



**HATTHA KAKSEKAR LIMITED**

**Financial Statements  
and  
Auditors' report  
31 December 2007**

## Corporate information

Company	Hattha Kaksekar Limited	
Registration No	Co. 5523/01P	
Registered office	No. 239, Street 63 (Trasak Paem) Sangkat Boeung Keng Kang I Khan Chamkarmorn, Phnom Penh Kingdom of Cambodia	
Shareholders	Hattha Kaksekar Non-Government Organisation (“HKNGO”) Solidarité Internationale Développement et Investissement (“SIDI”) Catholic Organisation for Relief and Development Aid (“CORDAID”) Hattha Kaksekar Staff Association (“HKSA”) Mr. Dy Davuth	
Board of Directors	Ms. Alka Couet Mr. Hout Ieng Tong Mr. Tony Fernandes Mr. Dy Davuth Ms. Im Vandith (resigned on 12 November 2007) Mr. Srey Chanthy (resigned on 12 November 2007) Mr. Seng Vannara (appointed on 26 March 2007 as HKSA’s Representative)	
Management team	Mr. Hout Ieng Tong (General Manager) Ms. Im Vandith (Deputy General Manager) Mr. Rath Sarun (Assistant General Manager) Mr. Toch Chaochek (Credit Operation Manager) Mr. Phat Thomas (Human Resources Manager) Mr. Ouch Soth (Finance Manager) Mr. Bong Benly (Management Information System Manager) Mr. Mech Sokmetrey (Marketing Manager) Mr. Kong Kosal (Acting Internal Audit Manager)	
Auditor	KPMG Cambodia Ltd	
Principal bankers	Acleda Bank Plc. National Bank of Cambodia Cambodian Public Bank Limited Canadia Bank Plc. Rural Development Bank	

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## **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 2007.

### **Principal activity**

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

### **Financial results**

The financial results of the Company for the year ended 31 December 2007 were as follows:

	US\$
Profit before income tax	888,605
Income tax expense	(173,401)
	<hr/>
Net profit for the year	715,204
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### **Reserves and provisions**

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

### **Bad and doubtful loans**

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

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

# **Hattha Kaksekar Limited**

## **Current assets**

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company had been written down to an amount which they might be expected to realise.

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

## **Valuation methods**

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

## **Contingent and other liabilities**

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person;
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of business operations.

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

## **Change of circumstances**

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

## **Items of unusual nature**

The results of the operations of the Company for the financial year were not, in the opinion of the Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

# **Hattha Kaksekar Limited**

## **Items of unusual nature (continued)**

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

## **The Board of Directors**

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

- Ms. Alka Couet, chairperson
- Mr. Hout Ieng Tong, member
- Mr. Tony Fernandes, member
- Mr. Dy Davuth, member
- Ms. Im Vandith, member (resigned on 12 November 2007)
- Mr. Srey Chanthy, member (resigned on 12 November 2007)
- Mr. Seng Vannara, member (appointed on 26 March 2007 as HKSA's Representative)

## **Events since the balance sheet date**

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

## **Directors' interests**

No members held any interest in the equity of the Company, except for Mr. Dy Davuth who holds 555 shares in the Company, with a par value of US\$100 each, representing 4.14% (2006: 84 shares of US\$30 each, representing 0.98%).

## **Directors' benefits**

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

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit received by the Directors as disclosed in note 27 to the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Director is a member, or with a company which the Director has a substantial financial interest other than as disclosed in the financial statements.

## Hattha Kaksekar Limited

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

The Board of Directors is responsible for ensuring that the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2007, and of the results of its operations and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

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

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

*On behalf of the Board of Directors*



  
Hout Leng Tong  
*General Manager*

Date: 17 MAR 2008

## **REPORT OF THE INDEPENDENT AUDITORS**

### **To the shareholders of Hattha Kaksekar Limited**

We have audited the accompanying financial statements of Hattha Kaksekar Limited (“HKL” or “the Company”), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 7 to 53.

#### **Management’s Responsibility for the Financial Statements**

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

#### **Auditors’ Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian Standards on Auditing and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The financial statements of the Company for the year ended 31 December 2006 were audited by another firm of auditors whose report dated 23 March 2007 expressed an unqualified opinion on the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the financial statements gives a true and fair view of the financial position of Hattha Kaksekar Limited as at 31 December 2007, and of its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

KPMG  
KPMG Cambodia ភីអិលអិល ខេមបូឌា  
Phnom Penh ភ្នំពេញ  
KPMG CAMBODIA LTD.  
សហគ្រាសភីអិលអិល ខេមបូឌា

17 March 2008

# Hattha Kaksekar Limited

## Balance sheet

As at 31 December 2007

	Note	2007		2006	
		US\$	KHR'000	US\$	KHR'000
<b>ASSETS</b>					
Cash on hand	3	57,919	231,850	46,763	189,717
Deposits with banks	4	1,545,902	6,188,246	250,222	1,015,150
Loans to customers	5	14,015,162	56,102,693	5,856,664	23,760,486
Other receivables	6	295,292	1,182,054	178,714	725,043
Statutory deposits	7	39,731	159,043	14,247	57,800
Property and equipment	8	382,957	1,532,977	251,468	1,020,206
Intangible assets	9	14,171	56,726	22,611	91,733
Deferred tax assets	10	4,678	18,726	-	-
<b>TOTAL ASSETS</b>		<b>16,355,812</b>	<b>65,472,315</b>	<b>6,620,689</b>	<b>26,860,135</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposits from customers	11	658,620	2,636,456	257,174	1,043,355
Borrowings	12	11,783,300	47,168,550	3,285,452	13,329,079
Subordinated loans	13	729,319	2,919,464	777,641	3,154,890
Other liabilities	14	383,237	1,534,098	183,194	743,218
Amounts due to shareholders	15	230,848	924,084	608,373	2,468,169
Deferred grant income	16	120,227	481,269	170,245	690,684
Provision for income tax	17	197,394	790,168	137,510	557,878
Deferred tax liabilities	10	-	-	2,743	11,128
<b>Total liabilities</b>		<b>14,102,945</b>	<b>56,454,089</b>	<b>5,422,332</b>	<b>21,998,401</b>
<b>Equity</b>					
Share capital	18	1,339,700	5,362,819	257,850	1,046,097
Reserves		44,704	178,950	22,355	90,694
Retained earnings		868,463	3,476,457	918,152	3,724,943
<b>Total equity</b>		<b>2,252,867</b>	<b>9,018,226</b>	<b>1,198,357</b>	<b>4,861,734</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>16,355,812</b>	<b>65,472,315</b>	<b>6,620,689</b>	<b>26,860,135</b>

The accompanying notes form part of these financial statements.

## Hattha Kaksekar Limited

### Income statement Year ended 31 December 2007

	Note	2007		2006	
		US\$	KHR'000	US\$	KHR'000
Interest income	19	2,887,747	11,559,651	1,542,631	6,258,454
Interest expenses	20	(732,880)	(2,933,719)	(271,215)	(1,100,319)
<b>Net interest income</b>		2,154,867	8,625,932	1,271,416	5,158,135
Grant income	21	79,192	317,006	123,305	500,248
Other operating income	22	96,031	384,412	109,228	443,138
<b>Operating income</b>		2,330,090	9,327,350	1,503,949	6,101,521
Salaries and staff benefits	23	(622,087)	(2,490,214)	(419,940)	(1,703,697)
General and administrative expenses	24	(744,299)	(2,979,429)	(413,757)	(1,678,612)
Provision for bad and doubtful loans	5	(75,099)	(300,621)	(30,220)	(122,603)
Grant related expenses		-	-	(75,878)	(307,837)
<b>Profit before income tax</b>		888,605	3,557,086	564,154	2,288,772
Income tax expense	17	(173,401)	(694,124)	(117,171)	(475,363)
<b>Net profit for the year</b>		715,204	2,862,962	446,983	1,813,409

The accompanying notes form part of these financial statements.

