

**THANEAKEA PHUM (CAMBODIA), LTD.**

**Financial Statements  
for the year ended 31 December 2010  
and  
Report of the Independent Auditors**

## Corporate information

Company	Thaneakea Phum (Cambodia), Ltd.
Registration No	Co. 1413/02E
Registered office	No. 94, Street 360, Sangkat Boeung Keng Kang III, Khan Chamkamon, Phnom Penh Kingdom of Cambodia
Shareholders	DWM Funds S.C.A.-SICAV SIF TPC-ESPOP Co., Ltd.
Board of Directors	Mr. Michael John Spingler, Chairman Ms. Fernanda Pecanha Lacerda De Lima Mr. Ry Vanna (resigned on 10 April 2011) Mr. Chandula P.Abeywickrema (appointed on 17 September 2010)
Management team	Mr. Michael John Spingler, Acting Chief Executive Officer (appointed on 1 February 2011) Mr. Chuon Sophal, Chief Executive Officer (resigned on 31 January 2011) Mr. Sok Voeurn, Chief Operations Officer (appointed on 19 April 2010) Mr. Sok Sophal, Chief Finance Officer (appointed on 2 August 2010)
Auditor	KPMG Cambodia Ltd

# **Thaneakea Phum (Cambodia), Ltd.**

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## Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of Thaneakea Phum (Cambodia), Ltd. (“the Company” or “TPC”) for the year ended 31 December 2010.

### Principal activity

The principal activity of TPC is to provide micro-finance services to the rural population of Cambodia through its head office in Phnom Penh and its various provincial offices in the Kingdom of Cambodia. Its corporate objective is to provide reliable and affordable access to financial services to poor micro-entrepreneurs in rural areas and in the vicinity of Phnom Penh.

### Financial results

The financial results of the Company for the year ended 31 December 2010 were as follows:

	KHR'000
Profit before income tax	4,396,294
Income tax expense	(906,427)
Net profit for the year	<u>3,489,867</u>

### 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 allowance for doubtful loans in the financial statements of the Company, inadequate to any substantial extent.



## **Current assets**

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current assets 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 its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may 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 Directors, substantially affected by any item, transaction or event of a material and unusual nature.

### **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.

### **Events since the reporting date**

No significant events occurred after the reporting date that requires disclosure or adjustment other than those already disclosed in the accompanying notes to the financial statements.

### **The Board of Directors**

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

- Mr. Michael John Spingler Chairman
- Ms. Fernanda Pecanha Lacerda De Lima Director
- Mr. Ry Vanna Director, (Resigned on 10 April 2011)
- Mr. Chandula P.Abeywickrema Director, (Appointed on 17 September 2010)

### **Directors' interests**

No members held any interest in the equity of the Company. No arrangements existed to which the Company is a party with the object of enabling the members to obtain an interest in the Company or in any other corporate body.

### **Directors' benefits**

During and at the end of the financial year, no arrangements existed to which the Company is 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 corporate body.

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

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

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and of its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards for Small and Medium-sized Entities and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements 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 they have complied with the above requirements in preparing the financial statements.

*Signed in accordance with a resolution of the Board of Directors,*



The image shows a handwritten signature in blue ink over a circular blue stamp. The stamp contains the text: 'ក្រុមហ៊ុន ថានាក់ គុម (ខេមបូឌា) ភីអិលធីធី (THANEAKEA CHUM (CAMBODIA) LTD)'. The signature is written in a cursive style.

**Mr. Michael John Spingler**

*Chairman*

Date: 29 APR 2011



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## **Report of the independent auditors To the shareholders Thaneakea Phum (Cambodia), Ltd.**

We have audited the accompanying financial statements of Thaneakea Phum (Cambodia), Ltd. (“the Company” or “TPC”), which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 7 to 44. The corresponding figures presented are based on the financial statements of the Company as at and for the year ended 31 December 2009, which were audited by another firm of auditors whose report dated 27 April 2010 expressed an unqualified opinion on those financial statements.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (CIFRS for SMEs) and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, 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 entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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



## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Thaneakea Phum (Cambodia), Ltd. as at 31 December 2010, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (CIFRS for SMEs) and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

**For KPMG Cambodia Ltd**



Craig McDonald  
*Audit Partner*

Phnom Penh

29 April 2011

## Thaneakea Phum (Cambodia), Ltd.

### Statement of financial position As at 31 December 2010

	Note	2010 KHR'000	2009 KHR'000
<b>ASSETS</b>			
Cash on hand	5	322,678	226,913
Deposits and placements with banks	6	34,946,852	44,806,732
Statutory deposits	7	215,200	215,200
Loan to customers	8	88,459,910	68,873,899
Other receivables	9	2,364,604	1,708,692
Property and equipment	10	1,199,820	1,022,955
Intangible assets	11	14,819	29,638
Deferred tax assets	12	139,639	183,937
<b>TOTAL ASSETS</b>		<b>127,663,522</b>	<b>117,067,966</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from customers	13	394,981	422,592
Borrowings	14	99,081,495	93,053,692
Other liabilities	15	2,705,933	2,057,940
Deferred grant income		16,298	21,731
Current income tax liability	12	618,069	155,132
<b>TOTAL LIABILITIES</b>		<b>102,816,776</b>	<b>95,711,087</b>
<b>EQUITY</b>			
Share capital	16	4,000,000	4,000,000
Reserves		1,373,211	788,740
Retained earnings		19,473,535	16,568,139
<b>TOTAL EQUITY</b>		<b>24,846,746</b>	<b>21,356,879</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>127,663,522</b>	<b>117,067,966</b>

