

**HATTHA KAKSEKAR LIMITED**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002**

**HATTHA KAKSEKAR LIMITED****FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****CONTENTS**

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**ហត្ថាកាកសេកា លីមីតធីត . HATTHA KAKSEKAR LIMITED**

**ស្ថាប័នមីក្រូហិរញ្ញវត្ថុ**

**Micro - Finance Institute**

## **REPORT OF THE BOARD OF DIRECTORS**

The Board of Directors of Hattha Kaksekar Limited ("HKL") presents its report together with the audited financial statements of HKL for the year ended 31 December 2002.

### **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 ("NBC") 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 MFI is principally engaged in the provision of credit and saving services for the lower segments of the market.

HKL operates in five branches located in the provinces of Pursat, Kampong Thom, Siem Reap and Banteay Meanchey, with the primary source of revenue being from interest income earned on providing loans to clients. It also provides a voluntary savings accounts service to its clients.

### **RESULTS AND DIVIDENDS**

The net income for the year ended 31 December 2002, after taxation, amounted to US\$ 42,196 (for the eight months ended 31 December 2001: US\$ 35,662).

No dividends were paid or declared during this period.

### **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.

Head Office : Road N° 4, Peal Ngeak I Village, Phteasli Prey Commune, Sampovmeas District,  
Pursat Province, 50m from Highway 5  
CCC box N° 377, P.O. Box 2044, Phnom Penh Cambodia  
Tel / Fax : (855) 52 951 404 / H/P : (855) 12 841 887  
E-mail : kaksekar@camintel.com

## THE BOARD OF DIRECTORS

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

Mr. So Salout (President, resigned 30 October 2002);  
Mr. Dul Sambath (Secretary, resigned 23 March 2002)  
Mr. Jean Thiboutot;  
Ms. Im Vandith;  
Mr. Jacques Gauthron;  
Mr. So Phally (resigned 23 March 2002);  
Mr. Gui Anvanith (resigned 30 October 2002);  
Mr. Hout Ieng Tong (appointed 23 March 2002 as provisory member)

No members held to any controlling interest in the equity of the MFI except for Mr. Jean Thiboutot holding 84 shares of the MFI (with par value of US\$ 30 each). No arrangements existed to which the MFI is a party with the object of enabling the members to obtain an interest in the MFI or in any body corporate. No member has a benefit, other than remuneration, by reason of a contract made by the MFI 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 Board of Directors is responsible for the financial statements of each financial year which give a true and fair view of the state of affairs of the MFI and of the results of its operations, and cash flows for the year ended 31 December 2002. In preparing those financial statements, the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to assume that the MFI will continue in business.

The Board of Directors confirms that HKL has complied with the above requirements in preparing the accounts.

The Board of Directors is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy and time, the financial position of the MFI and to ensure that the accounts comply with the registered accounting system. It is also responsible for safeguarding the assets of the MFI and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**APPROVAL OF THE FINANCIAL STATEMENTS**

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of HKL as at 31 December 2002, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

On behalf of the Board of Directors:



Hout Ieng Tong  
General Manager

Phnom Penh, Kingdom of Cambodia  
Date: 28 February 2003



PricewaterhouseCoopers (Cambodia) Ltd  
124 Norodom Boulevard, Chankarmean  
Phnom Penh  
Kingdom of Cambodia.  
Tel : (855) 23 218 086  
Fax : (855) 23 211 594

**AUDITORS' REPORT TO THE BOARD DIRECTORS OF  
HATTHA KAKSEKAR LIMITED**

We have audited the financial statements, expressed in United States dollars, of Hattha Kaksekar Limited ("HKL") as at 31 December 2002 and for the year then ended. These financial statements, as set out on pages 5 to 24, have been prepared in accordance with International Accounting Standards. As discussed in note 2 to the financial statements, the translation in Khmer Riel is made for the sole purpose of complying with the NBC requirement.

**Respective responsibilities of management and auditors**

HKL's management is responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion based on our audit, on those financial statements and to report our opinion to you.

**Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by HKL's management in the preparation of the financial statements, and of whether the accounting policies are appropriate to HKL's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the financial statements expressed in United States dollars give a true and fair view, in all material respects, of the financial position of HKL as at 31 December 2002 and of the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards.

*PricewaterhouseCoopers (Cambodia) Limited*

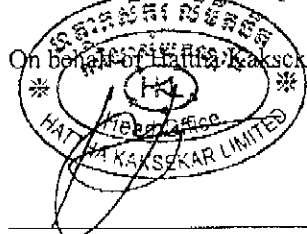


PRICEWATERHOUSECOOPERS (CAMBODIA) LIMITED  
Phnom Penh, Kingdom of Cambodia  
Date: 28 February 2003

**HATTHA KAKSEKAR LIMITED****BALANCE SHEET  
AS AT 31 DECEMBER 2002**

	Note	31 December 2002		31 December 2001	
		US\$	Riel' 000 (At year-end exchange rate)	US\$	Riel' 000 (At year-end exchange rate)
<b>ASSETS</b>					
Cash on hand	3	107,026	420,612	61,610	239,971
Deposits with the National Bank of Cambodia	4	4,922	19,343	4,922	19,171
Balances with banks	5	70,590	277,419	40,839	159,068
Loans receivable, net	7	1,186,807	4,664,152	1,399,836	5,452,361
Grants receivable	8	145,414	571,477	247,649	964,593
Fixed assets	9	99,330	390,367	82,433	321,077
Other receivables		52,133	204,882	46,839	182,438
<b>Total Assets</b>		<b>1,666,222</b>	<b>6,548,252</b>	<b>1,884,128</b>	<b>7,338,679</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Bank loans	10	290,000	1,139,700	550,000	2,142,250
Subordinated loans	11	856,836	3,367,365	858,457	3,343,691
Deposits of members	12	77,634	305,102	82,599	321,723
Deferred grant income	13	181,014	711,385	236,134	919,742
Accruals and other liabilities	14	94,275	370,500	43,426	169,144
<b>Total Liabilities</b>		<b>1,499,759</b>	<b>5,894,052</b>	<b>1,770,616</b>	<b>6,896,550</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	15	77,850	305,951	77,850	303,226
Revolving fund subsidy	13	10,755	42,267	-	-
Accumulated profit		77,858	305,982	35,662	138,903
<b>Total Shareholders' Equity</b>		<b>166,463</b>	<b>654,200</b>	<b>113,512</b>	<b>442,129</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,666,222</b>	<b>6,548,252</b>	<b>1,884,128</b>	<b>7,338,679</b>

On behalf of Hattha Kaksekar Limited



Mr. Hout Ieng Tong  
General Manager  
Date: 28 February 2003

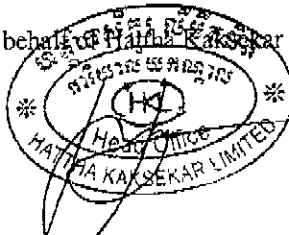
The accompanying notes form an integral part of these financial statements.

**HATTHA KAKSEKAR LIMITED**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	Share capital US\$	Revolving fund subsidy	Retained earnings US\$	Total US\$	Total Riel '000 (At year-end exchange rate)
Balance as at 27 April 2001	15	77,850	-	-	77,850	303,226
Net income for the period		-	-	35,662	35,662	138,903
Balance as at 31 December 2001		77,850		35,662	113,512	442,129
Net income for the year		-		42,196	42,196	165,830
Revolving fund subsidy		-	10,755	-	10,755	42,267
Currency revaluation at balance sheet date		-	-	-	-	3,974
Balance as at 31 December 2002		77,850	10,755	77,858	166,463	654,200

On behalf of Hattha Kaksekar Limited



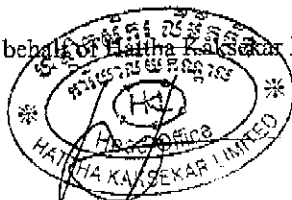
Mr. Hout-feng Tong  
General Manager  
Date: 28 February 2003

The accompanying notes form an integral part of these financial statements.

