December 2005		31 December 2004	
		US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Rural Development Bank (ADB-funded)	<i>i</i>	800,000	3,289,600	430,000	1,731,610
CORDAID	<i>ii</i>	286,733	1,179,046	230,914	929,891
Alterfine	<i>iii</i>	450,000	1,850,400	350,000	1,409,450
Microfinance Alliance Fund ("MAF")	<i>iv</i>	250,000	1,028,000	250,000	1,006,750
Solidarité Internationale Développement et Investissement ("SIDI")	<i>v</i>	200,000	822,400	100,000	402,700
OIKOS	<i>vi</i>	130,000	534,560	-	-
		<u>2,116,733</u>	<u>8,704,006</u>	<u>1,360,914</u>	<u>5,480,401</u>

i) Rural Development Bank ("RDB")

Credit limit in original currency	Effective interest rate		Repayment terms
	2005	2004	
US\$100,000	6.64% per annum	-	This loan will be paid in full on 20 February 2006.
US\$100,000	6.64% per annum	-	This loan will be paid in full on 15 March 2006.
US\$100,000	6.64% per annum	-	This loan will be paid in full on 7 April 2006.
US\$200,000	6.64% per annum	-	This loan will be paid in full on 25 April 2006.
US\$100,000	6.64% per annum	-	This loan will be paid in full on 22 November 2008.
US\$200,000	8.60% per annum	-	This loan will be paid in full on 21 November 2008.

This loan is unsecured.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

10. BORROWING (continued)

ii) CORDAID

Credit limit in original currency	Effective interest rate		Repayment terms
	2005	2004	
US\$166,733	6% per annum	6% per annum	The principal and interest repayments will be in six semi-annual equal instalments, the first repayment of each disbursement is to be made 12 months after the first disbursement under this loan agreement and thereafter every six months.
US\$120,000	6% per annum	-	The principal and interest repayments will be in six semi-annual equal instalments, the first repayment of each disbursement is to be made 12 months after the first disbursement under this loan agreement and thereafter every six months.

This loan is unsecured.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

10. BORROWING (continued)

iii) Alterfine

Credit limit in original currency	Effective interest rate		Repayment terms
	2005	2004	
US\$250,000	7.45% per annum for the first year 4.45%+12 months LIBOR for the second and third year	7.45% per annum for the first year 4.45%+12 months LIBOR for the second and third year	The loan is given for a period of three years, with two years' grace period on repayment of the loan. The repayment of the loan is to be done in three instalments starting at the end of the second year and continuing every six months.
US\$100,000	7.45% per annum	7.45% per annum	The loan is given for a period of six months. The repayment of loan and interest is to be made in full at the end of the loan period on 25 June 2007.
US\$100,000	8.40% per annum	-	Repayment of principal and interest will be made in full on 26 January 2006.

This loan is unsecured.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

10. BORROWING (continued)

iv) Microfinance Alliance Fund (“MAF”)

Credit limit in original currency	Effective interest rate		Repayment terms
	2005	2004	
US\$125,000 equivalent to Thai Baht 4,954,291	11.63% per annum	11.63% per annum	The loan is given for a period of three years, with one year's grace period on repayment of principal. Repayment of principal and interest will be made in four semi-annual instalments starting from 7 March 2006 amounting to Thai Baht 1,238,573.
US\$125,000 equivalent to Riels 503,375,000	11.63% per annum	11.63% per annum	The loan is given for a period of three years, with one year's grace period on repayment of principal. Repayment of principal and interest will be made in four semi-annual instalments starting from 1 June 2006 amounting to Riels 125,641,917.

This loan is unsecured.

v) Solidarité Internationale Développement et Investissement (“SIDI”)

Credit limit in original currency	Effective interest rate		Repayment terms
	2005	2004	
US\$100,000	-	7% per annum	Repayment of principal and interest will be made in five equal semi-annual instalments starting from 31 December 2006 amounting to US\$20,000.
US\$100,000	8% per annum	-	Repayment of principal and interest will be made in full on 31 January 2006.