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

## Thaneakea Phum (Cambodia), Ltd.

### Statement of comprehensive income for the year ended 31 December 2010

	Note	2010 KHR'000	2009 KHR'000
Interest income	17	26,546,534	25,847,339
Interest expense	18	(9,396,460)	(9,951,100)
<b>Net interest income</b>		17,150,074	15,896,239
Other operating income	19	326,587	260,103
<b>Operating income</b>		17,476,661	16,156,342
Commission expenses	20	(475,559)	(782,326)
Personnel expenses	21	(8,665,513)	(6,005,982)
Depreciation and amortisation		(591,344)	(492,872)
Administrative expenses	22	(3,736,556)	(2,533,144)
Reversals of/(provision for) bad and doubtful loans		378,277	(4,187,052)
<b>Profit from operations</b>		4,385,966	2,154,966
Grant income		10,328	7,244
<b>Profit before income tax</b>		4,396,294	2,162,210
Income tax expense	12	(906,427)	(438,926)
<b>Net profit /total comprehensive income for the year</b>		3,489,867	1,723,284

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

## Thaneakea Phum (Cambodia), Ltd.

### Statement of changes in equity for the year ended 31 December 2010

	Share capital KHR'000	Reserves KHR'000	Retained earnings KHR'000	Total KHR'000
Balance as at 1 January 2009	4,000,000	788,740	14,844,855	19,633,595
Net profit for the year	-	-	1,723,284	1,723,284
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2009	4,000,000	788,740	16,568,139	21,356,879
Transfer to reserves	-	584,471	(584,471)	-
Net profit for the year	-	-	3,489,867	3,489,867
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2010	<u>4,000,000</u>	<u>1,373,211</u>	<u>19,473,535</u>	<u>24,846,746</u>

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

## Thaneakea Phum (Cambodia), Ltd.

### Statement of cash flows for the year ended 31 December 2010

	2010 KHR'000	2009 KHR'000
<b>Cash flows from operating activities</b>		
Profit before income tax	4,396,294	2,162,210
Adjustments for non-cash income and expenses:		
Depreciation and amortisation	591,344	492,872
Grant income	(10,328)	(7,244)
(Reversals of)/provision for bad and doubtful loans	(378,277)	4,187,052
Loss on disposal of property and equipment	-	12,979
	<hr/>	<hr/>
	4,599,033	6,847,869
Changes in:		
Deposits and placements with banks	3,280,236	(823,907)
Statutory deposits	-	(10,000)
Loans to customers	(19,207,734)	1,630,374
Other receivables	(655,912)	155,583
Deposits from customers	(27,611)	95,081
Other liabilities	647,993	59,213
	<hr/>	<hr/>
Cash (used in)/generated from operations	(11,363,995)	7,954,213
Income tax paid	(399,192)	(1,204,659)
Grant received	4,895	-
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(11,758,292)	6,749,554
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(753,390)	(176,985)
	<hr/>	<hr/>
Net cash used in investing activities	(753,390)	(176,985)
	<hr/>	<hr/>

## Thaneakea Phum (Cambodia), Ltd.

### Statement of cash flows (continued) for the year ended 31 December 2010

	2010 KHR'000	2009 KHR'000
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	71,142,366	74,726,930
Repayments of borrowings	(65,114,563)	(73,306,592)
	<hr/>	<hr/>
Net cash generated from financing activities	6,027,803	1,420,338
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(6,483,879)	7,992,907
<b>Cash and cash equivalents at beginning of the year</b>	24,784,178	16,791,271
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>	18,300,299	24,784,178
	<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents comprise:	2010 KHR'000	2009 KHR'000
Cash on hand (Note 5)	322,678	226,913
Deposit and placements with banks (Note 6) (with original maturities of 3 months or less)	17,977,621	24,557,265
	<hr/>	<hr/>
	18,300,299	24,784,178
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The accompanying notes form an integral part of these financial statements.

# **Thaneakea Phum (Cambodia), Ltd.**

## **Notes to the financial statements for the year ended 31 December 2010**

### **1. Reporting entity**

Thaneakea Phum (Cambodia), Ltd. (“the Company” or “TPC”), a licensed micro-finance institution, was incorporated in Cambodia and registered with the Ministry of Commerce as a limited liability company under register number Co. 1413/02E dated 23 May 2002.

TPC as a micro-finance institution will continue to be primarily, a rural-based credit institution with 27 locations (11 branches) and a head office in Phnom Penh. TPC’s corporate objective is to provide reliable and affordable access to financial services to poor micro-entrepreneurs in rural areas and in the vicinity of Phnom Penh. Out of a total of 24 provinces and cities in Cambodia, TPC is already operating in 16 provinces, namely Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Kampot, Kandal, Kratie, Kep, Otdor Meanchey, Phnom Penh, Prey Veng, Siem Reap, Svay Rieng and Takeo. Financial services are provided either through village banks made up of solidarity groups of five members each, or to solidarity groups themselves.

The National Bank of Cambodia (“NBC”) granted TPC a licence to conduct business as a micro-finance institution for a three-year period commencing from 12 February 2003 to 12 February 2006. On 20 January 2006, the NBC extended this licence for another three-year period commencing from 12 February 2006 to 12 February 2009. On 14 January 2009, the Company obtained its indefinite licence from the NBC.

The registered office is located at House No. 94, Street 360, Sangkat Boeung Keng Kang III, Khan Chamkamon, Phnom Penh, Kingdom of Cambodia.

### **2. Basis of preparation**

#### **(a) Statement of compliance**

This is the first set of financial statements prepared in accordance with Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (“CIFRS for SMEs”).

These financial statements were approved by the Board of Directors and authorised for issue on 29 April 2011.

#### **(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis.

# **Thaneakea Phum (Cambodia), Ltd.**

## **Notes to the financial statements (continued) for the year ended 31 December 2010**

### **2. Basis of preparation (continued)**

#### **(c) Functional and presentation currency**

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riel (“KHR”), United States Dollars (“US\$”) and Thai Baht (“THB”). Management has determined the KHR to be the Company’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company as the majority of the loan transactions are in KHR.