## Hattha Kaksekar Limited

### Statement of changes in equity Year ended 31 December 2007

	Share capital US\$	Reserves US\$	Retained earnings US\$	Total US\$
<b>Balance as at 1 January 2006</b>	257,850	9,691	483,833	751,374
Net profit for the year	-	-	446,983	446,983
Transfer to legal reserves	-	12,664	(12,664)	-
<b>Balance as at 31 December 2006</b>	257,850	22,355	918,152	1,198,357
Issuance of shares	608,450	-	(608,450)	-
Subordinated loans	48,322	-	-	48,322
Increase in share capital	425,078	-	-	425,078
Net profit for the year	-	-	715,204	715,204
Transfer to legal reserves	-	22,349	(22,349)	-
Dividends paid	-	-	(134,094)	(134,094)
<b>Balance as at 31 December 2007</b>	1,339,700	44,704	868,463	2,252,867
(KHR'000 equivalents)	5,362,819	178,950	3,476,457	9,018,226

The accompanying notes form part of these financial statements.

# Hattha Kaksekar Limited

## Statement of cash flows Year ended 31 December 2007

	Note	2007		2006	
		US\$	KHR'000	US\$	KHR'000
<b>Cash flows from operating activities</b>					
Net cash used in operating activities	25	(6,862,090)	(27,468,947)	(1,622,193)	(6,581,238)
<b>Cash flows from investing activities</b>					
Purchase of property and equipment		(259,365)	(1,038,238)	(168,377)	(683,105)
Purchase of intangible assets		-	-	(28,000)	(113,596)
Proceeds from disposal of property and equipment		16,984	67,987	11,512	46,704
Net cash used in investing activities		(242,381)	(970,251)	(184,865)	(749,997)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		9,250,000	37,027,750	3,098,300	12,569,803
Repayments of borrowings		(752,152)	(3,010,864)	(1,321,208)	(5,360,141)
Repayments to shareholders		(377,525)	(1,511,232)	-	-
Increase in share capital		425,078	1,701,587	-	-
Dividend paid		(134,094)	(536,778)	-	-
Net cash generated from financing activities		8,411,307	33,670,463	1,777,092	7,209,662
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,306,836	5,231,265	(29,966)	(121,573)
<b>Cash and cash equivalents at beginning of year</b>		296,985	1,204,867	326,951	1,344,423
Translation difference		-	(16,036)	-	(17,983)
<b>Cash and cash equivalents at end of year</b>	26	1,603,821	6,420,096	296,985	1,204,867

The accompanying notes form part of these financial statements.

# **Hattha Kaksekar Limited**

## **Notes to the financial statements 31 December 2007**

### **1. Background and principal activities**

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

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

HKL operates in seven branches located in Pursat, Kampong Thom, Siem Reap, Banteay Meanchey, Kampong Cham 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 locations.

As at 31 December 2007, the Company had 248 (2006:169) employees.

# **Hattha Kaksekar Limited**

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

### **2. Significant accounting policies**

#### **(a) Basis of financial statements preparation**

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

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

#### **(b) Basis of aggregation**

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

#### **(c) Financial instruments**

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

#### **(d) Segment information**

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

#### **(e) Measurement and presentation currency**

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riels (“KHR”), United States Dollars (“US\$”) and Thai Baht (“THB”). Management have determined the US\$ to be the Company’s currency for measurement and presentation purposes as it reflects the economic substance of the underlying events and circumstances of the Company.

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

# Hattha Kaksekar Limited

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

### 2. Significant accounting policies (continued)

#### (e) Measurement and presentation currency (continued)

All assets, liabilities and income statement items at the end of the year are translated into KHR using the prescribed official exchange rate announced by the National Bank of Cambodia at the balance sheet date of US\$1: KHR4,003 (2006: KHR4,057). These translations are for presentation purposes only and should not be construed as representations that the KHR amounts have been, could have been or could in the future be converted into US\$ at this or any other rate of exchange.

#### (f) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### (g) Loans to customers

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

The adequacy of the provision for bad and doubtful loans is evaluated monthly by the Company's management. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on customers, the financial position of customers and the performance of loans in relation to contract terms.

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

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

Classification	Number of days past due	Provision
Short term loan (less than one year):		
Substandard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
Long term loan (more than one year):		
Substandard	31 - 180 days	10%
Doubtful	181 - 360 days	30%
Loss	Over 360 days	100%

# **Hattha Kaksekar Limited**

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

### **2. Significant accounting policies (continued)**

#### **(h) Provision for bad and doubtful loans (continued)**

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified, excluding accrued interest, and is charged as an expense. Interest on non-performing loans is not accrued. In addition, a general provision based on a percentage of total outstanding loans net of specific provision for bad and doubtful loans is maintained by the Company against risks which are not specifically identified. During the year, the general provision has been provided for at 1%.

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

An uncollectible loan or portion of a loan classified is written off when, in the judgment of the management, there is no prospect of recovery, after taking into consideration the realisable value of the collateral, if any.

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

#### **(i) Deposits with banks**

Deposits with banks are carried at cost.

#### **(j) Other receivables**

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

#### **(k) Property and equipment**

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

# Hattha Kaksekar Limited

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

### 2. Significant accounting policies (continued)

#### (k) Property and equipment (continued)

- (ii) Upto 31 March 2007, depreciation was calculated on a straight-line basis over their estimated useful lives. From 1 April 2007, the depreciation of property and equipment was charged to the income statement on a declining basis over the estimated useful lives of the individual assets at the following rates:

	2007 Declining basis	2006 Straight-line basis
Motor vehicles	25%	16.67%
Office equipment	50%	25%
Communication equipment	25%	16.67%
Furniture and fixtures	20%	12.5%

This change in depreciation method of the Company's property and equipment was applied prospectively, and resulted in an increase in depreciation expense for the year of approximately US\$9,879.

- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.
- (vi) The carrying amounts of property and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately.

# Hattha Kaksekar Limited

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

### 2. Significant accounting policies (continued)

#### (l) Intangible assets

Intangible assets consist of computer software licenses and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised over their useful life of four years using the straight-line method. Costs associated with the development or maintenance of computer software are recognised as expenses when incurred.

From 1 April 2007, the Company changed the amortisation method to declining basis the rate of 50% per annum. This change in amortisation method was applied prospectively, and the result of this change was immaterial to the accompanying financial statements for the year ended 31 December 2007.

#### (m) Deposits from customers

Deposits from customers are stated at placement value.

#### (n) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability.

#### (o) Borrowings

Borrowings are stated at cost.

#### (p) Retirement benefits

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

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

# Hattha Kaksekar Limited

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

### 2. Significant accounting policies (continued)

#### (p) Retirement benefits (continued)

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

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

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

#### (q) Reserves

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

#### (r) Related parties

Parties are considered to be related to the Company if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or where the Company and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10 percent of the capital of the Company or voting rights or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

#### (s) Grants

Grants received to subsidise the Company's operating expenses are released to the income statement on a systematic and rational basis, matching the related costs which they are intended to compensate.

