



**ANGKOR MIKROHERANHVATHO
(KAMPUCHEA) CO., LTD**

Financial Statements
and
Auditors' report
31 December 2007

Corporate Information

Company Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Registration No Co. 1698/03E

Registered office No. 191 Block F, Phnom Penh Center
(Corner Sihanouk and Sothearos Blvd),
Tonle Bassac, Khan Chamkarmon, Phnom Penh,
Kingdom of Cambodia

Shareholders Concern Worldwide (Dublin)
Concern Worldwide (UK)

Board of Directors Mr. Thomas James O' Higgins, Chairman
Mr. Pel Piseth, Secretary
Mr. Howard Dalzell
Mr. Peter Power
Mr. Peter Baynard Smith
Mr. Tip Janvibol
Mr. Paul Luchtenburg
Mr. Gerhard Bruckermann
Mr. Tanmay Chetan
Mr. Adam Mooney

Auditor KPMG Cambodia Ltd

Principal banker Acleda Bank Plc Ltd

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អង្គរ មីក្រូហិរញ្ញវត្ថុ (កម្ពុជា)

191 - អាគារ F, ភ្នំពេញសិខនី (ផ្លូវសីហនុកែងផ្លូវសុធារស) ខេត្តបាសាក់ ចំការមន ភ្នំពេញ កម្ពុជា
ប្រអប់សំបុត្រ 480 . ទូរស័ព្ទលេខ: (855) 23 993 062 . 23 224 763

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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 Angkor Mikroheranhvatho (Kampuchea) Co., Ltd (“the Company” or “AMK”) for the year ended 31 December 2007.

Principal activity

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

Financial results

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

	KHR'000
Profit before income tax	3,937,208
Income tax	(641,844)
Profit after income tax	<u>3,295,364</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 income statement and balance sheet 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.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Current assets

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

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

Valuation methods

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

Contingent and other liabilities

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person;
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of 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 Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Significant events

No significant events occurred after the balance sheet date that require 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. Thomas James O' Higgins, chairman
- Mr. Pel Piseth, Secretary
- Mr. Howard Dalzell
- Mr. Paul Luchtenburg
- Mr. Peter Power
- Mr. Peter Baynard Smith
- Mr. Tip Janvibol
- Mr. Gerhard Bruckermann
- Mr. Tanmay Chetan
- Mr. Adam Mooney

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 body corporate.

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 body corporate.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than 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.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

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

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

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

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

On behalf of the Board of Directors



Mr. Thomas James O'Higgins
Chairman

Date: 26 March 08



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Sangkat Beoung Prolit
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REPORT OF THE INDEPENDENT AUDITORS

To the shareholders

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

We have audited the accompanying financial statements of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd (“the Company” or “AMK”), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 7 to 43.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian Standards on Auditing and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards, accounting principles generally accepted in Cambodia and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.


KPMG Cambodia Ltd
Phnom Penh

26 March 2008

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Balance sheet

As at 31 December 2007

	Note	2007		2006	
		KHR'000	US\$	KHR'000	US\$
Assets					
Cash on hand	3	282,765	70,638	155,253	38,268
Deposits and placements with banks	4	4,511,587	1,127,052	1,885,096	464,653
Statutory deposits	5	529,446	132,262	517,446	127,544
Due from a shareholder	6	-	-	23,581	5,812
Loans to customers	7	41,373,587	10,335,645	21,190,538	5,223,204
Other receivables	8	864,441	215,948	469,404	115,702
Intangible assets	9	25,371	6,338	50,743	12,508
Property and equipment	10	1,731,705	432,602	1,012,764	249,634
		<u>49,318,902</u>	<u>12,320,485</u>	<u>25,304,825</u>	<u>6,237,325</u>
Liabilities and shareholders' funds					
Deposits from customers	11	517,393	129,251	172,462	42,509
Due to a shareholder	6	308,031	76,950	202,647	49,950
Borrowings	12	31,839,077	7,953,804	12,647,939	3,117,560
Other liabilities	13	758,393	189,456	274,666	67,702
Provision for income tax	14	552,357	137,986	229,293	56,518
Provision for retirement benefits	15	633,563	158,272	363,094	89,498
		<u>34,608,814</u>	<u>8,645,719</u>	<u>13,890,101</u>	<u>3,423,737</u>
Shareholders' funds					
Share capital	16	10,148,925	2,535,330	10,148,925	2,501,584
Accumulated profits		4,561,163	1,139,436	1,265,799	312,004
		<u>14,710,088</u>	<u>3,674,766</u>	<u>11,414,724</u>	<u>2,813,588</u>
		<u>49,318,902</u>	<u>12,320,485</u>	<u>25,304,825</u>	<u>6,237,325</u>