Transactions in currencies other than KHR are translated into KHR at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than KHR at the reporting date are translated into KHR at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in profit or loss.

#### **(d) Use of estimates and judgements**

The preparation of the financial statements in conformity with CIFRS for SMEs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

### **3. Summary of significant accounting policies**

#### **(a) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances and deposits with banks with original maturities of three months or less and other highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

# Thaneakea Phum (Cambodia), Ltd.

## Notes to the financial statements (continued) for the year ended 31 December 2010

### 3. Summary of significant accounting policies (continued)

#### (b) Loans to customers

Loans to customers are stated at the amount of principal outstanding less any amounts written off and specific and general provision.

#### (c) 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	30 - 59 days	10%
Doubtful	60 - 89 days	30%
Loss	90 days or more	100%
Long term loan (more than one year):		
Substandard	30 - 179 days	10%
Doubtful	180 - 359 days	30%
Loss	360 days or more	100%

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified and is charged as an expense in profit or loss.

The Company provides for a 100% provision for any loan overdue more than 30 days. The amount of provision in excess of the defined percentages required by the National Bank of Cambodia ("NBC") is shown as a general provision.

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

Loans are written off when they are considered uncollectible. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss.

Recoveries on loans previously written off and reversal of previous provisions are disclosed as other operating (loss)/income in profit or loss.

# **Thaneakea Phum (Cambodia), Ltd.**

## **Notes to the financial statements (continued) for the year ended 31 December 2010**

### **3. Summary of significant accounting policies (continued)**

#### **(d) Deposit and placements with banks**

Deposits and placements with banks are carried at cost.

#### **(e) Statutory deposits**

Statutory deposits are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital and customers' deposits as required by NBC.

#### **(f) Other receivables**

Other receivables are recognised initially at fair value plus any directly attributable transactions costs. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method.

At the end of each reporting period, the carrying amounts of other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

#### **(g) Property and equipment**

##### *(i) Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other income in profit or loss.

##### *(ii) Subsequent costs*

The costs of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

# **Thaneakea Phum (Cambodia), Ltd.**

## **Notes to the financial statements (continued) for the year ended 31 December 2010**

### **3. Summary of significant accounting policies (continued)**

#### **(g) Property and equipment (continued)**

##### *(iii) Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation of equipment is charged to profit or loss on a declining balance basis using the net book value of the individual assets at the beginning of the year at the following rates:

Office furniture and equipment	25%
Motor vehicles	25%
Computers	50%

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

#### **(h) Intangible assets**

Intangible assets are computer software that is stated at cost less accumulated amortisation and any accumulated impairment losses. It is amortised on a declining method at the rate of 50% per annum. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

#### **(i) Impairment**

At each reporting date, property and equipment, and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss

## **Thaneakea Phum (Cambodia), Ltd.**

### **Notes to the financial statements (continued) for the year ended 31 December 2010**

#### **3. Summary of significant accounting policies (continued)**

##### **(j) Deposits from customers**

Deposits from customers are stated at placement value.

##### **(k) Borrowings**

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the lenders, including transaction costs). Borrowings are subsequently stated at amortised cost. All borrowing costs are recognised in profit or loss in the period in which they are incurred.

##### **(l) Other liabilities**

Other liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these liabilities are measured at amortised cost using the effective interest method except for non-interest bearing other liabilities on the basis of normal credit terms are not amortised.

##### **(m) Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

##### **(n) Reserves**

This account represents profits from the Thaneakeak Phum program. After deduction of previous loss, 5% of the net profit shall be transferred into the reserve fund. Such transfer will cease when the reserve fund reaches 10% of the registered capital of the Company. It also represents the transfers of the retained earnings at a rate of 3.5% of outstanding loan from Instituto de Credito Oficial (“ICO”).

# **Thaneakea Phum (Cambodia), Ltd.**

## **Notes to the financial statements (continued) for the year ended 31 December 2010**

### **3. Summary of significant accounting policies (continued)**

#### **(o) Related parties**

Parties are considered to be related to the Company if one party has the ability, directly or indirectly, to control the 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.

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

#### **(p) Income and expense recognition**

Interest income on loans is recognised on an accruals basis. 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 using the declining balance method on monthly balances of the principal amount outstanding.

Expenses are recognised on an accrual basis.

#### **(q) Grants**

Grants received to subsidise the Company's operating expenses are recognised in profit or loss on a systematic and rational basis, matching the related costs for which they are intended to compensate.

Grants received for the purchase of property and equipment are deferred and amortised in profit or loss on a systematic and rational basis over the useful life of the asset. The unamortised grants are shown as deferred grant income.

#### **(r) Operating leases**

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

# **Thaneakea Phum (Cambodia), Ltd.**

## **Notes to the financial statements (continued) for the year ended 31 December 2010**

### **3. Summary of significant accounting policies (continued)**

#### **(s) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **4. Transition to CIFRS for SMEs**

The Company's financial statements for the year ended 31 December 2010 are its first annual financial statements prepared under accounting policies that comply with CIFRS for SMEs.

The Company's transition date is 1 January 2009. The Company prepared its opening CIFRS for SMEs statement of financial position at that date.

The transition from Cambodian Accounting Standards to CIFRS for SMEs has no significant impact on the reported financial position, financial performance and cash flows of the Company.