# **Hattha Kaksekar Limited**

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

### **2. Significant accounting policies (continued)**

#### **(s) Grants (continued)**

Grants received for the purchase of property and equipment are amortised to the income statement on a systematic and rational basis over the useful life of the assets. The unamortised grants are shown as deferred grant income.

#### **(t) Operating leases**

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

#### **(u) Interest income and expense recognition**

Interest income on loans is recognised on an accruals basis taking into consideration the principal amount of loans outstanding. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated on a monthly basis using the balances of the principal amount outstanding as at the previous month end.

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

#### **(v) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 3. Cash on hand

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	8,926	35,731	25,481	103,376
Phnom Penh branch	14,654	58,660	4,507	18,285
Provincial branches				
Pursat - Sampov Meas	10,698	42,824	804	3,262
Kampong Thom				
- Steoung Sen	4,573	18,306	1,361	5,522
- Stung	8,447	33,813	5,621	22,804
Banteay Meanchey	6,074	24,314	3,919	15,899
Kampong Cham	2,743	10,980	1,635	6,633
Siem Reap	1,804	7,222	3,435	13,936
	<u>57,919</u>	<u>231,850</u>	<u>46,763</u>	<u>189,717</u>

The above amounts are analysed by currency as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
US Dollar	50,896	203,737	42,951	174,252
Khmer Riel	4,867	19,483	2,373	9,627
Thai Baht	2,156	8,630	1,439	5,838
	<u>57,919</u>	<u>231,850</u>	<u>46,763</u>	<u>189,717</u>

### 4. Deposits with banks

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	1,251,542	5,009,923	187,868	762,180
Phnom Penh branch	22,182	88,795	7,158	29,040
Provincial branches				
Pursat - Sampov Meas	8,913	35,679	16,697	67,740
Kampong Thom				
- Steoung Sen	12,050	48,236	3,843	15,591
- Stung	59,849	239,575	8,231	33,393
Banteay Meanchey	33,247	133,088	11,321	45,929
Kampong Cham	96,124	384,784	7,145	28,987
Siem Reap	61,995	248,166	7,959	32,290
	<u>1,545,902</u>	<u>6,188,246</u>	<u>250,222</u>	<u>1,015,150</u>

# Hattha Kaksekar Limited

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

### 4. Deposits with banks (continued)

Deposits with banks are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>a) By currency:</b>				
US Dollar	1,543,688	6,179,383	246,108	998,460
Khmer Riel	317	1,269	3,893	15,794
Thai Baht	1,897	7,594	221	896
	<u>1,545,902</u>	<u>6,188,246</u>	<u>250,222</u>	<u>1,015,150</u>
<b>b) By type:</b>				
<i>Current accounts:</i>				
Rural Development Bank	428	1,713	221	896
Cambodian Public Bank Limited	54	216	74	300
<i>Savings accounts:</i>				
Aceda Bank Plc.	1,518,385	6,078,095	232,104	941,646
National Bank of Cambodia	443	1,774	178	722
Cambodian Public Bank Limited	96	384	9,686	39,296
Canadia Bank Plc.	26,496	106,064	7,959	32,290
	<u>1,545,902</u>	<u>6,188,246</u>	<u>250,222</u>	<u>1,015,150</u>
<b>c) By interest rate (per annum):</b>				
<i>Current accounts:</i>			Nil	Nil
<i>Savings accounts:</i>				
Aceda Bank Plc.				
- Khmer Riel			4%	4%
- Thai Baht			4%	4%
- US Dollar			1.50%	1.50%
National Bank of Cambodia			2.02%	2.04%
Cambodian Public Bank Limited			0.50%	0.50%
Canadia Bank Plc.			1.50%	1.50%

# Hattha Kaksekar Limited

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

### 5. Loans to customers

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Head office - Phnom Penh	69,789	279,365	15,083	61,192
Phnom Penh branch	2,085,926	8,349,962	735,375	2,983,416
Provincial branches				
Pursat - Sampov Meas	1,749,785	7,004,389	863,926	3,504,948
Kampong Thom				
- Steoung Sen	1,525,414	6,106,232	661,238	2,682,643
- Stung	2,196,199	8,791,385	929,113	3,769,411
Banteay Meanchey	2,192,515	8,776,638	1,097,705	4,453,389
Kampong Cham	882,602	3,533,056	167,292	678,704
Siem Reap	3,463,106	13,862,813	1,481,028	6,008,530
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
Provision for bad and doubtful loans				
- Specific provision	(14,063)	(56,294)	(22,541)	(91,449)
- General provision	(136,111)	(544,853)	(71,555)	(290,298)
	<u>(150,174)</u>	<u>(601,147)</u>	<u>(94,096)</u>	<u>(381,747)</u>
	<u><u>14,015,162</u></u>	<u><u>56,102,693</u></u>	<u><u>5,856,664</u></u>	<u><u>23,760,486</u></u>

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

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	94,096	381,747	93,343	383,826
Provision during the year	75,099	300,621	30,220	122,603
Written off during the year	(19,021)	(76,141)	(29,467)	(119,548)
Translation difference	-	(5,080)	-	(5,134)
	<u>150,174</u>	<u>601,147</u>	<u>94,096</u>	<u>381,747</u>
	<u><u>150,174</u></u>	<u><u>601,147</u></u>	<u><u>94,096</u></u>	<u><u>381,747</u></u>

# Hattha Kaksekar Limited

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

### 5. Loans to customers (continued)

Loans to customers are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>a) By maturity:</b>				
Within 1 month	1,030,028	4,123,202	2,532,494	10,274,328
2 to 3 months	4,156	16,637	2,225	9,027
4 to 12 months	6,787	27,168	10,055	40,793
More than 12 months	13,124,365	52,536,833	3,405,986	13,818,085
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
<b>b) By currency:</b>				
US Dollar	12,577,441	50,347,496	5,318,592	21,577,528
Khmer Riel	812,160	3,251,077	284,822	1,155,523
Thai Baht	775,735	3,105,267	347,346	1,409,182
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
<b>c) By economic sector:</b>				
Trade and commerce	6,375,436	25,520,870	2,945,549	11,950,092
Agriculture	2,676,426	10,713,733	768,105	3,116,202
Household/family	2,300,597	9,209,290	595,260	2,414,970
Services	1,094,440	4,381,043	390,869	1,585,756
Transportation	875,347	3,504,014	569,287	2,309,597
Construction	270,944	1,084,589	353,230	1,433,054
Other categories	572,146	2,290,301	328,460	1,332,562
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
<b>d) By residency status:</b>				
Residents	14,165,336	56,703,840	5,950,760	24,142,233
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
<b>e) By relationship:</b>				
External customers	14,012,253	56,091,049	5,931,523	24,064,189
Management and staff loans	153,083	612,791	19,237	78,044
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>

# Hattha Kaksekar Limited

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

### 5. Loans to customers (continued)

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>f) By performance:</b>				
Standard loans:				
Unsecured	14,135,386	56,583,950	5,916,004	24,001,228
Substandard loans:				
Unsecured	12,703	50,850	6,326	25,665
Doubtful loans:				
Unsecured	6,366	25,483	9,317	37,799
Losses:				
Unsecured	10,881	43,557	19,113	77,541
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
<b>g) By type of customers:</b>				
Individual	13,427,743	53,751,255	5,936,236	24,083,309
Group	737,593	2,952,585	14,524	58,924
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
<b>h) By type of loan products:</b>				
Micro loans	4,690,247	18,775,059	2,544,774	10,324,148
Small loans	4,632,675	18,544,598	1,655,232	6,715,276
Medium loans	2,723,786	10,903,315	990,048	4,016,625
Special loans	2,118,628	8,480,868	760,706	3,086,184
	<u>14,165,336</u>	<u>56,703,840</u>	<u>5,950,760</u>	<u>24,142,233</u>
<b>i) By interest rate (per month):</b>				
Micro loans (US\$50 - US\$1,000)		3%-4%		3%-4%
Small loans (US\$1,001 - US\$2,500)		2.5%		2.5%
Medium loans (US\$2,501 - US\$3,000)		2%		2%
Special loans (US\$3,001 - US\$10,000)		2%		2%

During the year there was no renegotiation of delinquent loans, i.e., refinancing or restructuring. Loans disclosed above are based on the original loan agreements entered into with customers.