The accompanying notes form part of these financial statements

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Income statement Year ended 31 December 2007

	Note	2007		2006	
		KHR'000	US\$	KHR'000	US\$
Interest income	17	11,033,452	2,756,296	5,754,662	1,418,453
Interest expenses	18	(501,155)	(125,195)	(86,915)	(21,424)
Net interest income		<u>10,532,297</u>	<u>2,631,101</u>	<u>5,667,747</u>	<u>1,397,029</u>
Other operating income	19	<u>1,334,338</u>	<u>333,334</u>	<u>807,907</u>	<u>199,139</u>
Operating income		11,866,635	2,964,435	6,475,654	1,596,168
Fee and commission expenses	20	(445,591)	(111,314)	(241,073)	(59,422)
Operating and other expenses	21	(7,265,860)	(1,815,104)	(4,247,286)	(1,046,903)
Provision for bad and doubtful loans	7	(217,976)	(54,453)	(108,953)	(26,856)
Profit before income tax		<u>3,937,208</u>	<u>983,564</u>	<u>1,878,342</u>	<u>462,987</u>
Income tax expense	14	(641,844)	(160,340)	(282,161)	(69,549)
Net profit for the year		<u><u>3,295,364</u></u>	<u><u>823,224</u></u>	<u><u>1,596,181</u></u>	<u><u>393,438</u></u>

The accompanying notes form part of these financial statements

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Statement of changes in equity Year ended 31 December 2007

	Share capital KHR'000	Accumulated profits/(losses) KHR'000	Total KHR'000
Balance as at 1 January 2006	10,148,925	(330,382)	9,818,543
Net profit for the year	-	1,596,181	1,596,181
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2006	10,148,925	1,265,799	11,414,724
Net profit for the year	-	3,295,364	3,295,364
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2007	10,148,925	4,561,163	14,710,088
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
(US\$ equivalent)	2,535,330	1,139,436	3,674,766
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form part of these financial statements

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Statement of cash flows Year ended 31 December 2007

	Note	2007		2006	
		KHR'000	US\$	KHR'000	US\$
Cash flows from operating activities					
Net cash used in operating activities	22	(15,269,882)	(3,814,610)	(9,024,606)	(2,224,453)
Cash flows from investing activities					
Purchase of intangible assets		-	-	(61,876)	(15,252)
Purchase of property and equipment		(1,181,719)	(295,208)	(789,952)	(194,713)
Proceeds from disposal of property and equipment		14,466	3,614	4,084	1,007
Net cash used in investing activities		(1,167,253)	(291,594)	(847,744)	(208,958)
Cash flows from financing activities					
Proceeds from borrowings, net		19,191,138	4,794,189	9,801,358	2,415,913
Net cash generated from financing activities		19,191,138	4,794,189	9,801,358	2,415,913
Net increase/(decrease) in cash and cash equivalents		2,754,003	687,985	(70,992)	(17,498)
Cash and cash equivalents at beginning of year		2,040,349	502,921	2,111,341	513,459
Translation difference		-	6,784	-	6,960
Cash and cash equivalents at end of year	23	4,794,352	1,197,690	2,040,349	502,921

The accompanying notes form part of these financial statements

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements 31 December 2007

1. Background and principal activities

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd. (“the Company” or “AMK”), a licensed micro-finance institution, was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under register number Co-1698/03E dated 30 April 2003. AMK is engaged primarily in the provision of micro-finance services to the economically active poor of Cambodia through its headquarters in Phnom Penh and various provincial offices in the Kingdom of Cambodia. The Company is 99.98% owned by Concern Worldwide (Dublin).

The Company was initially established in 1999 as Thanakea Ponleu Thmey (“TPT”) Program by Concern Worldwide, Cambodia (“CWC”). All assets, liabilities and accumulated donations of TPT were transferred to the Company on 1 July 2003 against the issue of shares. The Company commenced to trade on the date of the asset transfer.

AMK provides credit services to poor families in fifteen provinces of Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Pursat, Siem Reap, Otdor Meanchey, Prey Veng, Svay Rieng, Kandal, Takeo, Kratie and Preah Vihear. AMK has the following main guiding principles:

- AMK will provide micro-finance services to poor people in Cambodia that are grounded in sound financial discipline at all levels.
- AMK will be committed to openness and transparency in all areas of management and operations.
- AMK will be committed to developing processes/services and to adopting behaviours and standards that ensure optimum social performance, including client protection.
- AMK will be a learning organisation where appropriate exchange and sharing of information will contribute to staff development, training and in policy and system improvements.