**HATTHA KAKSEKAR LIMITED****STATEMENT OF INCOME  
AS AT 31 DECEMBER 2002**

	Note	For the year ended 31 December 2002		For the eight months ended 31 December 2001	
		US\$	Riel' 000 (At year-end exchange rate)	US\$	Riel' 000 (At year-end exchange rate)
Interest income	16	583,993	2,295,092	348,338	1,356,777
Interest expense	17	71,115	279,482	52,038	202,688
<b>Net interest income</b>		<b>512,878</b>	<b>2,015,610</b>	<b>296,300</b>	<b>1,154,089</b>
Grant income	18	61,681	242,406	60,279	234,787
Other operating income		38,766	152,351	14,559	56,707
<b>Net operating income</b>		<b>613,325</b>	<b>2,410,367</b>	<b>371,138</b>	<b>1,445,583</b>
<b>Operating expenses</b>					
General and administrative expenses	19	302,576	1,189,124	159,596	621,627
Grant-related expenses	20	61,681	242,406	62,054	241,701
Depreciation	9	26,954	105,929	14,378	56,002
<b>Total operating expenses</b>		<b>391,211</b>	<b>1,537,459</b>	<b>236,028</b>	<b>919,330</b>
Provision for doubtful loans	7	173,217	680,743	97,750	380,736
<b>Total expenses</b>		<b>564,428</b>	<b>2,218,202</b>	<b>333,778</b>	<b>1,300,066</b>
<b>Income before income tax</b>		<b>48,897</b>	<b>192,165</b>	<b>37,360</b>	<b>145,517</b>
Income tax expense	21	6,701	26,335	1,698	6,614
<b>NET INCOME FOR THE YEAR/ PERIOD</b>		<b>42,196</b>	<b>165,830</b>	<b>35,662</b>	<b>138,903</b>

On behalf of Hattha Kaksekar Limited



Mr. Hour Leng Tong  
General Manager  
Date: 28 February 2003

The accompanying notes form an integral part of these financial statements.

**HATTHA KAKSEKAR LIMITED****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	For the year ended 31 December 2002		For the eight months ended 31 December 2001	
		US\$	Riel' 000 (At year-end exchange rate)	US\$	Riel' 000 (At year-end exchange rate )
<b>Operating activities</b>					
Net income for the period		42,196	165,830	35,662	138,903
Adjustments for:					
Provision for doubtful loans	7	173,217	680,743	97,750	380,736
Depreciation of fixed assets	9	26,954	105,929	14,378	56,002
Loss on disposal of fixed assets		5,185	20,377	245	954
Changes in operating assets and liabilities:					
Capital guarantee and reserve accounts with the NBC		-	-	(4,747)	(18,489)
Loans receivable, net		39,812	156,461	(269,371)	(1,049,200)
Grants receivable		102,235	401,783	247,614	964,457
Other assets		(5,294)	(20,805)	(17,462)	(68,014)
Deposits of members		(4,965)	(19,512)	20,311	79,111
Deferred grant income		(55,120)	(216,622)	(60,279)	(234,787)
Accruals and other liabilities		50,849	199,837	17,917	69,787
Net cash inflow from operating activities		<u>375,069</u>	<u>1,474,021</u>	<u>82,018</u>	<u>319,460</u>
<b>Investing activity</b>					
Purchases of fixed assets	9	<u>(49,036)</u>	<u>(192,711)</u>	<u>(24,547)</u>	<u>(95,611)</u>
<b>Financing activities</b>					
Proceeds from bank loans		290,000	1,139,700	-	-
Repayment of bank loans		(550,000)	(2,161,500)	-	-
Revolving fund subsidy		10,755	42,267	-	-
Increase (decrease) in subordinated loans		<u>(1,621)</u>	<u>(6,370)</u>	<u>13,350</u>	<u>51,999</u>
Net cash inflow (outflow) from operating activities		<u>(250,866)</u>	<u>(985,903)</u>	<u>13,350</u>	<u>51,999</u>
Net increase in cash on hand and in banks		75,167	295,407	70,821	275,848
<b>Cash and cash equivalents as at beginning of the year/period</b>					
		102,624	399,721	31,803	123,873
Currency revaluation at balance sheet date		-	3,591	-	-
<b>Cash and cash equivalents as at end of the year/period</b>					
	6	<u>177,791</u>	<u>698,719</u>	<u>102,624</u>	<u>399,721</u>

The accompanying notes form an integral part of these financial statements.