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 5. Cash on hand

	2010 KHR'000	2009 KHR'000
Head office	2,000	2,000
Branches	320,678	224,913
	<u>322,678</u>	<u>226,913</u>

The above amounts are analysed as follows:

	2010 KHR'000	2009 KHR'000
Khmer Riel	182,654	181,648
US Dollars	130,798	30,092
Thai Baht	9,226	15,173
	<u>322,678</u>	<u>226,913</u>

#### 6. Deposits and placements with banks

	2010 KHR'000	2009 KHR'000
<i>Current accounts</i>		
National Bank of Cambodia	42,194	130,620
ACLEDA Bank Plc.	8,523,806	4,221
<i>Savings accounts</i>		
ACLEDA Bank Plc.	1,990,429	8,717,543
Rural Development Bank of Cambodia	588	634
<i>Fixed deposit accounts</i>		
National Bank of Cambodia	6,606,390	16,175,720
Foreign Trade Bank of Cambodia	17,783,445	19,777,994
	<u>34,946,852</u>	<u>44,806,732</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 6. Deposits and placements with banks (continued)

The above amounts are analysed as follows:

(a) By maturity:

	2010 KHR'000	2009 KHR'000
Within 1 month	10,557,017	10,937,517
2 to 3 months	7,420,604	13,619,748
3 to 4 months	16,969,231	20,249,467
	<u>34,946,852</u>	<u>44,806,732</u>

(b) By currency:

Khmer Riel	1,398,375	7,931,499
US Dollars	33,096,412	36,561,061
Thai Baht	452,065	314,172
	<u>34,946,852</u>	<u>44,806,732</u>

(c) By interest rate (per annum):

Bank inside Cambodia	0.05% - 4.00%	0.10% - 4.00%
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#### 7. Statutory deposits

	2010 KHR'000	2009 KHR'000
Statutory deposits on:		
Registered share capital	200,000	200,000
Customers' deposits	15,200	15,200
	<u>215,200</u>	<u>215,200</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 of the Company's registered share capital and customers' deposits with the Company.

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 7. Statutory deposits (continued)

The statutory deposit on registered share capital is refundable when the Company voluntarily liquidates and has no deposit liabilities. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

The statutory deposit on registered capital placed with NBC earns interest at the rate of 3% per annum. The statutory deposit relating to customers' deposits does not earn interest.

#### 8. Loan to customers

	2010 KHR'000	2009 KHR'000
Thaneakea Phum loans:		
Fixed terms	989,071	4,508,394
End of cycle	44,856,104	43,536,234
Solidarity group loans:		
Fixed terms	11,476,159	9,447,575
End of cycle	181,200	-
Individual loans:		
Fixed terms	26,868,792	13,383,742
End of cycle	4,861,521	750,300
Staff loans	997,184	813,546
	<u>90,230,031</u>	<u>72,439,791</u>
Provision for bad and doubtful loans		
Specific	(1,701,234)	(426,112)
General	(68,887)	(3,139,780)
	<u>(1,770,121)</u>	<u>(3,565,892)</u>
	<u>88,459,910</u>	<u>68,873,899</u>
Movement in provision for bad and doubtful loans is as follows:		
1 January	3,565,892	624,162
(Reversals)/additional provision	(378,277)	4,187,052
Written off	(1,417,494)	(1,245,322)
	<u>1,770,121</u>	<u>3,565,892</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 8. Loan to customers (continued)

Loans to customers are analysed as follows:

(a) By maturity:

	2010 KHR'000	2009 KHR'000
Within 1 month	9,204,928	9,794,464
2 to 3 months	16,083,189	14,557,580
4 to 12 months	56,871,370	47,270,164
More than 12 months	8,070,544	817,583
	<u>90,230,031</u>	<u>72,439,791</u>

(b) By currency:

Khmer Riel	59,146,888	57,986,618
US Dollars	22,044,789	5,672,857
Thai Baht	9,038,354	8,780,316
	<u>90,230,031</u>	<u>72,439,791</u>

(c) By economic sector:

Agriculture	59,554,061	50,662,223
Trade and commerce	19,935,362	16,093,534
Services	4,466,992	2,721,596
Household/family	3,128,689	783,642
Construction	670,230	528,670
Transportation	660,548	302,589
Other categories	1,814,149	1,347,537
	<u>90,230,031</u>	<u>72,439,791</u>

(d) By resident status:

Residents	<u>90,230,031</u>	<u>72,439,791</u>
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(e) By relationship:

External customers	89,232,847	71,626,245
Staff loans	997,184	813,546
	<u>90,230,031</u>	<u>72,439,791</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 8. Loan to customers (continued)

(f) By location:

	2010 KHR'000	2009 KHR'000
Head office	195,613	227,265
Branches:		
Banteay Meanchey	8,174,190	6,787,855
Battambang	9,955,717	7,308,718
Chhouk	5,755,918	5,316,364
Kampong Cham	13,379,886	10,828,557
Kandal	7,426,888	3,832,707
Phnom Penh	4,791,779	2,526,185
Poipet	5,144,272	4,511,832
Samroung Bati	8,206,523	7,838,249
Siem Reap	8,787,000	5,639,943
Svay Rieng	10,613,288	9,209,869
Tramkok	7,798,957	8,412,247
	<u>90,230,031</u>	<u>72,439,791</u>

(g) By performance:

Standard loans:		
Secured	32,341,402	14,049,453
Unsecured	56,118,508	54,824,446
Sub-standard loans:		
Secured	4,210	76,769
Unsecured	36,114	208,926
Doubtful loans:		
Secured	6,972	31,729
Unsecured	39,592	209,681
Loss loans:		
Secured	374,579	789,555
Unsecured	1,308,654	2,249,232
	<u>90,230,031</u>	<u>72,439,791</u>

(h) By interest rate (per month):

Loans in Khmer Riel	3.00%	3.00%
Loans in US Dollars	2.00% - 2.50%	2.00% - 2.50%
Loans in Thai Baht	3.00%	3.00%
	<u>3.00%</u>	<u>3.00%</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 9. Other receivables

	2010 KHR'000	2009 KHR'000
Interest receivable	1,766,578	1,528,648
Prepayments and deposits	356,217	163,027
Others	241,809	17,017
	<u>2,364,604</u>	<u>1,708,692</u>