As at 31 December 2007, the Company had 349 employees (31 December 2006: 188).

2. Significant accounting policies

(a) Basis of accounting

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

2. Significant accounting policies (continued)

(b) Basis of aggregation

The financial statements comprise the financial statements of the head office and the fifteen provinces of Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Pursat, Siem Reap, Otdor Meanchey, Prey Veng, Svay Rieng, Kandal, Takeo, Kratie and Preah Vihear, after the elimination of all inter-branch balances and transactions.

(c) Financial instruments

The Company'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.

(d) Segment information

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

(e) Measurement and presentation currency

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

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

All assets, liabilities and income statement items at the end of the year are translated into US\$ using the prescribed official exchange rate announced by the National Bank of Cambodia at the balance sheet date of US\$1: KHR 4,003 (2006: KHR 4,057). These translations are for presentation purposes only and should not be construed as representations that the US\$ amounts have been, could have been or could in the future be converted into KHR at this or any other rate of exchange.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

2. Significant accounting policies (continued)

(f) Cash and cash equivalents

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

(g) Deposits and placement with banks

Deposits and placements with banks are carried at cost.

(h) Loans to customers

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

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.

(i) Provision for bad and doubtful loans

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

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

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified, excluding accrual interest and is charged as expense. Interest on non-performing loans is not accrued.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

2. Significant accounting policies (continued)

(i) Provision for bad and doubtful loans (continued)

In addition to the specific provision, an additional general provision for bad and doubtful loans is made at the rate of 1% of all outstanding performing loans as at year end.

Loans are written off to the income statement when the loans remain unpaid one year after maturity date.

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

Recoveries on loans previously written off are disclosed as a deduction from bad and doubtful debts expense.

(j) Other receivables

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

(k) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised on a declining basis at the rate of 50% per annum.

(l) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a declining basis over the estimated useful lives of the individual assets at the following rates:

Motor vehicles	25%
Motorcycles	25%
Computer and office equipment	50%

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

2. Significant accounting policies (continued)

(l) Property and equipment (continued)

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

(m) Deposits from customers

Deposits from customers are stated at placement value.

(n) Borrowings

Borrowings are stated at cost.

(o) Provisions

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

2. Significant accounting policies (continued)

(p) Retirement benefits

Provision for retirement benefits for the Company employees is calculated on a pro-rata basis, at the rate of one month's salary for every year worked. These obligations will be paid:

- i) when the employees reach a retirement age of 60 years, or when they are made redundant by the Company, they are entitled to retirement benefit in full.

Or

- ii) if the employees resign before retirement age, they are entitled to the following benefits:

Number of working months	Total pension provided to employees
Less than six months	Nil
Six months to one year	Seven days of wages and benefits
More than one year	Fifteen days for each year of employment, up to six months' wages and benefits.

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

(q) Income 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.

Loan fee income is recognised as income when the loan is disbursed to customers. The loan fee income is calculated using the principal and fee rate.

(r) Operating leases

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

2. Significant accounting policies (continued)

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholder equity, in which case it is also disclosed as a component of shareholder equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

(t) Related parties

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

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

3. Cash on hand

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Head office	15,865	3,963	8,377	2,065
Provincial branches				
Banteay Meanchey	47,944	11,977	13,422	3,308
Battambang	12,926	3,229	22,328	5,504
Kandal	4,531	1,132	-	-
Kampong Cham	3,581	895	11,196	2,760
Kampong Chhnang	12,669	3,165	2,617	645
Kampong Speu	21,549	5,383	10,063	2,480
Kampong Thom	22,504	5,622	28,860	7,114
Kratie	10,575	2,642	-	-
Otdor Meanchey	27,711	6,922	34,328	8,461
Preah Vihear	32,640	8,154	-	-
Prey Veng	35,664	8,909	-	-
Pursat	4,658	1,164	5,179	1,277
Siem Reap	5,625	1,405	18,883	4,654
Svay Rieng	12,710	3,175	-	-
Takeo	11,613	2,901	-	-
	<u>282,765</u>	<u>70,638</u>	<u>155,253</u>	<u>38,268</u>

The above amounts are analysed as follows:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
By currency:				
Khmer Riel	195,497	48,838	126,792	31,253
Thai Baht	44,900	11,216	9,482	2,337
US Dollar	42,368	10,584	18,979	4,678
	<u>282,765</u>	<u>70,638</u>	<u>155,253</u>	<u>38,268</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

4. Deposits and placements with banks

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Aceda Bank Plc Ltd	4,503,222	1,124,963	1,879,954	463,385
National Bank of Cambodia	8,365	2,089	5,142	1,268
	<u>4,511,587</u>	<u>1,127,052</u>	<u>1,885,096</u>	<u>464,653</u>