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****1. GENERAL**

Hattha Kaksekar, a non-governmental organisation ("NGO") established in November 1996, has created Hattha Kaksekar Limited (HKL) in order to comply with Prakas No. B700-06 dated 11 January 2000, a regulation issued by the National Bank of Cambodia ("NBC") 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 to provide credit and savings services for the lower segments of the market. On 19 October 2001, under license number 02 of the same date, NBC issued a license to HKL to conduct micro-finance operations for a three-year period expiring on 19 October 2004.

HKL operates in five branches located in the provinces of Pursat, Kampong Thom, Siem Reap and Banteay Meanchey, with primary source of revenue derived from interest income earned on providing loans to clients. It also provides a voluntary savings accounts service to its clients, and business training courses for its female borrowers.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below:

***Basis of measurement***

The financial statements of the MFI, which are expressed in United States Dollar (US\$), are prepared under the historical cost convention and drawn up in accordance with International Accounting Standards (IASs).

For the sole purpose of complying with Announcement No. B795-139-AN dated 5 December 1995 of NBC, each account of financial statements has to be converted into Khmer Riel (Riel) at the official rate of exchange as at reporting date. The translation method is not in accordance with IASs. As at 31 December 2002, such conversion was made at the rate of US\$ 1 to Riel 3,930 (2001: US\$ 1 to Riel 3,895).

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Basis of aggregation (Continued)***

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

***Loans***

Loans are stated net of provision for doubtful loans.

The adequacy of the provision for 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.

Management provides monthly provision for loan losses in order that the provision is maintained at adequate level. The amount of provision established by the MFI as at balance sheet date is in full compliance with the requirement of NBC Prakas No B-7-02-186 on classification of and provisioning for bad and doubtful debts, including interest in suspense. The provision established as at balance sheet date in excess of the requirement of this Prakas is considered as a general provision which as at 31 December 2002 amounted to US\$ 14,357 (Riel 56,423 thousand).

The provision for doubtful loans is determined by applying defined percentages to the outstanding balances in various aging categories. Defined percentages applied are as follows:

<b>Loan status/classification</b>	<b>Percentage (%) Applied</b>
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

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

The MFI accrues interest on its loans as it is earned. If a loan is restructured and the client has a valid reason for asking not to be charged with interest, the MFI reverses from income any unpaid interest that may have accrued. If a loan is written-off, any related unpaid accrued interest recognised is reversed against income. If a loan becomes doubtful, a penalty is charged to the borrower on a monthly basis based on the outstanding loan balance. Such a penalty is recognised in the accounts on a cash basis. No penalty is charged in cases of natural calamities, accident on the part of the borrower and other justifiable causes.

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Interest income and expense recognition*

Interest earned on loans is recognised on an accruals basis. Fee income is recognised in the statement of income when the transaction occurs.

Interest expense on deposits from members is recognised on an accruals basis calculated based on outstanding deposit balances as at month-end. Fee expense is recognised in the statement of income when the transaction occurs.

*Fixed assets*

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged at rates calculated to write off the fixed assets on a straight-line basis over their estimated useful lives, at the following annual rates:

	Percentage (%)
Communication and transportation equipment	16.67
Furniture and fixtures	12.5
Office equipment	25

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

Donated fixed assets are included in the balance sheet at their fair values. Fair value is determined based on the depreciated replacement cost and actual cost has been taken as an approximation of replacement cost. Donated fixed assets are depreciated based on their estimated remaining useful lives.

