

Financial Statements and Auditors' report

31 December 2007

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STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors ("BOD") submits its report and the audited financial statements of Thaneakea Phum (Cambodia), Ltd. ("TPC") for the year ended 31 December 2007.

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. Its corporate objective is to provide needed financial services to low-income households, particularly women in the rural areas, in a manner that is viable and sustainable for the economic development of Cambodia.

FINANCIAL PERFORMANCE

The financial performance for the year ended 31 December 2007 are set out in the income statement on page 16.

SHARE CAPITAL

During the year ended 31 December 2007, there have been no changes in the registered and paid up share capital of TPC as set out in the statement of changes in shareholders' equity on page 15.

RESERVES AND PROVISIONS

There were no material movements to or from reserves and provisions during the year under review.

BAD AND DOUBTFUL LOANS

Before the financial statements of TPC were drawn up, the BOD took reasonable steps to ascertain that

appropriate action had been taken in relation to the writing off of bad loans and the provision for bad and doubtful loans. The BOD has satisfied themselves that all known bad loans had been written off and that adequate provisions had been made for bad and doubtful loans.

At the date of this report, the BOD is not aware of any circumstances which would render the amount of the provision for bad and doubtful loans in the financial statements of TPC inadequate to any material extent.

CURRENT ASSETS

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

At the date of this report, the BOD is not aware of any circumstances which would render the values attributed to the current assets in the financial statements of TPC misleading in any material respect.

VALUATION METHODS

At the date of this report, the BOD is not aware of any circumstances that have arisen which would render adherence to the existing method of valuation of assets and liabilities in the financial statements of TPC misleading or inappropriate in any material respect.

CONTINGENT AND OTHER LIABILITIES

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

- i) any charge on the assets of TPC which has arisen since the end of the year which secures the liabilities of any other person; or
- ii) any contingent liability in respect of TPC that has arisen since the end of the year other than in the ordinary course of its business operations.

No contingent or other liability of TPC has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the BOD, will or may have a material effect on the ability of TPC to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the BOD is not aware of any circumstances, not otherwise dealt with in this report or the financial statements of TPC, which would render any amount stated in the financial statements misleading in any material respect.

ITEMS OF AN UNUSUAL NATURE

The financial performance of TPC for the year ended 31 December 2007 were not, in the opinion of the BOD, materially affected by any items, transactions or events of a material and unusual nature.

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

SIGNIFICANT EVENTS

No significant events occurred after the balance sheet date requiring disclosure or adjustment other than

those already disclosed in the accompanying notes to the financial statements.

THE BOARD OF DIRECTORS

The members of the BOD during the year and as at the date of this report are:

- Mark Taylor Pierce, CRS/SEAPRO Regional Director
Chairman
- Richard Balmadier, CRS/Indonesia representative
Vice Chairman
- Mark David Palmer, CRS/HQ representative
Member
- Tun Korng , Branch Manager/Staff representative
Member

All members are non-executive board members, except Mr. Tun Korng, who holds the position of Branch Manager/Employees representative.

DIRECTORS' INTERESTS

The interests of directors in shares of TPC during the year and as at the date of this report are as follows:

Shareholder	Holding %	Number of shares of Riel 100,000 each
Richard Balmadier	1%	400

DIRECTORS' BENEFITS

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

No Director of TPC has received or become entitled to receive any benefit by reason of a contract made by TPC or with a firm of which the Director is a member, or with a company in which the director has a material financial interest.

RESPONSIBILITIES OF THE BOD IN RESPECT OF THE FINANCIAL STATEMENTS

The BOD is responsible to ensure that the financial statements are properly drawn up, so as to present fairly, in all material respects, the financial position of TPC as at 31 December 2007, and of its financial performance for the period then ended. In preparing these financial statements, the BOD is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards or, if there has been any departures in the interests of true and fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;

- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that TPC will continue operations in the foreseeable future;
- v) set overall policies for TPC, ratify all decisions and actions by the BOD that have a material effect on the operations and performance of TPC, and ensure they have been properly reflected in the financial statements.

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

On behalf of the Board of Directors,



Richard Balmadier

Vice Chairman

Date: 31 March 2008



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Thaneakea Phum (Cambodia), Ltd.

We have audited the accompanying financial statements of Thaneakea Phum (Cambodia), Ltd. ("TPC") which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes on pages 14 to 29.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 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 accompanying financial statements present fairly, in all material respects, the financial position of TPC as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards.

For PricewaterhouseCoopers (Cambodia) Limited

By : **Senaka Fernando**

Director

Phnom Penh, Kingdom of Cambodia

Date: 31 March 2008

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 Riel '000	2006 Riel '000
ASSETS			
Cash on hand	4	158,429	58,556
Balances with the Central Bank	5	3,812,788	203,200
Balances with banks	6	8,186,823	582,333
Loans to customers	7	48,179,638	29,123,220
Other assets	8	1,040,847	583,431
Deferred tax assets	9	198,685	-
Property and equipment	10	966,289	582,209
Intangible assets	11	32,779	7,175
		<u>62,576,278</u>	<u>31,140,124</u>
TOTAL ASSETS			
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Customers' deposits	12	460,858	561,030
Borrowings	13	43,895,235	13,500,761
Deferred grant income	14	38,633	51,511
Accruals and other liabilities	15	1,726,871	678,727
Current income tax liabilities	16	1,013,880	640,786
Total Liabilities		<u>47,135,477</u>	<u>15,432,815</u>
SHAREHOLDERS' EQUITY			
Share capital	17	4,000,000	4,000,000
Reserves		788,740	788,740
Hybrid capital	18	-	3,966,092
Retained earnings		10,652,061	6,952,477
Total Shareholders' Equity		<u>15,440,801</u>	<u>15,707,309</u>
		<u>62,576,278</u>	<u>31,140,124</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			