#### 10. Property and equipment

	Office furniture and equipment KHR'000	Motor vehicles KHR'000	Computers KHR'000	Total KHR'000
<b>Cost</b>				
At 1 January 2010	136,003	2,220,986	804,829	3,161,818
Additions	56,040	341,303	356,047	753,390
	<u>192,043</u>	<u>2,562,289</u>	<u>1,160,876</u>	<u>3,915,208</u>
<b>Less: Accumulated depreciation</b>				
At 1 January 2010	87,434	1,420,308	631,121	2,138,863
Depreciation for the year	26,153	285,495	264,877	576,525
	<u>113,587</u>	<u>1,705,803</u>	<u>895,998</u>	<u>2,715,388</u>
<b>Carrying amounts</b>				
At 31 December 2010	<u>78,456</u>	<u>856,486</u>	<u>264,878</u>	<u>1,199,820</u>
At 31 December 2009	<u>48,569</u>	<u>800,678</u>	<u>173,708</u>	<u>1,022,955</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 11. Intangible assets

	Computer software	
	2010	2009
	KHR'000	KHR'000
<b>Cost</b>		
At 1 January/31 December	160,567	160,567
	<hr/>	<hr/>
<b>Accumulated amortisation</b>		
At 1 January	130,929	101,290
Amortisation for the year	14,819	29,639
	<hr/>	<hr/>
At 31 December	145,748	130,929
	<hr/>	<hr/>
<b>Carrying amounts</b>		
At 31 December	14,819	29,638
	<hr/> <hr/>	<hr/> <hr/>

#### 12. Income tax

##### (a) Applicable tax rates

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.

##### (b) Current income tax liability

	2010	2009
	KHR'000	KHR'000
Balance at beginning of year	155,132	965,619
Charge to profit or loss	862,129	394,172
Income tax paid	(399,192)	(1,204,659)
	<hr/>	<hr/>
Balance at end of year	618,069	155,132
	<hr/> <hr/>	<hr/> <hr/>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 12. Income tax (continued)

##### (c) Deferred tax assets

	2010 KHR'000	2009 KHR'000
Deferred tax assets	146,550	183,937
Deferred tax liabilities	(6,911)	-
	<u>139,639</u>	<u>183,937</u>

Deferred tax assets/(liabilities) are attributable to the following:

	2010 KHR'000	2009 KHR'000
Provisions	146,237	138,842
Depreciation	313	837
Unrealised exchange loss/(gain)	(6,911)	44,258
	<u>139,639</u>	<u>183,937</u>

Movement of deferred tax, net is as follows:

	2010 KHR'000	2009 KHR'000
Beginning of the year	183,937	228,691
Charge to profit or loss	(44,298)	(44,754)
End of the year	<u>139,639</u>	<u>183,937</u>

##### (d) Income tax expense

	2010 KHR'000	2009 KHR'000
Current income tax	862,129	394,172
Deferred tax	44,298	44,754
	<u>906,427</u>	<u>438,926</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 12. Income tax (continued)

##### (d) Income tax expense (continued)

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

	2010		2009	
	%	KHR'000	%	KHR'000
Profit before income tax		4,396,294		2,162,210
Income tax using applicable income income tax rate	20	879,259	20	432,442
Effect of non-deductible expenses	0.6	27,168	0.2	6,484
Effective income tax rate	20.6	906,427	20.2	438,926

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

#### 13. Deposits from customers

	2010 KHR'000	2009 KHR'000
Compulsory deposits	163,354	166,195
Staff and other deposits	231,627	256,397
	394,981	422,592

Deposits from customers are analysed as follows:

##### (a) By maturity:

	2010 KHR'000	2009 KHR'000
Within 1 month	303,596	302,919
2 to 3 months	2,533	2,699
4 to 12 months	5,113	45,361
More than 12 months	83,739	71,613
	394,981	422,592

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 13. Deposits from customers (continued)

	2010 KHR'000	2009 KHR'000
(b) By currency:		
Khmer Riel	197,886	248,140
US Dollars	263	256
Thai Baht	196,832	174,196
	<u>394,981</u>	<u>422,592</u>
(c) By interest rate (per annum):		
	2010	2009
Compulsory deposits	-	-
Staff and other deposits	<u>5.00% - 8.00%</u>	<u>5.00% - 8.00%</u>

#### 14. Borrowings

		2010 KHR'000	2009 KHR'000
Alterfin	(i)	2,026,500	-
BlueOrchard	(ii)	4,590,000	6,253,500
Calvert Foundation	(iii)	4,053,000	2,918,300
Catholic Relief Services Cambodia		-	3,966,092
Grameen Credit Agricole	(iv)	4,050,000	-
Hivos-Triodos Fonds		-	6,668,300
Instituto de Credito Oficial	(v)	16,699,171	-
I & P Etudes et Conseils		-	5,211,250
Novib Fonds	(vi)	9,232,645	9,441,000
Oikocredit	(vii)	8,200,000	-
PlaNet Finance/PlaNIS	(viii)	14,386,500	12,507,000
Symbiotics	(ix)	11,145,750	12,507,000
Foreign Trade Bank of Cambodia	(x)	17,912,765	17,802,729
National Bank of Cambodia	(xi)	6,520,000	15,520,000
Individual lenders	(xii)	265,164	258,521
		<u>99,081,495</u>	<u>93,053,692</u>