This loan is unsecured.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

10. BORROWING (continued)

vi) OIKOS

Credit limit in original currency	Effective interest rate		Repayment terms
	2005	2004	
US\$130,000	6% per annum	-	The loan is given for a period of five years, with five years' grace period on repayment of principal. Repayment of principal and interest will be paid in five equal annual instalments starting from 30 March 2011.

This loan is unsecured.

11. SUBORDINATED DEBTS

	Notes	31 December 2005		31 December 2004	
		US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Hattha Kaksekar, NGO	a	464,065	1,908,235	464,065	1,868,790
MoEF - AFD	b	313,576	1,289,425	313,576	1,262,770
		<u>777,641</u>	<u>3,197,660</u>	<u>777,641</u>	<u>3,131,560</u>

a) Hattha Kaksekar (HK) NGO has made the above loan to HKL, following the transfer and assignment of all micro-finance related assets, liabilities and operations of the NGO to the MFI as discussed in note 1. Among the terms and conditions of the subordinated loan agreement dated 27 April 2001 between the NGO and HKL are the following:

- i) The subordinated debt will not be repayable to HK NGO unless HKL ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the loan;
- ii) The loan is a non-distributable fund; and
- iii) Being a public grant, it will be considered as "Tier II Capital" in the context of Article 15 of Prakas No. B700-006 issued by the Central Bank, and shall be included in computing HKL's capital adequacy ratio.

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

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

11. SUBORDINATED DEBTS (continued)

b) HKL also accepts liability for repaying the total value of the loan to the MoEF of the Royal Government of Cambodia ("RGC") under the terms and conditions of the subordinated loan agreement dated 27 December 2000, most notably, that the debt will not be repayable to the RGC unless the MFI ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the loan. HKL shall pay to RGC, through the RDB, annual interest of 0.5%.

12. CUSTOMERS' DEPOSITS

The details of deposits of members are as follows:

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
<i>By location</i>				
Sampov Meas, Pursat	29,913	123,002	22,402	90,213
Siem Reap	28,325	116,472	17,228	69,377
Banteay Meanchey	43,105	177,248	26,152	105,314
Stung, Kampong Thom	15,344	63,095	12,604	50,756
Steoung Sen, Kampong Thom	26,094	107,299	16,050	64,633
Head office	23,661	97,293	2,991	12,046
Phnom Penh	3,881	15,959	-	-
	<u>170,323</u>	<u>700,368</u>	<u>97,427</u>	<u>392,339</u>

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
<i>By currency</i>				
Compulsory savings				
In US\$	131,258	539,733	84,844	341,667
In Thai Baht	12,231	50,294	9,211	37,093
In Riels	1,298	5,337	8	32
Voluntary savings				
In US\$	25,536	105,004	3,364	13,547
In Riels	-	-	-	-
	<u>170,323</u>	<u>700,368</u>	<u>97,427</u>	<u>392,339</u>

No interest is provided for compulsory deposits. Voluntary deposits bear interest at the following rates:

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

12. CUSTOMERS' DEPOSITS (continued)

<u>US\$</u>	Interest rate per annum %	<u>Riels</u>	Interest rate per annum %
1.00 – 5.00	0	4,000 – 20,000	0
6.00 – 30.00	1	20,100 – 100,000	3
31.00 – 150.00	3	100,100 – 600,000	5
More than 150.00	4	More than 600,000	7

13. DEFERRED GRANT INCOME

Deferred grant income is as follows:

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
	(At year-end exchange rate)		(At year-end exchange rate)	
AFD	21,489	88,363	64,968	261,626
Save the Children US	42,620	175,253	-	-
MAF	7,428	30,544	-	-
	<u>71,537</u>	<u>294,160</u>	<u>64,968</u>	<u>261,626</u>

