

Statement of changes in Shareholder's equity

Share	Donated Note	Hybrid					Total Riel '000
		capital Riel '000	capital Riel '000	Retained Reserves Riel '000	investment Riel '000	earnings Riel '000	
2003							
As at 1 January 2003		3,243,285	880,924	747,188	427,362	8,058	5,306,817
Profit for the year		-	-	-	-	728,784	728,784
Increase in par value of shares	12(a)	679,215	-	-	(679,215)	-	-
Issue of shares for cash	12(b)	77,500	-	-	-	-	77,500
Transfer from donated capital		-	(880,924)	-	880,924	-	-
Cash received from non-merging partners	13	-	-	-	470,021	-	470,021
Loan fund from CRS		-	-	-	2,851,574	-	2,851,574
Write off of savings accounts from the Program		-	-	41,552	-	-	41,552
As at 31 December 2003		4,000,000	-	788,740	3,950,666	736,842	9,476,248
2004							
As at 1 January 2004		4,000,000	-	788,740	3,950,666	736,842	9,476,248
Profit for the year		-	-	-	-	1,493,411	1,493,411
Cash received from non- merging partners		-	-	-	15,426	-	15,426
As at 31 December 2004		4,000,000	-	788,740	3,966,092	2,230,253	10,985,085

Income statement

	Note	2004 Riel '000	2003 Riel '000
Interest income		4,886,703	3,324,092
Interest expense		(240,080)	(114,224)
Net interest income		4,646,623	3,209,868
Grant income		112,676	157,450
Other operating income	14	189,966	102,830
Foreign exchange gain-net		67,247	53,439
Net interest income		5,016,512	3,523,587
Operating expenses			
Personnel costs	15	(1,714,720)	(1,435,533)
General and administration expenses	16	(1,138,434)	(872,781)
Depreciation		(161,589)	(167,369)
	(3,014,743)	(2,475,683)	
Provision for doubtful loans		(135,005)	(136,925)
Profit before tax		1,866,764	910,979
Taxation	17	(373,353)	(182,195)
Profit for the year		1,493,411	728,784



Ms. Elizabeth O. Abrera
Chief Executive Officer
Date: 30 March 2005



Mr. Oum Sophan
Chief Financial Officer
Date: 30 March 2005

Cash flow statement

	Note	2004 Riel '000	2003 Riel '000
Cash flows from operating activities			
Profit for the year		1,493,411	728,784
Adjustments for:			
Depreciation		161,589	167,369
Amortisation of grant income		(30,525)	(107,441)
Provision for doubtful loans		135,005	136,925
Reserves		-	41,552
Operating income before changes in operating assets and liabilities		1,759,480	967,189
Changes in operating assets and liabilities:			
Statutory deposit with the Central Bank		-	(200,000)
Loans to customers		(5,627,923)	(4,715,658)
Other assets		(93,990)	(132,204)
Customer deposits		469,767	532,437
Accruals and other liabilities		378,717	275,273
Net cash outflow from operating activities		(3,113,949)	(3,272,963)
Cash flows from investing activities			
Purchase of property, plant and equipment		(22,222)	(126,567)
Cash flows from financing activities			
Loan funds granted during the year		-	2,851,574
Cash from non merging partners		15,426	470,021
Increase in paid up capital		-	77,500
Proceeds from borrowings		3,043,131	-
Net cash inflow from financing activities		3,058,557	3,399,095
Net (decrease) / increase in cash and cash equivalent		(77,614)	(435)
Cash and cash equivalent at the beginning of the year		1,561,073	1,561,508
Cash and cash equivalent at end of the year	18	1,483,459	1,561,073

The accompanying notes on pages 21 to 30 form an integral part of these financial statements.

Notes to the financial statements

1. BACKGROUND INFORMATION

The Thaneakea Phum (Cambodia) Company, Ltd. (“TPC”), is a registered limited liability company in incorporated under the Cambodian laws. Its activities are an offshoot of the Thaneakea Phum Program (“the Program”) which the Catholic Relief Services (CRS) launched in December 1994 as part of CRS Cambodia’s strategy for rural reconstruction and poverty alleviation. TPC is the result of the operational merger and transformation of CRS branches and two of its non-government organizations (NGO) partners who spinned off their micro-finance operations to become a branch of a licensed micro-finance institution. The transferred assets and liabilities of TPC were established based on the asset transfer document dated 19 September 2002.