## **Thaneakea Phum (Cambodia), Ltd.**

### **Notes to the financial statements (continued) for the year ended 31 December 2010**

#### **14. Borrowings (continued)**

- (i) Loans from Alterfin are unsecured. Interest is due on a semi-annual basis while the principal is to be repaid at the end of the loan terms on 4 October 2013.
- (ii) Loans from BlueOrchard are unsecured. Interest is due on a semi-annual basis while the principal is to be repaid at the end of the loan terms on 16 August 2011.
- (iii) Loans from Calvert Foundation are unsecured. Interest is due on a quarterly basis while the principal is to be repaid at the end of the loan terms on 1 April 2011 and 28 September 2013.
- (iv) Loans from Grameen Credit Agricole are unsecured. Interest is due on a semi-annual basis while the principal is to be repaid at the end of the loan terms on 15 October 2013.
- (v) Loans from Instituto de Credito Oficial are unsecured. Interest is due on a quarterly basis while the principal is to be repaid at the end of the loan terms on 12 April 2022.
- (vi) Loans from Novib Fonds are unsecured. Interest is due on semi-annual basis while the principal is to be repaid at the end of the loan terms on 19 May 2011 and 19 May 2012.
- (vii) Loans from Oikocredit are unsecured. Interest is due on a semi-annual basis while the principal is to be repaid at the end of the loan terms on 2 April 2013.
- (viii) Loans from PlaNet Finance/PlaNIS are unsecured. Interest is due on a semi-annual basis while the principal is to be repaid at the end of the loan terms on 20 January 2011, 24 April 2011, 20 January 2012 and 29 December 2012.
- (ix) Loans from Symbiotics are unsecured. Interest is due on a semi-annual and an annual basis while the principal is to be repaid at the end of the loan terms on 27 May 2011, 5 August 2011, 10 August 2011, 18 October 2011 and 21 April 2012.
- (x) Loans from Foreign Trade Bank of Cambodia are secured by a fixed deposit of KHR17,783,445 (Note 6). Interest is due on a monthly basis while the principal is to be repaid at the end of the loan terms on 7 February 2011, 8 February 2011, 12 May 2011, 14 August 2011 and 14 October 2011.
- (xi) Loans from National Bank of Cambodia are secured by a fixed deposit of KHR6,606,390 (Note 6). Interest is due on a monthly basis while the principal is to be repaid on 17 February 2011, 16 March 2011, 21 April 2011 and 28 April 2011.
- (xii) These represent borrowings from various individual lenders. Amounts are unsecured and are repayable within 30 days.

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 14. Borrowings (continued)

Borrowings are analysed as follows:

(a) By maturity:

	2010 KHR'000	2009 KHR'000
Within 1 month	2,492,664	3,400,229
2 to 3 months	7,915,250	20,790,000
4 to 12 months	46,042,005	57,348,642
More than 12 months	42,631,576	11,514,821
	<u>99,081,495</u>	<u>93,053,692</u>

(b) By currency:

Khmer Riel	34,640,265	43,824,571
US Dollars	53,573,730	4,668,300
Thai Baht	10,867,500	44,560,821
	<u>99,081,495</u>	<u>93,053,692</u>

(c) By interest rate (per annum):

	2010	2009
Borrowings	<u>5.50% - 12.00%</u>	<u>6.00% - 10.47%</u>

#### 15. Other liabilities

	2010 KHR'000	2009 KHR'000
Interest payables	1,625,307	1,091,977
Staff incentive (profit sharing)	348,987	396,228
Staff bonus	357,196	345,963
Withholding tax payable	155,413	118,146
Other payables	219,030	105,626
	<u>2,705,933</u>	<u>2,057,940</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 16. Share capital

	2010 KHR'000	2009 KHR'000
Registered, issued and fully paid up: 40,000 ordinary shares of KHR100,000 each	4,000,000	4,000,000

On 1 January 2010, the entire shareholding held by Catholic Relief Services was transferred to DWM Funds S.C.A.-SICAV SIF.

#### 17. Interest income

	2010 KHR'000	2009 KHR'000
Loan to customers	25,794,752	24,679,599
Placements with banks	751,782	1,167,740
	<u>26,546,534</u>	<u>25,847,339</u>

#### 18. Interest expense

	2010 KHR'000	2009 KHR'000
Borrowings	9,375,381	9,928,745
Customers' deposits	21,079	22,355
	<u>9,396,460</u>	<u>9,951,100</u>

#### 19. Other operating income

	2010 KHR'000	2009 KHR'000
Foreign exchange gains	39,128	129,006
Recovery from loans written off	251,356	109,173
Penalty income	20,680	28,755
Loss on disposal of property and equipment	-	(12,979)
Other income	15,423	6,148
	<u>326,587</u>	<u>260,103</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 20. Commission expenses

Commission expenses represent payments to the Group Leaders (GLs), the Village Leaders (VLs) and key persons (including commune leaders, district leaders and other influential persons). The basis of the incentive is calculated at a maximum rate of 2%, 3% and 5% of the interest collected for key persons, GLs and VLs, respectively.

#### 21. Personnel expenses

	2010 KHR'000	2009 KHR'000
Salaries and wages	8,026,458	5,664,001
Other short-term benefits	639,055	341,981
	<u>8,665,513</u>	<u>6,005,982</u>

#### 22. Administrative expenses

	2010 KHR'000	2009 KHR'000
Travelling expenses	727,879	538,599
Rental expenses	696,584	432,277
Professional services	166,977	318,947
Bank and service charges and other fees	471,629	282,183
Office supplies and equipment	374,517	231,683
Utilities	231,486	167,714
Communications	169,334	140,774
Photocopies and printing	182,563	136,771
Other expenses	715,587	284,196
	<u>3,736,556</u>	<u>2,533,144</u>

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 23. Related party transactions and balances

##### (a) Related party transactions:

	2010 KHR'000	2009 KHR'000
<b>Key management</b>		
Salary and other benefits	1,858,613	678,864
Interest income	11,783	9,900
<b>Interest expense</b>		
Catholic Relief Services	-	366,637
Mr. Michael John Spingler	18,490	-
	<u>                    </u>	<u>                    </u>

##### (b) Related party balances:

	2010 KHR'000	2009 KHR'000
Key management loans	66,667	81,222
Borrowing from Catholic Relief Services	-	3,966,092
Borrowing from Mr. Michael John Spingler (Repaid on 29 April 2011)	157,500	-
	<u>                    </u>	<u>                    </u>

#### 24. Commitments and contingencies

##### (a) Lease commitments

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

	2010 KHR'000	2009 KHR'000
Within one year	589,498	355,698
Two to five years	460,975	61,667
	<u>                    </u>	<u>                    </u>
	<u>1,050,473</u>	<u>417,365</u>

## **Thaneakea Phum (Cambodia), Ltd.**

### **Notes to the financial statements (continued) for the year ended 31 December 2010**

#### **24. Commitments and contingencies (continued)**

##### **(b) Taxation contingencies**

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. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

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 since the incorporation of the Company could be significant.