*Grants and subsidy*

Revenue grants received to subsidise the MFI's operating expenses are released in the statement of income over the periods in which they are expected to be received as stipulated in their respective grant agreements. 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.

Subsidies received to be used exclusively by the MFI for funding its loan disbursements and which are not repayable to the donor are treated as part of stockholders' equity in the balance sheet.

*Foreign currency translation*

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

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**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Deferred taxation*

Deferred taxation is calculated using the liability method on significant timing differences arising from the difference in accounting and taxation treatment of certain income and expense items. A deferred tax benefit is, however, not recognized in the financial statements except where there is a reasonable expectation of realization.

*Cash and cash equivalents*

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days' maturity from the date of acquisition including cash on hand, savings account with NBC and balances with banks.

**3. CASH ON HAND**

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
Stung (Kampong Thom)	27,725	108,959	11,579	45,100
Steung Ser (Kampong Thom)	22,749	89,403	-	-
Banteay Mearcheay	22,485	88,366	3,012	11,732
Sampov Meas	20,791	81,709	14,396	56,073
Siem Reap	8,160	32,069	10,988	42,720
Head Office	5,116	20,106	10,381	40,434
Phnum Kravaanh	-	-	11,274	43,972
	<u>107,026</u>	<u>420,612</u>	<u>61,610</u>	<u>239,971</u>

**4. DEPOSITS WITH THE NATIONAL BANK OF CAMBODIA**

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
Capital guarantee deposit	3,900	15,327	3,900	15,196
Reserve requirement for savings deposits	847	3,328	847	3,299
Savings account	175	688	175	682
	<u>4,922</u>	<u>19,343</u>	<u>4,922</u>	<u>19,177</u>

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**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****4. DEPOSITS WITH THE NATIONAL BANK OF CAMBODIA (Continued)**

Following NBC'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 NBC.

**5. BALANCES WITH BANKS**

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate )	US\$	Riel '000 (At year-end exchange rate)
<i>Savings accounts</i>				
Canada Bank	62,898	247,189	6,531	25,438
Cambodian Public Bank Limited (CPBL)	6,367	25,022	33,158	129,150
Rural Development Bank (RDB)	135	531	100	390
Aceda Bank	135	531	50	195
<i>Current account</i>				
CPBL	1,055	4,146	1,000	3,895
	<u>70,590</u>	<u>277,419</u>	<u>40,839</u>	<u>159,068</u>

Savings accounts earned interest at rates ranging from 1% to 3% whereas the current account does not earn interest.

**6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents reported in the statement of cash flows comprise the following:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
Cash on hand	107,026	420,612	61,610	239,971
Savings account with the NBC	175	688	175	682
Balances with banks	<u>70,590</u>	<u>277,419</u>	<u>40,839</u>	<u>159,068</u>
	<u>177,791</u>	<u>698,719</u>	<u>102,624</u>	<u>399,721</u>

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****7. LOANS RECEIVABLE, NET**

All loans were provided to Cambodian rural residents. The details of loans receivable by location are as follows:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
Siem Reap	368,497	1,448,193	469,802	1,829,879
Sampov Meas, Pursat	346,622	1,362,224	469,407	1,828,340
Banteay Meanchey	254,589	1,000,535	13,588	52,925
Stcounng Sen, Kampong Thom	217,379	854,300	-	-
Stung, Kampong Thom	176,278	692,773	465,175	1,811,857
Phnum Kravahn, Pursat	-	-	136,278	530,803
	<u>1,363,365</u>	<u>5,358,025</u>	<u>1,554,250</u>	<u>6,053,804</u>
Provision for doubtful loans	<u>(176,558)</u>	<u>(693,873)</u>	<u>(154,414)</u>	<u>(601,443)</u>
Loans receivable, net	<u>1,186,807</u>	<u>4,664,152</u>	<u>1,399,836</u>	<u>5,452,361</u>

Further details of gross loans receivable are as follows:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
Small business loans	1,321,152	5,192,128	1,433,293	5,582,676
Agricultural loans	<u>42,213</u>	<u>165,897</u>	<u>120,957</u>	<u>471,128</u>
	<u>1,363,365</u>	<u>5,358,025</u>	<u>1,554,250</u>	<u>6,053,804</u>