# Hattha Kaksekar Limited

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

### 6. Other receivables

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Interest receivable	243,067	972,997	95,794	388,636
Grants receivable	-	-	58,566	237,603
Contract deposits	29,996	120,074	-	-
Other receivables	22,229	88,983	24,354	98,804
	<u>295,292</u>	<u>1,182,054</u>	<u>178,714</u>	<u>725,043</u>

### 7. Statutory deposits

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits on:				
Registered share capital	25,583	102,409	12,900	52,335
Customers' deposits	14,148	56,634	1,347	5,465
	<u>39,731</u>	<u>159,043</u>	<u>14,247</u>	<u>57,800</u>

The statutory deposits are maintained with the NBC in compliance with Prakas No. B7-00-006 and B7-06-209 on the Licensing of Micro-Finance Institutions, the amounts of which are determined by defined percentages (5%) of the Company's registered share capital and customers' deposits with the Company.

The statutory deposit on registered share capital is refundable when the Company voluntarily ceases its operations in Cambodia. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

The statutory deposit on registered capital placed with NBC in US\$ earns interest at the rate of 3/8 six-month SIBOR with the effective annual rate in 2007 of 2.02% (2006: 2.04%). The statutory deposit relating to customers' deposits does not earn interest.

# Hattha Kaksekar Limited

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

### 8. Property and equipment

	Motor vehicles US\$	Office equipment US\$	Communication equipment US\$	Furniture and fixtures US\$	Total US\$
<b>Cost</b>					
Balance as at 1 January 2007	266,157	121,940	24,668	33,405	446,170
Additions	159,815	79,996	2,350	17,204	259,365
Disposals	(27,324)	-	(659)	-	(27,983)
Written off	(40)	(3,685)	(3,465)	(3,598)	(10,788)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2007	<u>398,608</u>	<u>198,251</u>	<u>22,894</u>	<u>47,011</u>	<u>666,764</u>
<b>Less: Accumulated depreciation</b>					
Balance as at 1 January 2007	88,715	65,469	19,918	20,600	194,702
Charge for the year	58,895	55,203	2,193	4,223	120,514
Disposals	(21,603)	-	(659)	-	(22,262)
Written off	(40)	(3,685)	(3,422)	(2,000)	(9,147)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2007	<u>125,967</u>	<u>116,987</u>	<u>18,030</u>	<u>22,823</u>	<u>283,807</u>
<b>Net book value</b>					
At 31 December 2007	<u>272,641</u>	<u>81,264</u>	<u>4,864</u>	<u>24,188</u>	<u>382,957</u>
At 31 December 2006	<u>177,442</u>	<u>56,471</u>	<u>4,750</u>	<u>12,805</u>	<u>251,468</u>

# Hattha Kaksekar Limited

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

### 8. Property and equipment (continued)

	Motor vehicles KHR'000	Office equipment KHR'000	Communication equipment KHR'000	Furniture and fixtures KHR'000	Total KHR'000
<b>Cost</b>					
Balance as at 1 January 2007	1,079,799	494,711	100,078	135,524	1,810,112
Additions	639,739	320,224	9,407	68,868	1,038,238
Disposals	(109,378)	-	(2,638)	-	(112,016)
Written off	(160)	(14,751)	(13,870)	(14,403)	(43,184)
Translation difference	(14,372)	(6,585)	(1,332)	(1,804)	(24,093)
At 31 December 2007	<u>1,595,628</u>	<u>793,599</u>	<u>91,645</u>	<u>188,185</u>	<u>2,669,057</u>
<b>Less: Accumulated depreciation</b>					
Balance as at 1 January 2007	359,917	265,608	80,807	83,574	789,906
Charge for the year	235,757	220,978	8,779	16,905	482,419
Disposals	(86,477)	-	(2,638)	-	(89,115)
Written off	(160)	(14,751)	(13,698)	(8,006)	(36,615)
Translation difference	(4,791)	(3,536)	(1,075)	(1,113)	(10,515)
At 31 December 2007	<u>504,246</u>	<u>468,299</u>	<u>72,175</u>	<u>91,360</u>	<u>1,136,080</u>
<b>Net book value</b>					
At 31 December 2007	<u>1,091,382</u>	<u>325,300</u>	<u>19,470</u>	<u>96,825</u>	<u>1,532,977</u>
At 31 December 2006	<u>719,882</u>	<u>229,103</u>	<u>19,271</u>	<u>51,950</u>	<u>1,020,206</u>

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 9. Intangible assets

	Micro Banker License			
	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>Cost</b>				
Balance at 1 January	28,000	113,596	-	-
Additions	-	-	28,000	113,596
Translation difference	-	(1,512)	-	-
	<u>28,000</u>	<u>112,084</u>	<u>28,000</u>	<u>113,596</u>
Balance at 31 December	<u>28,000</u>	<u>112,084</u>	<u>28,000</u>	<u>113,596</u>
<b>Less: Accumulated amortisation</b>				
Balance at 1 January	5,389	21,863	-	-
Charge for the year	8,440	33,785	5,389	21,863
Translation difference	-	(290)	-	-
	<u>13,829</u>	<u>55,358</u>	<u>5,389</u>	<u>21,863</u>
Balance at 31 December	<u>13,829</u>	<u>55,358</u>	<u>5,389</u>	<u>21,863</u>
<b>Net book value</b>				
Balance at 31 December	<u>14,171</u>	<u>56,726</u>	<u>22,611</u>	<u>91,733</u>

### 10. Deferred tax assets/(liabilities)

Deferred tax assets/(liabilities) comprise of:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Property and equipment	(9,043)	(36,199)	(13,089)	(53,102)
Provision for retirement benefits	13,721	54,925	10,346	41,974
	<u>4,678</u>	<u>18,726</u>	<u>(2,743)</u>	<u>(11,128)</u>
Deferred tax assets/(liabilities)	<u>4,678</u>	<u>18,726</u>	<u>(2,743)</u>	<u>(11,128)</u>

Movement in deferred tax assets/(liabilities) during the year is as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	(2,743)	(11,128)	(6,308)	(25,938)
Credit to income statement	7,421	29,706	3,565	14,463
Translation difference	-	148	-	347
	<u>4,678</u>	<u>18,726</u>	<u>(2,743)</u>	<u>(11,128)</u>
Balance at end of year	<u>4,678</u>	<u>18,726</u>	<u>(2,743)</u>	<u>(11,128)</u>

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 11. Deposits from customers

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Loan-linked savings	398,855	1,596,617	207,960	843,694
General savings	259,765	1,039,839	49,214	199,661
	<u>658,620</u>	<u>2,636,456</u>	<u>257,174</u>	<u>1,043,355</u>

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

The general savings comprise voluntary saving deposit and term deposit and bears interest rates ranging from 3% to 7% (2006: 3% - 7%) per annum for Khmer Riel and from 1% to 4% (2006: 1% - 4%) per annum for US Dollar. The interest charge is accrued to individual customers' accounts on a monthly basis. Voluntary saving deposits can be withdrawn at anytime by the depositors.