14. ACCRUALS AND OTHER LIABILITIES

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
	(At year-end exchange rate)		(At year-end exchange rate)	
13th month bonus	30,729	126,358	37,092	149,369
Separation benefit	38,942	160,130	34,765	139,999
Interest payable	54,139	222,620	27,885	112,293
Other liabilities	30,771	126,529	25,902	104,306
Income tax payable	67,417	277,219	37,537	151,161
	<u>221,998</u>	<u>912,856</u>	<u>163,181</u>	<u>657,128</u>

Separation benefit represents funds allocated for staff amounting to one month salary if they work for two to less than four years, 2 month salary if they work for four to less than 6 years and 3 months salary if they work for more than 6 years.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

15. DEFERRED TAX LIABILITIES

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
	(At year-end exchange rate)		(At year-end exchange rate)	
As at 1 January	-	-	-	-
<i>Charges to the income statement</i>				
Property and equipment depreciation	4,252	17,485	-	-
Provision for employee benefits	2,056	8,454	-	-
As at 1 January	<u>6,308</u>	<u>25,939</u>	-	-

16. SHARE CAPITAL

The details of authorised, issued and fully paid share capital of the Company are as follows:

<i>Shareholders</i>	<i>% of ownership</i>	<i>Number of shares</i>	<i>Price per Share US\$</i>	<i>Total US\$</i>	<i>Total Riels' 000</i>
Hattha Kaksekar, NGO	49.85%	4,285	30	128,550	511,115
SIDI	19.95%	1,715	30	51,450	204,565
Cordaid	19.40%	1,667	30	50,010	198,840
Staff association	9.82%	844	30	25,320	100,672
Mr. Dy Davuth (BoD member)	0.98%	84	30	2,520	10,020
	<u>100%</u>	<u>8,595</u>	<u>30</u>	<u>257,850</u>	<u>1,025,212</u>

In a BoD meeting on 19 March 2004, Mr. Jean Thiboutot agreed to transfer all his 84 shares to Mr. Dy Davuth.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

17. INTEREST INCOME

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
	(At year-end exchange rate)		(At year-end exchange rate)	
Loans and advances to customers	962,057	3,955,978	589,411	2,373,558
Interest income on bank deposits	<u>1,300</u>	<u>5,346</u>	<u>436</u>	<u>1,756</u>
	<u>963,357</u>	<u>3,961,324</u>	<u>589,847</u>	<u>2,375,314</u>

18. INTEREST EXPENSE

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
	(At year-end Exchange rate)		(At year-end exchange rate)	
Borrowings	133,254	547,940	41,026	165,212
Customers' deposits	537	2,208	113	455
Others	<u>17,474</u>	<u>71,854</u>	<u>7,344</u>	<u>29,574</u>
	<u>151,265</u>	<u>622,002</u>	<u>48,483</u>	<u>195,241</u>

19. GRANT INCOME

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
	(At year-end exchange rate)		(At year-end exchange rate)	
AFD	59,973	246,609	34,234	137,860
Department of fishery	5,000	20,560	-	-
MAF	<u>5,572</u>	<u>22,912</u>	<u>-</u>	<u>-</u>
	<u>70,545</u>	<u>290,081</u>	<u>34,234</u>	<u>137,860</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

20. SALARIES AND STAFF BENEFITS

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
		(At year-end exchange rate)		(At year-end exchange rate)
Salaries and wages	269,964	1,110,092	218,940	881,672
Staff benefits	48,738	200,411	38,675	155,744
Training costs	3,161	12,998	5,610	22,592
BoD meeting expenses	3,508	14,425	3,758	15,133
	<u>325,371</u>	<u>1,337,926</u>	<u>266,983</u>	<u>1,075,141</u>