The accompanying notes on pages 18 to 29 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Share Capital Riel '000	Reserves Riel '000	Hybrid capital Riel '000	Retained earnings Riel '000	Total Riel '000
Balance as at 1 January 2006		4,000,000	788,740	3,966,092	3,781,721	12,536,553
Net profit for the year		-	-	-	3,170,756	3,170,756
Balance as at 31 December 2006		<u>4,000,000</u>	<u>788,740</u>	<u>3,966,092</u>	<u>6,952,477</u>	<u>15,707,309</u>
Balance as at 1 January 2007		4,000,000	788,740	3,966,092	6,952,477	15,707,309
Transfer to borrowings	18	-	-	(3,966,092)	-	(3,966,092)
Net profit for the year		-	-	-	3,699,584	3,699,584
Balance as at 31 December 2007		<u>4,000,000</u>	<u>788,740</u>	<u>-</u>	<u>10,652,061</u>	<u>15,440,801</u>

The accompanying notes on pages 18 to 29 form an integral part of these financial statements

Income Statement

Year ended 31 December 2007

	Note	2007 Riel '000	2006 Riel '000
Interest income	19	14,507,310	8,988,514
Interest expense	20	(3,256,538)	(1,255,603)
Net interest income		11,250,772	7,732,911
Grant income	21	108,256	132,232
Other operating (loss)/income	22	<u>(261,921)</u>	<u>453,552</u>
Operating income		11,097,107	8,318,695
Commission expenses	23	(515,232)	(364,564)
Operating and other expenses	24	(5,831,446)	(3,981,771)
Provision for bad and doubtful loans	7	<u>(111,167)</u>	<u>(81,395)</u>
Operating profit before income tax		4,639,262	3,890,965
Income tax	25	(939,678)	(720,209)
Net profit for the year		<u>3,699,584</u>	<u>3,170,756</u>

The accompanying notes on pages 18 to 29 form an integral part of these financial statements

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 Riel '000	2006 Riel '000
Cash flows from operating activities			
Net cash used in operating activities	26	<u>(14,269,756)</u>	<u>(8,880,475)</u>
Cash flows from investing activities			
Purchase of property and equipment		(799,010)	(427,328)
Purchase of intangible assets		(58,383)	(12,287)
Proceeds from disposal of property and equipment		<u>10,221</u>	<u>15,032</u>
Net cash used in investing activities		<u>(847,172)</u>	<u>(424,583)</u>
Cash flows from financing activities			
Proceeds from borrowings		33,424,542	10,454,736
Repayments on borrowings during the year		<u>(6,996,163)</u>	<u>(2,555,990)</u>
Net cash generated from financing activities		<u>26,428,379</u>	<u>7,898,746</u>
Net increase/(decrease) in cash and cash equivalents		11,311,451	(1,406,312)
Cash and cash equivalents at the beginning of the year		<u>641,389</u>	<u>2,047,701</u>
Cash and cash equivalents at end of the year	27	<u><u>11,952,840</u></u>	<u><u>641,389</u></u>

Non-cash transactions

The principal non-cash transaction for the year is the transfer of hybrid capital into borrowings as discussed in Note 18.

The accompanying notes on pages 18 to 29 form an integral part of these financial statements

Notes to the financial statements

31 December 2007

1. BACKGROUND INFORMATION

Thaneakea Phum (Cambodia), Ltd. ("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 27 June 2002. 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 eleven branches and a head office 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 of 24 provinces and cities in Cambodia, TPC is already operating in eight provinces, namely Takeo, Kampot, Battambang, Svay Rieng, Banteay Meanchey, Siem Reap, Kampong Cham and Kandal. 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 ("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. On 20 January 2006, the Central Bank granted TPC the extension of this license for another three-year period commencing from 12 February 2006 to 12 February 2009. On 13 September 2006, the Central Bank issued a new Prakas No. B7-06-209 in which the license is valid indefinitely.

TPC's head office is at No. 94, Street 360, Boeung Keng Kang III, Chamkar Morn, Phnom Penh, Cambodia.

As at 31 December 2007, TPC had 264 employees (2006: 227 employees).

The financial statements were approved for issue by the Board of Directors on 31 March 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of the Company, which are expressed in Cambodian Riel ("Riel"), are prepared under the historical cost convention and drawn up in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards ("CAS"). The Company maintains its accounting records in Riel, the functional currency in Cambodia.

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

Basis of aggregation

The financial statements include the financial statements of TPC's head office and its provincial branches within Cambodia. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

Financial instruments

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

Segment information

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

Foreign currency translation

TPC transacts primarily in and maintains its accounting records in Cambodian Riel ("Riel"). Foreign currency transactions other than Riel are accounted for at the exchange rate prevailing at the date of the transactions. 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. Monetary assets and liabilities dominated in the currencies other than Riel at the balance sheet date are translated into Riel at the rates of exchange ruling at that date.

The principal rates used to translate monetary assets and liabilities at the balance sheet date are:

	31 December 2007	31 December 2006
Riel / US\$	4,003	4,057
Riel / Thai Baht	131	112