The deposits from customers are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>a) By maturity:</b>				
Within 1 month	124,371	497,857	-	-
2 to 3 months	-	-	14,009	56,835
4 to 12 months	267,016	1,068,865	243,165	986,520
More than 12 months	267,233	1,069,734	-	-
	<u>658,620</u>	<u>2,636,456</u>	<u>257,174</u>	<u>1,043,355</u>
<b>b) By currency:</b>				
US Dollar	609,652	2,440,437	237,503	963,550
Thai Baht	28,474	113,982	15,584	63,224
Khmer Riel	20,494	82,037	4,087	16,581
	<u>658,620</u>	<u>2,636,456</u>	<u>257,174</u>	<u>1,043,355</u>

# Hattha Kaksekar Limited

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

### 11. Deposits from customers (continued)

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>c) By location:</b>				
Head office - Phnom Penh	130,628	522,904	45,183	183,308
Phnom Penh branch	60,660	242,822	17,935	72,762
Provincial branches				
Pursat - Sampov Meas	90,742	363,240	36,214	146,920
Kampong Thom				
- Steoung Sen	77,669	310,909	34,386	139,504
- Stung	43,552	174,339	23,158	93,952
Banteay Meanchey	85,490	342,217	55,495	225,143
Kampong Cham	17,716	70,917	1,717	6,966
Siem Reap	152,163	609,108	43,086	174,800
	<u>658,620</u>	<u>2,636,456</u>	<u>257,174</u>	<u>1,043,355</u>

### 12. Borrowings

		2007		2006	
		US\$	KHR'000	US\$	KHR'000
Novib	(i)	2,478,300	9,920,635	378,300	1,534,763
Developing World					
Market	(ii)	2,000,000	8,006,000	-	-
Global Microfinance					
Facility	(iii)	1,500,000	6,004,500	750,000	3,042,750
Symbiotics	(iv)	1,125,000	4,503,375	750,000	3,042,750
Blue Orchard					
Finance S.A	(v)	1,000,000	4,003,000	-	-
Incofin	(vi)	1,000,000	4,003,000	-	-
Norwegian Investment					
Fund for Developing					
Countries	(vii)	1,000,000	4,003,000	-	-
Alterfin	(viii)	650,000	2,601,950	650,000	2,637,050
Micro Credit					
Enterprises	(ix)	600,000	2,401,800	-	-
Nord-Sud Development	(x)	300,000	1,200,900	-	-
OIKOS	(xi)	130,000	520,390	130,000	527,410
Microfinance					
Alliance Fund		-	-	127,152	515,856
Rural Development Bank		-	-	500,000	2,028,500
		<u>11,783,300</u>	<u>47,168,550</u>	<u>3,285,452</u>	<u>13,329,079</u>

# Hattha Kaksekar Limited

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

### 12. Borrowings (continued)

The above borrowings are analysed as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<b>a) By maturity:</b>				
Within one year	1,425,000	5,704,275	752,152	3,051,481
2 to 5 years	10,358,300	41,464,275	2,533,300	10,277,598
	<u>11,783,300</u>	<u>47,168,550</u>	<u>3,285,452</u>	<u>13,329,079</u>
<b>b) By currency:</b>				
US Dollar	10,605,000	42,451,815	2,780,000	11,278,460
Khmer Riel	800,000	3,202,400	65,848	267,145
Thai Baht	-	-	61,304	248,711
Euro	378,300	1,514,335	378,300	1,534,763
	<u>11,783,300</u>	<u>47,168,550</u>	<u>3,285,452</u>	<u>13,329,079</u>

#### (i) Novib

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

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

On 24 December 2007, the Company entered into another loan agreement with Novib for US\$800,000 in Khmer Riel and US\$300,000. The loan in Khmer Riel bears interest at the rate of 11% per annum and US dollar loan bears interest at the rate of 8% per annum, both payable on a semi-annual basis. The loans are given for a period of 2 years and will mature on 31 December 2009. The loans are secured by the assignment of 125% of the total outstanding amount of the loan portfolio in favour of the lender.

# **Hattha Kaksekar Limited**

## **Notes to the financial statements (continued)**

**31 December 2007**

### **12. Borrowings (continued)**

#### **(ii) Developing World Market**

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

#### **(iii) Global Microfinance Facility**

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

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

#### **(iv) Symbiotics**

The Company entered into a promissory note with Symbiotics on 26 May 2006 for US\$250,000 with interest at the rate of 10% (2006: 11.337%) per annum payable semi-annually in arrears. The loan is unsecured and is for a period of 2 years maturing on 26 May 2008.

On 18 December 2006, the Company entered into another promissory note with Symbiotics for US\$500,000 with interest at the rate of 9.75% (2006: 11.337%) per annum payable semi-annually in arrears. The loan is unsecured and is for a period of 2 years maturing on 18 December 2008.

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

#### **(v) Blue Orchard Finance S.A**

The company entered into a promissory note with Blue Orchard Finance S.A on 2 April 2007 for US\$1,000,000 maturing within 2 years. The loan bears interest at the rate of 9.50% per annum payable semi-annually in arrears. The loan is unsecured with the principal being repaid in two instalments on 2 October 2008 and 2 April 2009.

# **Hattha Kaksekar Limited**

## **Notes to the financial statements (continued)**

**31 December 2007**

### **12. Borrowings (continued)**

#### **(vi) Incofin**

The Company entered into a loan agreement with Incofin on 26 October 2007 for US\$1,000,000 with interest at the rate of 9% per annum payable semi-annually in arrears. The loan is repayable in 5 years and is secured by the assignment of 120% of the principal outstanding.

#### **(vii) Norwegian Investment Fund for Developing Countries**

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

#### **(viii) Alterfin**

The Company entered into a loan agreement with Alterfin on 20 December 2006 for an expansion of its credit facilities for US\$200,000 with interest at the rate of 4.25% per annum plus 12 months LIBOR, which ranged from 7.53% to 9.54% for the year ended 31 December 2007 (2006: 7.53% per annum), calculated on a monthly basis. The loan is for a period of three years and will be repaid in two instalments, on 26 December 2009 and on 26 June 2010, respectively.

On 25 June 2007, the Company renewed its existing loan of US\$450,000, that was entered into a loan agreement on 26 January 2006 with Alterfin, with interest at the rate of 4% per annum plus 12 months LIBOR, which ranged from 9.54% to 9.74% for the year ended 31 December 2007, calculated on a monthly basis. The loan is given for a period of three years and will be repaid in two instalments, one 26 June 2009 and on 26 December 2009, respectively.

#### **(ix) Micro Credit Enterprises**

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

# Hattha Kaksekar Limited

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

### 12. Borrowings (continued)

#### (x) Nord-Sud Development

The Company entered into a promissory note with Nord-Sud Development on 17 April 2007 for US\$300,000 with interest at the rate of 2% per annum plus 12 months LIBOR, calculated on a monthly basis. The principal amount will be due for full repayment on 23 April 2008. The loan is unsecured.