21. GENERAL AND ADMINISTRATIVE EXPENSE

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
		(At year-end exchange rate)		(At year-end exchange rate)
Rental	39,099	160,775	32,010	128,904
Consultant and professional fees	14,258	58,629	12,043	48,497
Office supplies	16,724	68,769	12,957	52,178
Fuel costs	20,463	84,144	13,354	53,777
Communication	17,595	72,351	14,723	59,290
Perdiem and allowance	10,711	44,044	18,969	76,388
Utilities	10,205	41,963	7,705	31,028
Transportation	2,658	10,930	572	2,303
Promotion and advertising	8,572	35,248	4,172	16,801
Repairs and maintenance	4,458	18,331	3,217	12,955
Public relationship	3,189	13,113	5,816	23,421
Accrued interest receivable written off	-	-	39	157
Insurance	5,365	22,061	4,499	18,117
Security	6,131	25,211	3,143	12,657
Others	49,065	201,754	21,934	88,328
	<u>208,493</u>	<u>857,323</u>	<u>155,153</u>	<u>624,801</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

22. GRANT RELATED EXPENSES

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Technical assistance	20,728	85,234	19,287	77,669
Training costs	<u>25,706</u>	<u>105,703</u>	<u>14,947</u>	<u>60,191</u>
	<u>46,434</u>	<u>190,937</u>	<u>34,234</u>	<u>137,860</u>

23. TAXATION

(a) Income tax expense

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Current tax	57,810	237,715	41,849	168,526
Deferred tax	6,308	25,938	-	-
Prior year taxation	<u>-</u>	<u>-</u>	<u>5,485</u>	<u>22,088</u>
	<u>64,118</u>	<u>263,653</u>	<u>47,334</u>	<u>190,614</u>

The Company must pay Tax on Profit at 20% of taxable profit.

(b) Reconciliation between income tax expense and accounting profit

	2005 US\$	2004 US\$
Accounting profit before income tax	317,402	160,571
Non-deductible expenses for tax purposes	<u>3,189</u>	<u>48,675</u>
Taxable income	<u>320,591</u>	<u>209,246</u>
Income tax calculated at the rate of 20%	<u>64,118</u>	<u>41,849</u>
Prepayment of tax on profit	<u>9,689</u>	<u>6,317</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

23. TAXATION (continued)

Prepayment of tax on profit

The Company is subject to a Prepayment of Tax on Profit at the rate of 1% of turnover inclusive of all taxes, to be paid on a monthly basis by the 15th day of the succeeding month. The Prepayment of Tax on Profit can be offset against the annual Tax on Profit liability.

Where the Company has made Prepayment of Tax on Profit that is greater than the Tax on Profit liability, the excess can be carried forward to offset against future Prepayment of Tax on Profit and Tax on Profit liabilities.

(c) Other tax matters

Income tax expense is calculated on the basis of the current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of the income tax expense will be made following inspection by the tax authorities. The Company has not been audited by the Tax Department of the Ministry of Economy and Finance.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

24. CURRENCY ANALYSIS

An analysis of HKL's assets and liabilities by currency is as follows:

	US\$	THB	Riels	Total
31 December 2005				
ASSETS				
Cash on hand	30,066	2,294	2,143	34,503
Deposits with the Central Bank	13,922	-	-	13,922
Balances with banks	246,157	46,116	-	292,273
Loans and advances to customers	3,238,507	212,582	126,693	3,577,782
Grants receivable	19,209	-	-	19,209
Other receivables	14,744	-	-	14,744
Accrued interest income	8,846	-	-	8,846
Property and equipment	154,635	-	-	154,635
TOTAL ASSETS	3,726,086	260,992	128,836	4,115,914
LIABILITIES				
Borrowings	1,866,733	125,000	125,000	2,116,733
Subordinated debts	777,641	-	-	777,641
Customers' deposits	156,794	12,231	1,298	170,323
Deferred grant income	71,537	-	-	71,537
Accruals and other liabilities	221,998	-	-	221,998
Deferred tax liabilities	6,308	-	-	6,308
TOTAL LIABILITIES	3,101,011	137,231	126,298	3,364,540
Net liquidity surplus/(gap)	625,075	123,761	2,538	751,374
31 December 2004				
Total Assets	2,787,517	168,087	6,617	2,962,221
Total Liabilities	2,167,333	134,211	162,587	2,464,131
Net liquidity surplus/(gap)	620,184	33,876	(155,970)	498,090