TPC as a micro-finance institution will continue to be primarily, a rural-based credit and savings institution with ten branches and a headoffice in Phnom Penh. TPC’s corporate focus is to provide reliable and affordable access to financial services to poor women micro-entrepreneurs in rural areas and in the vicinity of Phnom Penh. Out of a total 21 provinces in Cambodia, TPC is already operating in eight provinces, namely Takeo, Kampot, Battambang, Svay Rieng, Banteay Meanchey, Siem Reap, Kampong Cham and Kandal. The Kandal and Phnom Penh operations are already fully functioning towards the end of 2002. Financial services are provided either through village banks made up of solidarity groups of five members each, or to solidarity groups themselves.

TPC was registered as a limited liability company (“LLC”) on 27 June 2002. The Central Bank granted TPC a license to conduct business as a micro-finance institution for a three-year period commencing from 12 February 2003 to 12 February 2006.

As at 31 December 2004, TPC had 171 employees (2003: 162 employees) of whom 25 are situated at the Head Office in Phnom Penh and 146 in the branches.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The financial statements are prepared under the historical cost convention.

The financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilised in Cambodia may differ from those generally accepted in countries and jurisdiction other than Cambodia.

Currency of presentation

The financial statements are prepared in the national currency of the Kingdom of Cambodia, the Khmer Riel (“Riel”).

Basis of aggregation

The financial statements include the financial statements of the head office, and TPC’s ten branches. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

Loans to customers

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

The amount of provision established by TPC as at the balance sheet date is in full compliance with the requirement of the Central Bank’s Prakas No B-7-02-186 on classification and provisioning for bad and doubtful loans, including interest in suspense. This is determined by applying defined percentages to the

outstanding balances in various aging categories (other than those classified as current or standard where no provision is required), as follows:

Loan status/classification	Percentage applied
	(%)
Standard	0
Sub standard loans (where repayments are overdue by 30 days or more)	10
Doubtful loans (where repayments are overdue 60 days or more)	30
Loss (where repayments are overdue 90 days or more)	100

The adequacy of the provision for bad and doubtful loans established as at balance sheet date following the Central Bank's Prakas was evaluated by management up to the date of the auditors' report. 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. Based on management's judgment, no additional amount is necessary to maintain the provision balance at an adequate level to absorb losses.

Property, plant and equipment

Property, plant and equipment are stated at their transferred values represented by the respective net book values (cost less accumulated depreciation) recorded in the Program's accounts as at the date of transfer to TPC (see note 19). All acquisitions subsequently are recorded at cost.

Depreciation is computed based on the straight-line method other than for vehicles, which is computed based on the declining balance method. The expense will be charged at rates calculated to write down the recorded cost of the property, plant and equipment over their estimated useful lives. The useful lives of these assets are as follows:

	Useful lives (Years)
Office equipment	3 to 5
Motor vehicles	5 to 8

Expenditure for maintenance and repairs that do not extend the useful lives of assets will be expensed in the year in which they are incurred.

Gains or losses on the sale of property and equipment will be recognised upon the disposal of such assets.

Interest Income and expense recognition

Interest earned on loans is recognised on an accrual basis.

Interest expense on deposits is recognized on an accrual basis.

Fee income is recognised in the income statement when the transaction occurs.

Grants

Revenue grants received to subsidize TPC's operating expenses are released to the income statement on a systematic and rational basis, matching the related costs which they are intended to compensate.

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

Funds received to be used exclusively for funding its loan disbursement are recognized as Hybrid capital and treated as part of shareholder's equity in the balance sheet.

Foreign currency translation

Foreign currency transactions are translated into Khmer Riel using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations of the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. The exchange rates used for the translations of monetary assets and liabilities denominated in foreign currencies are as follows:

	2004	2003
Khmer Riel / US\$	4,027	3,976
Khmer Riel / Thai Baht	103.28	100.25

Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions entered into by TPC with related parties consisted mainly of fixed asset and loan fund grants received from CRS, as disclosed in notes 10 and 13.

Reserves

This account represents profits from the previous Program under CRS. Loans and deposits that accrue from the Program are charged to this account.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. DEPOSITS WITH THE CENTRAL BANK

	Note	31 December 2004 Riel '000	31 December 2003 Riel '000
Statutory deposits	(i)	200,000	200,000
Current account		500	500
		200,500	200,500

(i) Following the Central Bank's Prakas No. 8700-006 on the "Licensing of Micro-finance Institution", each licensed MFI shall maintain an amount equal to 5% of its registered capital in a non-interest earning permanent account with the Central Bank.