	Monthly Interest Rate	Loan Term in Months
Small business loans	3%	1 - 10
Agricultural loans	4%	1 - 12

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****7. LOANS RECEIVABLE, NET (Continued)**

The details of gross loans receivable by currency are as follows:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
In US\$	1,280,146	5,030,974	1,547,323	6,026,823
In Thai Baht	<u>83,219</u>	<u>327,051</u>	<u>6,927</u>	<u>26,981</u>
	<u>1,363,365</u>	<u>5,358,025</u>	<u>1,554,250</u>	<u>6,053,804</u>

Movements of provision for doubtful loans are as follows:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate )	US\$	Riel '000 (At year-end exchange rate)
Beginning balance	154,414	606,847	56,664	220,707
Provision for the period	173,217	680,743	97,750	380,736
Write-offs	<u>(151,073)</u>	<u>(593,717)</u>	-	-
Ending balance	<u>176,558</u>	<u>693,873</u>	<u>154,414</u>	<u>601,443</u>

**8. GRANTS RECEIVABLE**

The details of grants receivable are as follows:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
Ministry of Economy and Finance (MoEF) - Agence Francaise de Development (AFD)				
Technical assistance	145,414	571,477	229,407	893,540
Fixed assets fund	-	-	17,427	67,878
Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ)	<u>-</u>	<u>-</u>	<u>815</u>	<u>3,175</u>
Total	<u>145,414</u>	<u>571,477</u>	<u>247,649</u>	<u>964,593</u>

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****8. GRANTS RECEIVABLE (Continued)**

AFD's grant for technical assistance covers remuneration for a technical advisor for a period of three years to look after the MFI's whole operations and strategies. The grant should also cover remuneration for an accounting advisor for a period of eighteen months to strengthen the MFI's finance unit and oversee its accounting computerisation, including management information systems and human resource development. HKL must submit quarterly reports showing the degree of its accomplishment to date in terms of the indicators specified by AFD and one final report at the end of the third year. All requests for payments must be supported by a copy of bills or invoices, to be sent to the project coordinator of the Ministry of Economy and Finance who will then pass the requests to AFD for payment processing.

In 2001, the GTZ grant was used exclusively for costs incurred by the MFI for the introduction of public saving services in the province of Kompong Thom. Following the grant agreement, the costs were reimbursed after the expenses, as budgeted for in the grant agreement, had been carried out. The remaining amount of US\$ 815 was reimbursed by GTZ in 2002.

**9. FIXED ASSETS**

	Transportation equipment US\$	Office equipment US\$	Communication equipment US\$	Furniture & fixture US\$	Total US\$
<b>At valuation</b>					
At 1 January 2002	74,794	33,211	13,540	13,946	135,491
Additions	29,665	16,650	1,002	1,719	49,036
Disposals	(18,828)	-	(746)	-	(19,574)
At 31 December 2002	85,631	49,861	13,796	15,665	164,953
<b>Accumulated depreciation</b>					
At 1 January 2002	29,639	12,553	6,185	4,681	53,058
Charge for the year	12,989	9,863	2,266	1,836	26,954
Disposals	(14,335)	-	(54)	-	(14,389)
At 31 December 2002	28,293	22,416	8,397	6,517	65,623
<b>Net book value at</b>					
31 December 2002	57,338	27,445	5,399	9,148	99,330
31 December 2001	45,155	20,658	7,355	9,265	82,433

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****10. BANK LOANS**

	<b>31 December 2002</b>		<b>31 December 2001</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate )	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
RDB (ADB-funded)	190,000	746,700	-	-
Alterfine	100,000	393,000	-	-
RDB	-	-	540,000	2,103,300
Loan from IFAD	-	-	10,000	38,950
	<u>290,000</u>	<u>1,139,700</u>	<u>550,000</u>	<u>2,142,250</u>

On 23 January 2002, HKL entered into a loan agreement with Rural Development Bank for an aggregate amount of US\$ 1,000,000 and a loan term of three years. The loan bears annual interest at 6-month LIBOR rate plus 4% and is secured by all assets of the MFI. The principal and interest repayments are due after one year from the respective dates the loan proceeds are received. Minimum loan proceeds should be US\$ 50,000. The Bank will charge an annual 1% commission fee on the proceeds received.