#### **25. Financial risk management**

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

##### **(a) Credit risk**

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or 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 statement of financial position. The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC Guidelines.

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

##### *(i) Risk limit control and mitigation policies*

The Company operates and provides loans to individual customers or group loans within the Kingdom of Cambodia. The Company manages limits and controls concentration of credit risk whenever it is identified.

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 25. Financial risk management (continued)

##### (a) Credit risk (continued)

###### (i) Risk limit control and mitigation policies (continued)

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to individual customers and with group loans whereby members of the group can secure each other, which is common practice.

Management believes that the Company's maximum exposure to credit risk is limited to the carrying amount of loans less provisions for doubtful loans. Loans are also provided to those borrowers that are deemed profitable.

###### (ii) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas No. B7-02-186 dated 13 September 2002 on the classification and provisioning for bad and doubtful debts of the National Bank of Cambodia. Refer to separate accounting policy stated in Notes 3(b) and 3(c).

###### (iii) Exposure to credit risk:

	2010 KHR'000	2009 KHR'000
Loans to customers		
Neither past due nor impaired	88,434,820	68,606,408
Past due but not impaired	25,090	267,491
Individually impaired	1,770,121	3,565,892
	<hr/>	<hr/>
	90,230,031	72,439,791
Provision for bad and doubtful loans	(1,770,121)	(3,565,892)
	<hr/>	<hr/>
	88,459,910	68,873,899
	<hr/> <hr/>	<hr/> <hr/>

## **Thaneakea Phum (Cambodia), Ltd.**

### **Notes to the financial statements (continued) for the year ended 31 December 2010**

#### **25. Financial risk management (continued)**

##### **(a) Credit risk (continued)**

###### *(iii) Exposure to credit risk (continued)*

###### *Impaired loans and advances*

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers. In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loan to customers with payment overdue more than 30 days for short-term loans and 90 days for long term loans. A minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Notes 3(b) and 3(c).

###### *Past due but not impaired loans and advances*

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 30 days for short-term loans and less than 90 days for long-term loans, unless other information is available to indicate otherwise.

##### **(b) 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.

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

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the KHR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by National Bank of Cambodia.

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 25. Financial risk management (continued)

##### (b) Market risk (continued)

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

##### Concentration of currency risk

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

2010	(KHR'000 equivalent)			Total KHR'000
	KHR'000	US\$	THB	
<b>Assets</b>				
Cash on hand	182,654	130,798	9,226	322,678
Deposits and placements with banks	1,398,375	33,096,412	452,065	34,946,852
Statutory deposits	215,200	-	-	215,200
Loans to customers	57,611,934	21,881,057	8,966,919	88,459,910
Other receivables	1,404,721	800,201	159,682	2,364,604
<b>Total financial assets</b>	<b>60,812,884</b>	<b>55,908,468</b>	<b>9,587,892</b>	<b>126,309,244</b>
<b>Liabilities</b>				
Deposits from customers	197,886	263	196,832	394,981
Borrowings	34,640,265	53,573,730	10,867,500	99,081,495
Other liabilities	1,274,678	1,069,606	361,649	2,705,933
Deferred grant income	16,298	-	-	16,298
Provision for income tax	618,069	-	-	618,069
<b>Total financial liabilities</b>	<b>36,747,196</b>	<b>54,643,599</b>	<b>11,425,981</b>	<b>102,816,776</b>
<b>Net asset/(liability) position</b>	<b>24,065,688</b>	<b>1,264,869</b>	<b>(1,838,089)</b>	<b>23,492,468</b>
<b>2009</b>				
Total financial assets	64,363,515	42,349,246	9,118,675	115,831,436
Total financial liabilities	45,941,576	44,616,967	4,975,681	95,534,224
<b>Net asset/(liability) position</b>	<b>18,421,939</b>	<b>(2,267,721)</b>	<b>4,142,994</b>	<b>20,297,212</b>

## **Thaneakea Phum (Cambodia), Ltd.**

### **Notes to the financial statements (continued) for the year ended 31 December 2010**

#### **25. Financial risk management (continued)**

##### **(b) Market risk (continued)**

###### *(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.

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

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 25. Financial risk management (continued)

##### (b) Market risk (continued)

##### (i) Interest rate risk (continued)

2010	Up to 1 month KHR'000	1 – 3 months KHR'000	3 – 12 months KHR'000	1 – 5 years KHR'000	Over 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
<b>Assets</b>								
Cash on hand	-	-	-	-	-	322,678	322,678	
Deposits and placements with banks	1,991,017	7,420,604	16,969,231	-	-	8,566,000	34,946,852	2.15%
Statutory deposits	-	-	-	-	200,000	15,200	215,200	3.00%
Loans to customers								
- Performing	7,434,807	16,083,189	56,871,370	8,070,544	-	-	88,459,910	28.58%
- Non performing	-	-	-	-	-	1,770,121	1,770,121	
- Provision for bad and doubtful loans	-	-	-	-	-	(1,770,121)	(1,770,121)	
Other receivables	-	-	-	-	-	2,364,604	2,364,604	
<b>Total financial assets</b>	<b>9,425,824</b>	<b>23,503,793</b>	<b>73,840,601</b>	<b>8,070,544</b>	<b>200,000</b>	<b>11,268,482</b>	<b>126,309,244</b>	
<b>Liabilities</b>								
Deposits from customers	303,596	2,533	5,113	263	-	83,476	394,981	5.33%
Borrowings	2,492,664	7,915,250	46,042,005	42,631,576	-	-	99,081,495	9.06%
Other liabilities	-	-	-	-	-	2,705,933	2,705,933	
Current income tax liability	-	-	-	-	-	618,069	618,069	
<b>Total financial liabilities</b>	<b>2,796,260</b>	<b>7,917,783</b>	<b>46,047,118</b>	<b>42,631,839</b>	<b>-</b>	<b>3,407,478</b>	<b>102,800,478</b>	
<b>Maturity gap</b>	<b>6,629,564</b>	<b>15,586,010</b>	<b>27,793,483</b>	<b>(34,561,295)</b>	<b>200,000</b>	<b>7,861,004</b>	<b>23,508,766</b>	