4. BALANCES WITH BANKS

	31 December 2004 Riel '000	31 December 2003 Riel '000
Current accounts		
ACLEDA Bank (without interest)	595,738	555,017
Saving deposits		
Rural Development Bank (RDB)	543,754	688,628
Canadia Bank	267,793	104,661
	1,407,285	1,348,306

Saving deposits earn annual interest from 0.75% to 2% in 2004 (2003: 1.5% to 2%) whereas current account do not earn interest.

5. LOANS TO CUSTOMERS

	31 December 2004 Riel '000	31 December 2003 Riel '00
Loans and advances to customers	14,228,574	8,739,970
Provision for bad and doubtful loans	(37,523)	(41,483)
Net	14,191,051	8,698,487

All loans and advances weremade to Cambodian nationals.

The details of gross loans and advances by currency are as follows:

	31 December 2004 Riel '000	31 December 2003 Riel '000
In Riel	11,414,533	7,094,697
In Thai Bath	2,814,041	1,645,273
	14,228,574	8,739,970
Provision for bad and doubtful loans	(37,523)	(41,483)
	14,191,051	8,698,487

Effective interest rates	2004	2003
Thaneakea Phum or Group loans	3% - 3.5% per month	3% - 4% per month
Special loans	3.5% per month	4% per month

Movements in provision for doubtful loans are as follow:

	31 December 2004 Riel '000	31 December 2003 Riel '000
Balance as at beginning of the year	41,483	65,307
Provision for the year	135,005	136,925
Bad debts written off	(138,627)	(122,175)
Interest written off	-	(35,127)
Bad debts recovered	(338)	(3,447)
	37,523	41,483

The details of gross loans to customers, by branches, are as follows:

	31 December 2004 Riel '000	31 December 2003 Riel '000
Samroung Bati	1,588,089	1,168,724
Banteay Meanchey	2,814,041	1,645,273
Tramkok	1,153,369	808,298
Chhuk	1,805,635	969,850
Battambang	1,485,552	721,490
Svay Rieng	903,327	408,540
Siem Reap	1,414,449	920,480
Kompong Cham	700,022	453,893
Kandal	693,083	468,490
Phnom Penh	1,671,007	1,174,932
	14,228,574	8,739,970
Provision for bad and doubtful loans	(37,523)	(41,483)
	14,191,051	8,698,487

Total non-performing loans on which recognition of interest is suspended amounted to Riel 100,332 thousand (Riel 61,221 thousand in 2003). Loans are considered as non-performing when they become overdue by 30 days or more.

6. PROPERTY, PLANT AND EQUIPMENT

CRS transferred all the property, plant and equipment owned by the Program as at 30 June 2002 to TPC. These assets were transferred at their respective net book values which were recorded in the Program accounts.

As at 31 December 2004, the details of these assets are as flows:

	Office equipment Riel '000	Motor vehicle Riel '000	Total Riel '000
Cost			
At 1 January 2004	444,114	950,885	1,394,999
Additions during the year	22,222	-	22,222
	<u>466,336</u>	<u>950,885</u>	<u>1,417,221</u>
Accumulated depreciation			
At 1 January 2004	273,240	646,633	919,873
Depreciation charge for theyear	79,290	81,944	161,234
	<u>352,530</u>	<u>728,577</u>	<u>1,081,107</u>
Net book value at			
As at 31 December 2004	113,806	222,308	336,114
As at 31 December 2003	170,874	304,252	475,126

7. OTHER ASSETS

	31 December 2004 Riel '000	31 December 2003 Riel '000
Interest receivable	191,468	133,449
Prepaid rental	22,822	34,262
Others	61,483	14,071
	275,773	181,782

8. CUSTOMER DEPOSITS

This account represents the compulsory deposits from customers representing 5% to 10% of their principal loan amounts. Customers receive interest of 1% per month on their savings deposits that will be paid at the maturity of their loans.

The details of customer deposits, by location, are as follows:

	31 December 2004 Riel '000	31 December 2003 Riel '000
Banteay Meanchey	366,868	213,846
Samroung Bati	161,162	123,314
Battambang	184,059	120,352
Tramkok	118,041	93,263
Svay Rieng	134,338	75,572
Chhuk	176,423	108,468
Siem Reap	146,583	117,918
Kompong Cham	95,947	70,157
Kandal	62,418	42,286
Phnom Penh	181,816	192,711
	1,627,655	1,157,887

9. ACCRUALS AND OTHER LIABILITIES

	31 December 2004 Riel '000	31 December 2003 Riel '000
Accrued expenses		
Salaries	234,593	127,099
Withholding tax	7,989	5,962
Income tax	373,353	152,868
Others	123,015	74,304
	738,950	360,233

10. DEFERRED GRANT INCOME

This account is originally represented by grant received from CRS for three motor vehicles amounting to Riel 231,958 thousand.