#### (xi) OIKOS

The Company entered into a debt bond with OIKOS on 30 April 2005 for US\$130,000 with interest at the rate of 6% (2006: 6%) per annum payable annually in arrears. The loan is for a period of 11 years, with 5 years' grace period on repayment of principal and therefore will mature on 30 March 2015. Repayment of principal and interest will be paid in five equal annual instalments starting from 30 March 2015. The loan is provided against a guarantee whereby Dan Church Aid assumes primary responsibility until the loan has been fully repaid.

### 13. Subordinated loans

		2007		2006	
		US\$	KHR'000	US\$	KHR'000
Hattha Kaksekar Non-Government Organisation	(a)	415,743	1,664,219	464,065	1,882,712
Ministry of Economy and Finance - Agence Francaise de Development (AFD)	(b)	313,576	1,255,245	313,576	1,272,178
		<u>729,319</u>	<u>2,919,464</u>	<u>777,641</u>	<u>3,154,890</u>

(a) Hattha Kaksekar Non-Government Organisation ("HKNGO") has made the above loan to HKL, following the transfer and assignment of all micro-finance related assets, liabilities and operations of the NGO to the HKL with the terms and conditions of the subordinated loan agreement dated 27 April 2001 as follows:

- i) The subordinated debt will not be repayable to HKNGO unless HKL ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the loan;
- ii) The loan is a non-distributable fund; and

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 13. Subordinated loans (continued)

- iii) Being a public grant, it will be considered as “Tier II Capital” in the context of Article 15 of Prakas No. B700-006 issued by the NBC, and shall be included in computing HKL’s capital adequacy ratio.

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

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

### 14. Other liabilities

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Retirement benefits	68,606	274,630	51,729	209,865
Interest payable	169,662	679,157	33,192	134,660
Advance payments	11,798	47,227	9,222	37,413
Provision for profit sharing *	99,362	397,746	74,365	301,699
Other tax payable	11,187	44,782	-	-
Others	22,622	90,556	14,686	59,581
	<u>383,237</u>	<u>1,534,098</u>	<u>183,194</u>	<u>743,218</u>

The movements in provision for retirement benefits were as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	51,729	209,865	38,942	160,130
Charge during the year	22,130	88,587	12,787	51,877
Payment during the year	(5,253)	(21,028)	-	-
Translation difference	-	(2,794)	-	(2,142)
	<u>68,606</u>	<u>274,630</u>	<u>51,729</u>	<u>209,865</u>

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 14. Other liabilities (continued)

\*: All regular staff are entitled to participate in the annual profit sharing. The annual profit sharing incentive is provided at the end of every year based on the sharing percentage, calculated at 2.5% for branch staff and at 3.5 % for head office staff by referring to the staff monthly salary and length of the services rendered in that year.

### 15. Amounts due to shareholders

		2007		2006	
		US\$	KHR'000	US\$	KHR'000
Catholic Organisation for Relief and Development Aid ("CORDAID") (i)	190,848	763,964	328,373	1,332,209	
Solidarité Internationale Développement et Investissement ("SIDI") (ii)	40,000	160,120	280,000	1,135,960	
	<u>230,848</u>	<u>924,084</u>	<u>608,373</u>	<u>2,468,169</u>	

The amounts due to shareholders are analysed as follows:

		2007		2006	
		US\$	KHR'000	US\$	KHR'000
<b>a) By maturity:</b>					
Within one year	40,000	160,120	337,525	1,369,339	
2 to 5 years	190,848	763,964	270,848	1,098,830	
	<u>230,848</u>	<u>924,084</u>	<u>608,373</u>	<u>2,468,169</u>	
<b>b) By currency:</b>					
US Dollar	230,848	924,084	608,373	2,468,169	

#### (i) CORDAID

The Company entered into a loan agreement with CORDAID on 13 October 2003 for US\$260,080 with interest at the rate of 6% per annum. On 26 December 2006, the Company entered into another loan agreement with CORDAID for US\$240,000 for the expansion of the loan portfolio by establishing new branches with interest at the rate of 6% per annum. These loans are repayable in six equal semi-annual instalments and will mature on 13 November 2009.

# Hattha Kaksekar Limited

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

### 15. Amounts due to shareholders (continued)

#### (ii) SIDI

The Company entered into a loan agreement with SIDI on 31 December 2004 for US\$300,000 with interest at the rate of 7% (2006: 8%) per annum payable semi-annually in arrears. The loan is unsecured and is for a period of 4 years maturing on 31 December 2008.

### 16. Deferred grant income

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

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	170,245	690,684	21,489	88,363
Additions	-	-	250,788	1,017,447
Amortisation of grant income during the year	(50,018)	(200,222)	(102,032)	(413,944)
Translation difference	-	(9,193)	-	(1,182)
Balance at end of year	<u>120,227</u>	<u>481,269</u>	<u>170,245</u>	<u>690,684</u>

### 17. Income tax

#### (a) Provision for income tax

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	137,510	557,878	67,417	277,219
Income tax expense	180,822	723,830	120,736	489,826
Income tax paid	(120,938)	(484,115)	(50,643)	(205,459)
Translation difference	-	(7,425)	-	(3,708)
Balance at end of year	<u>197,394</u>	<u>790,168</u>	<u>137,510</u>	<u>557,878</u>

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

# Hattha Kaksekar Limited

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

### 17. Income tax (continued)

#### (b) Income tax expense

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Current income tax	180,822	723,830	120,736	489,826
Deferred tax	(7,421)	(29,706)	(3,565)	(14,463)
	<u>173,401</u>	<u>694,124</u>	<u>117,171</u>	<u>475,363</u>

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

	2007			2006		
	US\$	KHR'000	%	US\$	KHR'000	%
Profit before income tax	<u>888,605</u>	<u>3,557,086</u>		<u>564,154</u>	<u>2,288,772</u>	
Income tax using statutory rate	177,721	711,417	20.00	112,831	457,755	20.00
Tax effect of:						
Non-deductible expenses	5,354	21,432	0.60	8,270	33,551	1.46
Non-taxable income	(2,253)	(9,019)	(0.25)	(365)	(1,480)	(0.06)
Deferred tax assets recognised	(7,421)	(29,706)	(0.84)	(3,565)	(14,463)	(0.63)
Effective income tax rate	<u>173,401</u>	<u>694,124</u>	<u>19.51</u>	<u>117,171</u>	<u>475,363</u>	<u>20.77</u>

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

### 18. Share capital

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and paid up 13,397 (2006: 8,595) ordinary shares of US\$100 (2006: US\$30) each	<u>1,339,700</u>	<u>5,362,819</u>	<u>257,850</u>	<u>1,046,097</u>

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 18. Share capital (continued)

Shareholders	2007		2006	
	% of ownership	Number of shares	% of ownership	Number of shares
Hattha Kaksekar, NGO	40.60%	5,439	49.85%	4,285
SIDI	25.60%	3,430	19.95%	1,715
CORDAID	14.09%	1,887	19.40%	1,667
Staff association	15.57%	2,086	9.82%	844
Mr. Dy Davuth	4.14%	555	0.98%	84
	100%	13,397	100%	8,595

On 8 October 2007, upon approval from the National Bank of Cambodia (“NBC”), the Company increased its registered share capital from US\$257,850 to US\$523,860 through the issuance of an additional 136 shares with the par value being increased from US\$30 to US\$60 each.

On 13 November 2007, the Company also increased its registered share capital from US\$523,860 to US\$1,339,700 through the issuance of an additional 4,666 shares with the par value being increased from US\$60 to US\$100 each. The approval was obtained from the NBC subsequent to the year end on 22 January 2008.