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 25. Financial risk management (continued)

##### (b) Market risk (continued)

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

2009	Up to 1 month KHR'000	1 – 3 months KHR'000	3 – 12 months KHR'000	1 – 5 years KHR'000	Over 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
<b>Assets</b>								
Cash on hand	-	-	-	-	-	226,913	226,913	
Deposits and placements with banks	10,467,797	13,619,748	20,249,467	-	-	469,720	44,806,732	2.60%
Statutory deposits	-	-	-	-	200,000	15,200	215,200	3.00%
Loans to customers								
- Performing	9,794,464	14,557,580	43,704,272	817,583	-	-	68,873,899	34.00%
- Non performing	-	-	-	-	-	3,565,892	3,565,892	
- Provision for bad and doubtful loans	-	-	-	-	-	(3,565,892)	(3,565,892)	
Other receivables	-	-	-	-	-	1,708,692	1,708,692	
<b>Total financial assets</b>	<b>20,262,261</b>	<b>28,177,328</b>	<b>63,953,739</b>	<b>817,583</b>	<b>200,000</b>	<b>2,420,525</b>	<b>115,831,436</b>	
<b>Liabilities</b>								
Deposits from customers	302,919	2,699	45,361	448	-	71,165	422,592	5.28%
Borrowings	3,400,229	20,790,000	57,348,642	11,256,300	258,521	-	93,053,692	10.66%
Other liabilities	-	-	-	-	-	2,057,940	2,057,940	
Current income tax liability	-	-	-	-	-	155,132	155,132	
<b>Total financial liabilities</b>	<b>3,703,148</b>	<b>20,792,699</b>	<b>57,394,003</b>	<b>11,256,748</b>	<b>258,521</b>	<b>2,284,237</b>	<b>95,689,356</b>	
<b>Maturity gap</b>	<b>16,559,113</b>	<b>7,384,629</b>	<b>6,559,736</b>	<b>(10,439,165)</b>	<b>(58,521)</b>	<b>136,288</b>	<b>20,142,080</b>	

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 25. Financial risk management (continued)

##### (b) Market risk (continued)

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

###### *Fair value sensitivity analysis for fixed rate instruments*

The Company does not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss and equity. Therefore a change in interest rates at the reporting date would not affect profit or loss and equity.

###### *Cash flow sensitivity analysis for variable-rate instruments*

The change of 150 basis points (“bp”) in interest rates at the reporting date would have increased (decreased) equity and statement of comprehensive income by the amounts shown below. This analysis assumes that all other variables remain the same.

	Income statement	
	150 bp increase KHR'000	150 bp decrease KHR'000
<b>31 December 2010</b>		
Variable rate instruments	(12,300,000)	12,300,000
Cash flow sensitivity	(12,300,000)	12,300,000

##### (c) 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.

## Thaneakea Phum (Cambodia), Ltd.

### Notes to the financial statements (continued) for the year ended 31 December 2010

#### 25. Financial risk management (continued)

##### (c) Liquidity risk (continued)

	Up to 1 month KHR'000	1 – 3 months KHR'000	3 – 12 months KHR'000	1 – 5 years KHR'000	Over 5 years KHR'000	No fixed terms KHR'000	Total KHR'000
<b>2010</b>							
<b>Liabilities</b>							
Deposits from customers	303,596	2,533	5,113	83,739	-	-	394,981
Borrowings	2,492,664	7,915,250	46,042,005	42,631,576	-	-	99,081,495
Other liabilities	991,293	759,405	955,235	-	-	-	2,705,933
Current income tax liability	-	618,069	-	-	-	-	618,069
	<u>3,787,553</u>	<u>9,295,257</u>	<u>47,002,353</u>	<u>42,715,315</u>	<u>-</u>	<u>-</u>	<u>102,800,478</u>
<b>2009</b>							
<b>Liabilities</b>							
Deposits from customers	302,919	2,699	45,361	448	-	71,165	422,592
Borrowings	3,400,229	20,790,000	57,348,642	11,256,300	258,521	-	93,053,692
Other liabilities	680,191	899,520	478,229	-	-	-	2,057,940
Current income tax liability	-	155,132	-	-	-	-	155,132
	<u>4,383,339</u>	<u>21,847,351</u>	<u>57,872,232</u>	<u>11,256,748</u>	<u>258,521</u>	<u>71,165</u>	<u>95,689,356</u>

## **Thaneakea Phum (Cambodia), Ltd.**

### **Notes to the financial statements (continued) for the year ended 31 December 2010**

#### **25. Financial risk management (continued)**

##### **(d) Capital management**

###### *(i) Regulatory capital*

The Company's lead regulator, the National Bank of Cambodia ("NBC"), sets and monitors capital requirements for the Company as a whole.

The Company's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

###### *(ii) Capital allocation*

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

#### **26. Fair values of financial assets and liabilities**

The aggregate fair values of financial assets and liabilities carried on the statement of financial position are approximately equal to their carrying values as at 31 December 2010.