The outstanding RDB loan as at 31 December 2001 was fully paid in 2002 with annual interest at 12%. Principal and interest repayments are due after two years from the respective dates the loan proceeds were received by the MFI. A 0.5% commission fee of the proceeds received is charged to and paid by the MFI.

On 31 May 2002, HKL entered into a loan agreement with Alterfine for the amount of US\$ 100,000 and term of three years. The loan bears interest at 7.45% a year calculated based on the outstanding balance of the loan. The principal and interest repayments will be in five equal installments starting at the end of the second semester and every six months after, with a grace period of two semesters. The Bank charged an administration fee of US\$ 800. The loan amount can be increased up to US\$ 250,000.

**11. SUBORDINATED LOANS**

	<b>31 December 2002</b>		<b>31 December 2001</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
Hattha Kaksekar, NGO	543,260	2,135,012	544,881	2,122,312
MoEF - AFD	313,576	1,232,353	313,576	1,221,379
	<u>856,836</u>	<u>3,367,365</u>	<u>858,457</u>	<u>3,343,691</u>

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****11. SUBORDINATED LOANS (Continued)**

HK NGO has loaned funds 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 the subordinated loan agreement dated 27 April 2001 between the NGO and HKL are the following:

- i) The subordinated loan 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 NBC, and shall be included in computing HKL's capital adequacy ratio.

HKL shall pay to HK NGO an annual management fee of 1% of the subordinated loans 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 loan and transferred to HKL.

HKL also accepts the liability for repaying the total value of the loan to the MoEF of the Royal Government of Cambodia (RGOC) 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 RGOC 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.

**12. DEPOSITS OF MEMBERS**

The details of deposits of members are as follows:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
<i>By location</i>				
Sampov Meas, Pursat	28,773	113,078	25,870	100,764
Siem Reap	16,270	63,941	15,246	59,383
Stung, Kampong Thom	14,550	57,182	33,253	129,520
Steoung Sen, Kampong Thom	11,467	45,065	-	-
Banteay Meanchey	6,574	25,836	57	222
Phnum Kravaanh, Pursat	-	-	8,173	31,834
	<u>77,634</u>	<u>305,102</u>	<u>82,599</u>	<u>321,723</u>

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002****12. DEPOSITS OF MEMBERS (Continued)**

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
<i>By currency</i>				
Compulsory savings				
In US\$	65,102	255,851	70,080	272,962
In Thai Baht	4,433	17,422	-	-
Voluntary savings				
In US\$	5,957	23,411	6,138	23,907
In Riel	2,142	8,418	6,381	24,854
	<u>77,634</u>	<u>305,102</u>	<u>82,599</u>	<u>321,723</u>

Voluntary deposits bear interest at the following rates:

<u>US\$</u>	Interest rate per annum		Interest rate per annum	
	%	<u>Riel</u>	%	
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	

Compulsory deposits where the individual deposits are more than \$10 bear annual interest at 6%.

**13. DEFERRED GRANT INCOME**

This account represents the portion of the grants receivable transferred to the MFI which are to be recognised as grant income subsequent to balance sheet date, following the MFI's fulfilment of certain terms and conditions in the respective grant agreements. The details are as follows:

	31 December 2002		31 December 2001	
	US\$	Riel '000 (At year-end exchange rate)	US\$	Riel '000 (At year-end exchange rate)
AFD (see note 8)	176,053	691,888	236,134	919,742
Fixed asset grant from SCF	6,000	23,580	-	-
	182,053	715,468	236,134	919,742
Amortisation for the year	(1,039)	(4,083)	-	-
	<u>181,014</u>	<u>711,385</u>	<u>236,134</u>	<u>919,742</u>