### 19. Interest income

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	2,879,518	11,526,710	1,539,138	6,244,283
Deposits with banks	8,229	32,941	3,493	14,171
	2,887,747	11,559,651	1,542,631	6,258,454

### 20. Interest expenses

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Borrowings	726,147	2,906,766	267,143	1,083,799
Deposits from customers	5,510	22,057	779	3,160
Others	1,223	4,896	3,293	13,360
	732,880	2,933,719	271,215	1,100,319

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 21. Grant income

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Amortisation of grant income from AFD	50,018	200,222	102,032	413,944
Asian Development Bank	20,626	82,566	-	-
Consultative Group to Assist the Poor ("CGAP")	6,000	24,018	-	-
Save Children	1,904	7,622	-	-
Department of fisheries	-	-	21,273	86,304
Others	644	2,578	-	-
	<u>79,192</u>	<u>317,006</u>	<u>123,305</u>	<u>500,248</u>

### 22. Other operating income

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Foreign exchange gain - net	40,997	164,111	31,013	125,820
Gain on disposal of property and equipment	11,263	45,086	1,825	7,404
Other income	43,771	175,215	76,390	309,914
	<u>96,031</u>	<u>384,412</u>	<u>109,228</u>	<u>443,138</u>

### 23. Salaries and staff benefits

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	490,719	1,964,348	345,929	1,403,434
Staff bonus	34,684	138,840	29,361	119,118
Medical benefits	7,579	30,339	4,162	16,885
Retirement benefits	22,130	88,586	12,787	51,877
Other staff benefits	42,161	168,770	13,455	54,587
Training costs	17,851	71,458	10,997	44,615
Board of Directors meeting allowances	6,963	27,873	3,249	13,181
	<u>622,087</u>	<u>2,490,214</u>	<u>419,940</u>	<u>1,703,697</u>

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 24. General and administrative expenses

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Depreciation	120,514	482,418	61,857	250,954
Amortisation	8,440	33,785	5,389	21,863
Profit sharing	99,362	397,746	74,365	301,699
Rental	90,970	364,153	55,140	223,703
Processing fees on borrowings	69,754	279,225	18,317	74,312
Fuel costs	55,511	222,210	33,468	135,780
Office supplies	46,593	186,512	22,637	91,838
Consultancy and professional fees	39,542	158,287	11,547	46,846
Communication	37,567	150,381	24,322	98,674
Perdiem and allowances	29,771	119,173	15,275	61,971
Utilities	21,586	86,409	15,057	61,086
Printing and stationery	16,313	65,301	2,691	10,917
Promotion and advertising	15,148	60,637	13,436	54,510
Security expenses	10,807	43,260	8,130	32,984
Software maintenance	10,364	41,487	-	-
Office decorations	10,296	41,215	3,463	14,049
Repairs and maintenance	8,962	35,875	5,529	22,431
Bank charges	8,514	34,082	5,141	20,857
Public relations	7,341	29,386	6,766	27,450
Travelling expenses	6,850	27,421	2,795	11,339
Insurance	4,350	17,413	4,096	16,618
Others	25,744	103,053	24,336	98,731
	<u>744,299</u>	<u>2,979,429</u>	<u>413,757</u>	<u>1,678,612</u>

# Hattha Kaksekar Limited

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

### 25. Net cash used in operating activities

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	888,605	3,557,086	564,154	2,288,772
Adjustments for:				
Depreciation	120,514	482,418	61,857	250,954
Amortisation	8,440	33,785	5,389	21,863
Provision for bad and doubtful loans	75,099	300,621	30,220	122,603
Gain on disposal of property and equipment	(11,263)	(45,086)	(1,825)	(7,404)
Property and equipment written off	1,641	6,569	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities	1,083,036	4,335,393	659,795	2,676,788
(Increase)/decrease in operating assets:				
Loans to customers	(8,233,597)	(32,959,089)	(2,309,102)	(9,368,027)
Other receivables	(116,578)	(466,662)	(135,915)	(551,407)
Statutory deposits	(25,484)	(102,012)	(500)	(2,029)
Increase/(decrease) in operating liabilities:				
Deposits from customers	401,446	1,606,988	86,851	352,355
Other liabilities	200,043	800,772	28,613	116,083
Deferred grant income	(50,018)	(200,222)	98,708	400,458
	<hr/>	<hr/>	<hr/>	<hr/>
Cash used in operations	(6,741,152)	(26,984,832)	(1,571,550)	(6,375,779)
Income tax paid	(120,938)	(484,115)	(50,643)	(205,459)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in operating activities	<u>(6,862,090)</u>	<u>(27,468,947)</u>	<u>(1,622,193)</u>	<u>(6,581,238)</u>

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 26. Cash and cash equivalents

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	57,919	231,850	46,763	189,717
Deposits with banks	1,545,902	6,188,246	250,222	1,015,150
	<u>1,603,821</u>	<u>6,420,096</u>	<u>296,985</u>	<u>1,204,867</u>

### 27. Related party transactions

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

#### (a) Compensation

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
<i>Board of Directors</i>				
Fee and related expenses	6,963	27,873	3,249	13,181
	<u>6,963</u>	<u>27,873</u>	<u>3,249</u>	<u>13,181</u>
<i>Key management</i>				
Salaries and short-term benefits	15,168	60,718	75,357	305,723
	<u>15,168</u>	<u>60,718</u>	<u>75,357</u>	<u>305,723</u>

#### (b) Loans to management and staff

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	19,237	78,044	17,596	72,354
Loans during the year	175,988	704,480	21,100	85,603
Loan payments received	(42,142)	(168,694)	(19,459)	(78,945)
Translation difference	-	(1,039)	-	(968)
	<u>153,083</u>	<u>612,791</u>	<u>19,237</u>	<u>78,044</u>

Loans are provided to management and staff of the Company over a two years period with the interest rates ranging between 10%-18% per annum.

# Hattha Kaksekar Limited

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

### 27. Related party transactions (continued)

#### (c) Deposits from management and staff

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	14,459	58,660	20,000	82,240
Deposits during the year	321,147	1,285,551	33,079	134,201
Withdrawals during the year	(242,081)	(969,050)	(38,620)	(156,681)
Translation difference	-	(780)	-	(1,100)
	<u>93,525</u>	<u>374,381</u>	<u>14,459</u>	<u>58,660</u>

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

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

#### (d) Transactions with shareholders:

i) Principal repayments and interest expense charged are as follows:

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Hattha Kaksekar NGO				
Interest expense	4,641	18,578	4,641	18,829
CORDAID				
Principal repayments	137,525	550,513	78,360	317,906
Interest expense	17,727	70,961	8,704	35,312
SIDI				
Principal repayments	240,000	960,720	20,000	81,140
Interest expense	12,220	48,916	4,313	17,498
	<u>412,113</u>	<u>1,649,688</u>	<u>116,018</u>	<u>470,685</u>

ii) During the year, the Company issued an additional 1,713 shares to a director and the Staff Association, whose holdings represent 4.14% and 15.57% respectively of the increased capital.

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 28. Commitments and contingencies

#### (a) Operating leases

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

	2007		2006	
	US\$	KHR'000	US\$	KHR'000
Within one year	90,852	363,681	68,245	276,870
From two to five years	148,496	594,429	141,105	572,463
	<u>239,348</u>	<u>958,110</u>	<u>209,350</u>	<u>849,333</u>

#### (b) Taxation contingencies

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

### 29. Financial risk management policies

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

#### (a) Credit risk

Credit risk is the potential loss of income and principal losses in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Company's credit manual to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit manual documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC guidelines.