	31 December 2004 Riel '000	31 December 2003 Riel '000
Balance as at beginning of the year	122,100	279,550
Amortisation of grant income for the year	(30,525)	(157,450)
	91,575	122,100

11. BORROWINGS

	Note	31 December 2004 Riel '000	31 December 2003 Riel '000
Rural Development Bank ("RDB")	(i)	2,000,000	-
Micro-finance Alliance Fund	(ii)	1,005,000	-
Other		38,131	-
		3,043,131	-

i) Rural Development Bank ("RDB")

Credit limit in original currency	Effective interest rate		Repayment terms
	2004	2003	
KHR 2,000,000,000	6%+6 months LIBOR (8.64%)	-	The principal is to be repaid annually with monthly interest repayments.

This loan is unsecured as under the Rural Credit and Savings Project financed by the Asian Development Bank ("ADB"). The proceeds of the loan shall be used exclusively to finance sub-loans to rural micro-enterprises.

(ii) Micro-finance Alliance Fund

Credit limit in original currency	Effective interest rate		Repayment terms
	2004	2003	
KHR 1,005,000,000	11.63% per annum	-	The principal is to be repaid within three years from November 2004 with quarterly interest re-payment.

12. SHARE CAPITAL

	31 December 2004			31 December 2003		
	Number of shares	%	Paid up capital Riel '000	Number of shares	%	Paid up capital Riel '000
CRS	39,200	98	3,920,000	39,200	98	3,920,000
Elizabeth Obed Abrera	400	1	40,000	400	1	40,000
Richard Balmadier	400	1	40,000	400	1	40,000
	40,000	100	4,000,000	40,000	100	4,000,000

Based on the articles of incorporation (Aol), TPC's registered, issued and fully paid capital amounted to Riel 4,000,000,000 represented by 40,000 ordinary shares, each having an issue price of Riel 100,000. Each share will have one vote and will participate equally in all dividends and other distributions of the TPC.

13. HYBRID CAPITAL INVESTMENT

Included in the asset transfer document (see note 19) is a provision for TPC to collect CRS "loan capital" from the Program's local NGO partners who did not join the merger (non merging partners).

As stated in this document, the "loan capital" collected from the partners will be the subject of a separate agreement at a later date when a decision is made as to when these funds are to be constituted as subordinated debts. Until such time that a decision is made and a separate agreement drawn up, TPC will record these third party collections on behalf of its majority shareholder as Hybrid capital investment.

	31 December 2004 Riel '000	31 December 2003 Riel '000
Total amount outstanding from non-merging partners	-	33,700

14. OTHER OPERATING INCOME

	Note	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Loan processing fee		127,766	-
Recovery from loans written off		15,469	-
Interest income from banks		6,315	10,315
Penalty income		4,276	1,728
CRS's loan collection fee	(i)	673	32,331
Training income		-	10,559
Other income		35,467	47,897
		189,966	102,830

(i) Based on the terms of the asset transfer document as discussed in note 19, a monthly interest of 1% is collected by TPC from the local NGO partners for managing the local NGO partners collections and for reporting the status of the loans.

15. PERSONNEL COSTS

	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Staff salaries	1,638,634	1,386,609
Health benefits	51,128	37,133
Employee activities	14,323	7,580
Other related costs	10,635	4,211
	1,714,720	1,435,533

16. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Office expenses	330,758	277,898
Traveling expenses	242,802	113,321
Commission	219,431	160,418
Occupancy expenses	205,715	200,065
Technical fee	82,151	81,110
Bank charge	30,448	23,760
Other tax expense	26,715	13,815
Others	414	2,394
	1,138,434	872,781

17. TAXATION

	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Taxation	373,353	182,195

Under the Law on Taxation, the Company has obligation to pay Tax on Profit at 20% of taxable profit or Minimum Tax at 1% of total revenue, whichever is higher.

The reconciliation of effective tax rate, subject to agreement with the Cambodian Tax Department, is as follows:

	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Profit before income tax	1,866,764	910,979
Income tax using Tax on Profit at 20% minimum tax at 1% of turnover	373,353	182,195
Expenses not deductible for tax purposes	-	-
Income not subject to tax	-	-
Current tax on profit expense	373,353	182,195

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