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

25. MATURITY PROFILE

The maturity profile of assets and liabilities is as follows:

	Total US\$	Less than 1 month US\$	From 1 month to 3 months US\$	From 3 months to 1 year US\$	From 1 year to 5 years US\$	Over 5 years US\$	No fixed date of maturity US\$
31 December 2005							
ASSETS							
Cash on hand	34,503	34,503	-	-	-	-	-
Deposits with the Central bank	13,922	-	175	-	-	-	13,747
Balances with banks	292,273	292,273	-	-	-	-	-
Loans and advances to customers	3,577,782	1,268,454	888,203	710,562	710,563	-	-
Grants receivable	19,209	-	-	19,209	-	-	-
Other receivables	14,744	-	-	-	14,744	-	-
Accrued interest income	8,846	-	-	8,846	-	-	-
Property and equipment	154,635	-	-	-	99,805	54,830	-
TOTAL ASSETS	4,115,914	1,595,230	888,378	738,617	825,112	54,830	13,747
LIABILITIES							
Borrowings	2,116,733	200,000	200,000	725,000	861,733	130,000	-
Subordinated debts	777,641	-	-	-	-	-	777,641
Customers' deposits	170,323	-	25,536	144,787	-	-	-
Deferred grant income	71,537	-	-	71,537	-	-	-
Accruals and other liabilities	221,998	-	13,461	208,537	-	-	-
Deferred tax liabilities	6,308	-	-	-	6,308	-	-
TOTAL LIABILITIES	3,364,540	200,000	238,997	1,149,861	868,041	130,000	777,641
Net liquidity surplus/(gap)	751,374	1,395,230	649,381	(411,244)	(42,929)	(75,170)	(763,894)
31 December 2004							
Total Assets	2,962,221	1,293,265	581,266	529,378	471,573	69,870	16,869
Total Liabilities	2,464,131	38,895	539,324	245,642	830,914	-	812,406
Net liquidity surplus/(gap)	498,090	1,254,370	41,942	283,736	(359,341)	69,870	(795,537)

HATTHA KAKASEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

27. LEASE COMMITMENTS

The Company has lease commitments for the lease of its headquarters and provincial offices as follows:

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
Not more than one year	36,789	151,276	4,400	17,719
More than one year and not more than five years	<u>20,220</u>	<u>83,145</u>	<u>20,210</u>	<u>81,386</u>
	<u>57,009</u>	<u>234,421</u>	<u>24,610</u>	<u>99,105</u>

28. RELATED PARTY TRANSACTIONS

a) Compensations

	31 December 2005		31 December 2004	
	US\$	Riels' 000 (At year-end exchange rate)	US\$	Riels' 000 (At year-end exchange rate)
<i>Board of directors</i>				
Fee and related expenses	<u>3,508</u>	<u>14,425</u>	<u>3,758</u>	<u>15,453</u>
<i>Key management</i>				
Salaries and short-term benefits	<u>52,723</u>	<u>216,797</u>	<u>42,720</u>	<u>175,664</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005****28. RELATED PARTY TRANSACTIONS (continued)****b) Loans to directors and key management of the Company**

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
		(At year-end exchange rate)		(At year-end exchange rate)
Beginning of the year	-	-	-	-
Loans during the year	30,000	123,360	-	-
Loan repayments received	<u>(12,750)</u>	<u>(52,428)</u>	<u>-</u>	<u>-</u>
End of the year	<u>17,250</u>	<u>70,932</u>	<u>-</u>	<u>-</u>