#### (b) Operational risk

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

The operational risk management entail the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its micro-finance business.

#### (c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

# **Hattha Kaksekar Limited**

## **Notes to the financial statements (continued)**

**31 December 2007**

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

#### **(i) Foreign currency exchange risk**

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Khmer Riel and Thai Baht. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Management does not enter into any currency hedging transaction since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

#### **(ii) Interest rate risk**

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its loans and bank deposits.

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

The following table indicates the effective interest rates at the balance sheet date and the periods in which the financial instruments re-price or mature, whichever is earlier.

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

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

#### (ii) Interest rate risk (continued)

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

# Hattha Kaksekar Limited

## Notes to the financial statements (continued)

31 December 2007

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

#### (ii) Interest rate risk (continued)

2006	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	> 1 – 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
<b>Assets</b>							
Cash on hand	-	-	-	-	46,763	46,763	-
Deposits with banks	250,222	-	-	-	-	250,222	2.25%
Loans to customers							
- Performing	2,532,494	-	-	3,383,510	-	5,916,004	29%
- Non performing	-	2,225	10,055	22,476	-	34,756	-
- Specific provision	-	-	-	-	(22,541)	(22,541)	-
- General provision	-	-	-	-	(71,555)	(71,555)	-
Other receivables	-	-	-	-	178,714	178,714	-
Statutory deposits	-	-	-	14,247	-	14,247	2.04%
<b>Total assets</b>	<b>2,782,716</b>	<b>2,225</b>	<b>10,055</b>	<b>3,420,233</b>	<b>131,381</b>	<b>6,346,610</b>	
<b>Liabilities</b>							
Deposits from customers	-	14,009	243,165	-	-	257,174	0.84%
Borrowings	-	-	752,152	2,533,300	-	3,285,452	9.11%
Subordinated loans	-	-	-	777,641	-	777,641	0.75%
Other liabilities	-	-	-	-	183,194	183,194	-
Amounts due to shareholders	-	-	337,525	270,848	-	608,373	6.50%
Deferred grant income	-	-	170,245	-	-	170,245	-
Provision for income tax	-	-	-	-	137,510	137,510	-
Deferred tax liabilities	-	-	-	-	2,743	2,743	-
<b>Total liabilities</b>	<b>-</b>	<b>14,009</b>	<b>1,503,087</b>	<b>3,581,789</b>	<b>323,447</b>	<b>5,422,332</b>	

# **Hattha Kaksekar Limited**

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

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

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

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

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

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

# Hattha Kaksekar Limited

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

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

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

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

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

# Hattha Kaksekar Limited

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

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

#### (ii) Liquidity risk (continued)

31 December 2006	Less than 1 month US\$	From 1 month to 3 months US\$	From 3 months to 1 year US\$	From 1 year to 5 years US\$	No fixed maturity date US\$	Total US\$
<b>Assets</b>						
Cash on hand	46,763	-	-	-	-	46,763
Deposits with banks	250,222	-	-	-	-	250,222
Loans to customers						
- Performing	2,532,494	-	-	3,383,510	-	5,916,004
- Non performing	-	2,225	10,055	22,476	-	34,756
- Specific provision	-	-	-	-	(22,541)	(22,541)
- General provision	-	-	-	-	(71,555)	(71,555)
Other receivables	58,566	-	95,794	24,354	-	178,714
Statutory deposits	-	-	-	14,247	-	14,247
Total assets	2,888,045	2,225	105,849	3,444,587	(94,096)	6,346,610
<b>Liabilities</b>						
Deposits from customers	-	14,009	243,165	-	-	257,174
Borrowings	-	-	752,152	2,533,300	-	3,285,452
Subordinated loans	-	-	-	777,641	-	777,641
Other liabilities	-	19,174	164,020	-	-	183,194
Amounts due to shareholders	-	-	337,525	270,848	-	608,373
Deferred grant income	-	-	170,245	-	-	170,245
Provision for income tax	-	137,510	-	-	-	137,510
Deferred tax liabilities	-	-	-	-	2,743	2,743
Total liabilities	-	170,693	1,667,107	3,581,789	2,743	5,422,332

# Hattha Kaksekar Limited

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

### 30. Currency analysis

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

	US\$	(US\$ equivalent)			Total
		THB	KHR	EUR	
<b>31 December 2007</b>					
<b>Assets</b>					
Cash on hand	50,896	2,156	4,867	-	57,919
Deposits with banks	1,543,688	1,897	317	-	1,545,902
Loans to customers	12,429,767	774,478	810,917	-	14,015,162
Other receivables	256,209	16,643	22,440	-	295,292
Statutory deposits	39,731	-	-	-	39,731
<b>Total financial assets</b>	<b>14,320,291</b>	<b>795,174</b>	<b>838,541</b>	<b>-</b>	<b>15,954,006</b>
<b>Liabilities</b>					
Deposits from customers	609,652	28,474	20,494	-	658,620
Borrowings	10,605,000	-	800,000	378,300	11,783,300
Subordinated loans	729,319	-	-	-	729,319
Other liabilities	368,142	3,533	11,562	-	383,237
Amounts due to shareholders	230,848	-	-	-	230,848
Provision for income tax	-	-	197,394	-	197,394
<b>Total financial liabilities</b>	<b>12,542,961</b>	<b>32,007</b>	<b>1,029,450</b>	<b>378,300</b>	<b>13,982,718</b>
<b>Net asset/(liability) position</b>	<b>1,777,330</b>	<b>763,167</b>	<b>(190,909)</b>	<b>(378,300)</b>	<b>1,971,288</b>
<b>31 December 2006</b>					
Total assets	5,695,128	346,966	304,516	-	6,346,610
Total liabilities	4,721,592	79,267	70,185	378,300	5,249,344
<b>Net asset/(liability) position</b>	<b>973,536</b>	<b>267,699</b>	<b>234,331</b>	<b>(378,300)</b>	<b>1,097,266</b>

# Hattha Kaksekar Limited

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

### 31. Fair values of financial assets and liabilities

The aggregate fair values of financial assets and liabilities carried on the balance sheet are approximately equal to their carrying values as at 31 December 2007.

### 32. Comparative figures

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

	2006	
	As restated US\$	As previously presented US\$
Balance sheet:		
Balances with the Central Bank	-	14,425
Balances with banks	-	250,044
Grants receivable	-	58,566
Other receivables	178,714	24,354
Accrued interest income	-	95,794
Deposits with banks	250,222	-
Statutory deposits	14,247	-
	<u>443,183</u>	<u>443,183</u>
	<u><u>443,183</u></u>	<u><u>443,183</u></u>
Borrowings	(3,285,452)	(3,893,825)
Amounts due to shareholders	(608,373)	-
Accruals and other liabilities	-	(320,704)
Other liabilities	(183,194)	-
Provision for income tax	(137,510)	-
	<u>(4,214,529)</u>	<u>(4,214,529)</u>
	<u><u>(4,214,529)</u></u>	<u><u>(4,214,529)</u></u>
Income statement:		
Other operating income	(109,228)	(78,215)
General and administrative expenses	413,757	292,040
Depreciation	-	67,246
Interest expenses	271,215	294,673
	<u>575,744</u>	<u>575,744</u>
	<u><u>575,744</u></u>	<u><u>575,744</u></u>