Loans are provided to management and staff of the Company with the interest rates ranging between 0.84% - 2% per month.

c) Deposit from directors and key management of the Company

	31 December 2005		31 December 2004	
	US\$	Riels' 000	US\$	Riels' 000
		(At year-end exchange rate)		(At year-end exchange rate)
Beginning of the year	-	-	-	-
Deposits during the year	37,500	154,200	-	-
Withdrawals during the year	<u>(17,500)</u>	<u>(71,960)</u>	<u>-</u>	<u>-</u>
End of the year	<u>20,000</u>	<u>82,240</u>	<u>-</u>	<u>-</u>

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

Voluntary deposit	4%
Term deposit	
- 3 months	4%
- 6 months	6%
- 12 months	7%

d) Transactions with Hattha NGO:

Interest expense charged by Hattha NGO amounting to US\$4,641 (Riels 18,689,000) for the year ended 31 December 2005 and 2004.

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

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APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS FOR THE YEAR ENDED 31 DECEMBER 2005

1. CAPITAL ADEQUACY RATIO, Prakas No. B7-00-46

A Licensed Micro-finance Institution shall, at all times, maintain capital adequacy ratio of more than 20%. As at 31 December 2005, Capital Adequacy Ratio of HKL is 36.77%.

The Capital Adequacy Ratio calculation is detailed in Schedule 1.

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

A Licensed Micro-finance Institution shall at all times, maintain a liquidity ratio of more than 100%. As at 31 December 2005, the Liquidity Ratio is 24,795%.

The Liquidity Ratio calculation is detailed in Schedule 2.

3. FOREIGN CURRENCY EXPOSURE, Prakas No B 795-001

Foreign currency exposure ratio should not exceed 5% of net worth for each currency and 15% of net worth aggregate. As at 31 December 2005, the Thai Baht currency exposure was 8.18% and Khmer Riels was 0.17%. Aggregate foreign currency exposure ratio was 8.35%.

Foreign currency exposure ratio calculation is detailed in Schedule 3.

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

A Licensed Micro-finance Institution shall deposit 5% of their deposits into an account maintained with the Central Bank. As at 31 December 2005, the reserve requirement is Riels 5,250,000. HKL has deposits with the Central Bank amounting to Riels 3,411,000.

The Reserve Requirement calculation is detailed in Schedule 4.

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

Licensed microfinance institutions shall classify their loan portfolio 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 60 days or more.
- **Loss:** some payments of principal and/or interest are overdue 90 days or more.

APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2005

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

Loan term 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 180 days or more.
- **Loss:** some payments of principal and/or interest are overdue 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 2005, the specific provision provided by HKL is Riels 89,592,000 which was in compliance with the Central Bank's Prakas.

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

HATTHA KAKSEKAR LIMITED

SCHEDULE 1
CAPITAL ADEQUACY RATIO
AS AT 31 DECEMBER 2005

		Riels'000	
1 - NUMERATOR : ELIGIBLE CAPITAL			
1.1 CORE CAPITAL			
- Paid in capital		1,060,279	
- Reserves		39,849	
- Retained earning		951,218	
- Net profit for the year		<u>1,041,503</u>	
Sub total A		<u>3,092,849</u>	
Less :			
- Unpaid capital		-	
- Loan to related parties		72,355	
- Intangible asset		<u>-</u>	
Sub-total B		72,355	
Core capital (A-B)		3,020,494	
1.2 HYBRID CAPITAL			
- Nun-refundable grants		-	
- Public guarantee funds		-	
- Perpetual subordinated debt		3,197,660	
Hybrid capital		3,197,660	
1.3 ELIGIBLE CAPITAL (Core capital + Hybrid capital) (E)		<u>6,218,154</u>	
2 - DENOMINATOR:RISK-WEIGHTED ASSET (R)			
	Asset	Amount Riels'000	Weighting
- Cash		141,876	0%
- Gold		-	0%
- Deposits with the Central Bank		57,247	0%
- Deposits with bank rated AAA to AA-		-	20%
- Deposits with bank rated A+ to A-		-	50%
- Loan		14,711,840	100%
- Others asset		2,013,674	100%
Total		<u>16,924,637</u>	<u>16,725,514</u>
CAPITAL ADEQUACY RATIO (C=E/R)			<u>37.18%</u>

HATTHA KAKSEKAR LIMITED

SCHEDULE 2
LIQUIDITY RATIO
AS AT 31 DECEMBER 2005

			Riels'000
1 - Numerator: liquid asset			
- Cash in hand			141,876
- Balances with Central Bank			57,247
- Balances with banks			<u>1,201,827</u>
Sub-total A			1,400,950
Less :			
- Amount owed to Central Bank			-
- Amount owed to banks			-
Sub-total B			-
Net liquidity (A-B)			1,400,950
Plus :			
Portion of loans maturing in less than one month			<u>5,108,064</u>
Liquid assets (L)			<u>6,509,014</u>
2 - Denominator: Adjusted amount of deposits (A)			
Category of deposits	Amount	%	
Voluntary savings	105,006	25%	26,252
Total	105,006		26,252
LIQUIDITY RATIO (L/A)			<u>24,795%</u>

HATTHA KAKSEKAR LIMITED

SCHEDULE 3
FOREIGN CURRENCY EXPOSURE
AS AT 31 DECEMBER 2004

	THB Riels'000	Riels Riels'000	Total Riels'000
1- Assets in foreign currency	1,073,199	529,774	1,602,973
2- Minus: Liabilities in that currency	564,294	519,337	1,083,631
3- Net position	508,905	10,437	519,342
4- Minus: Provision for foreign exchange losses	-	-	-
5- Adjusted net position	508,905	10,437	519,342
6- Net worth	<u>6,218,154</u>	<u>6,218,154</u>	<u>6,218,154</u>
7- Foreign currency exposure ratio: 5/6	<u>8.18%</u>	<u>0.17%</u>	<u>8.35%</u>

HATTHA KAKSEKAR LIMITED

**SCHEDULE 4
RESERVE REQUIREMENT
AS AT 31 DECEMBER 2005**

	Riels'000
1-Voluntary	
1-1 Demand	-
1-2 Saving	105,004
1-3 Term	-
1-4 Other	-
1 - 5 Total Reservable Deposits	<u>105,004</u>
2 – Compulsory	
2-1 Program (guarantee, individual credit)	595,364
2-2 Program	-
2-3 Program	-
2-4 Total compulsory saving	-
3 - Total saving mobilized	700,368
5% Reservable Deposit	<u>5,250</u>

HATTHA KAKSEKAR LIMITED

**SCHEDULE 5
LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO
AS AT 31 DECEMBER 2005**

Loan classification	Amount Riels'000	Rate %	Specific Provision Riels'000
1 - Loans of one year or less			
1-1 Standard	6,231,855	0%	-
1-2 Substandard past due >30 days	10,728	10%	1,073
1-3 Doubtful past due >60 days	10,514	30%	3,155
1-4 Loss past due >90 days	57,539	100%	57,539
Sub-Total 1	6,310,636		61,767
2 - Loans of more than one year			
2-1 Standard	8,673,709	0%	-
2-2 Substandard past due >30 days	67,943	10%	6,794
2-3 Doubtful past due >180 days	31,926	30%	9,578
2-4 Loss past due >360 days	11,452	100%	11,452
Sub-Total 2	8,785,030		27,824
Grand total 1+2	15,095,666		89,592
All loan past due > 30 days (A)			190,102
Loan outstanding (B)			15,095,666
Delinquency Ratio (A/B)			<u>1.26%</u>