The above amounts are analysed as follows:

(a) By maturity:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Within 1 month	4,511,587	1,127,052	1,885,096	464,653
Between 2 to 3 months	-	-	-	-
	<u>4,511,587</u>	<u>1,127,052</u>	<u>1,885,096</u>	<u>464,653</u>

(b) By currency:

Khmer Riel	3,407,097	851,136	589,289	145,253
Thai Baht	954,520	238,451	1,118,820	275,775
US Dollars	149,970	37,465	176,987	43,625
	<u>4,511,587</u>	<u>1,127,052</u>	<u>1,885,096</u>	<u>464,653</u>

(c) By interest rate (per annum):

	2007	2006
Aceda Bank Plc Ltd	2% - 5%	2% - 5%

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

5. Statutory deposits

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Statutory deposits on:				
Registered share capital	507,446	126,766	507,446	125,079
Customers' deposits	22,000	5,496	10,000	2,465
	<u>529,446</u>	<u>132,262</u>	<u>517,446</u>	<u>127,544</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.

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.

From September 2006, 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.

6. Due from/(to) a shareholder

Amounts due from/(to) a shareholder are unsecured, interest free and have no fixed term of repayment.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

7. Loans to customers

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Village Bank loans:				
Credit line	9,352,874	2,336,466	5,660,416	1,395,222
End of term	14,877,513	3,716,591	9,818,052	2,420,028
Installment	8,293,450	2,071,809	2,518,457	620,768
Individual loans:				
Emergency - end of term	759,775	189,801	146,991	36,231
Installment	7,975,231	1,992,314	3,075,993	758,194
Staff loans	535,826	133,856	187,875	46,309
	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>
Allowance for bad and doubtful loans				
Specific	(8,722)	(2,179)	(5,246)	(1,293)
General	(412,360)	(103,013)	(212,000)	(52,255)
	<u>(421,082)</u>	<u>(105,192)</u>	<u>(217,246)</u>	<u>(53,548)</u>
	<u><u>41,373,587</u></u>	<u><u>10,335,645</u></u>	<u><u>21,190,538</u></u>	<u><u>5,223,204</u></u>
Total number of loans		122,654		67,586

The movements in allowance for bad and doubtful loans to customers were as follows:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
At beginning of year	217,246	53,548	104,178	25,335
Provision during the year	217,976	54,453	108,953	26,856
Written off during the year	(23,136)	(5,780)	-	-
Translation difference	8,996	2,971	4,115	1,357
At end of year	<u><u>421,082</u></u>	<u><u>105,192</u></u>	<u><u>217,246</u></u>	<u><u>53,548</u></u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

7. Loans to customers (continued)

The loans to customers are analysed as follows:

(a) By maturity:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Within 1 month	1,054,880	263,523	491,408	121,126
2 to 3 months	7,405,307	1,849,939	3,389,696	835,518
4 to 12 months	27,035,362	6,753,775	15,751,694	3,882,596
More than 12 months	6,299,120	1,573,600	1,774,986	437,512
	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>

(b) By currency:

Khmer Riel	34,300,576	8,568,718	16,077,513	3,962,907
Thai Baht	6,958,267	1,738,263	5,142,396	1,267,536
US Dollar	535,826	133,856	187,875	46,309
	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>

(c) By economic sector:

Agriculture	27,848,878	6,957,002	16,169,431	3,985,564
Construction	173,379	43,312	48,997	12,077
Household/family	1,621,370	405,039	370,133	91,233
Services	1,226,096	306,294	424,446	104,621
Trade and commerce	10,209,236	2,550,396	4,198,027	1,034,761
Transportation	272,700	68,124	126,571	31,198
Other categories	443,010	110,670	70,179	17,298
	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>

(d) By residency status:

Residents	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>
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(e) By relationship:

External customers	41,258,843	10,306,981	21,219,909	5,230,443
Staff loans	535,826	133,856	187,875	46,309
	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

7. Loans to customers (continued)

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
(f) By locations:				
Head office	535,826	133,856	187,875	46,309
Provincial branches				
Banteay Meanchey	6,958,268	1,738,263	5,142,398	1,267,537
Battambang	2,965,359	740,784	1,337,748	329,738
Kandal	1,239,269	309,585	-	-
Kampong Cham	4,522,490	1,129,775	1,380,372	340,244
Kampong Chhnang	1,787,103	446,441	725,479	178,821
Kampong Speu	5,597,883	1,398,422	4,462,724	1,100,006
Kampong Thom	3,692,383	922,404	1,600,892	394,600
Kratie	1,414,381	353,330	-	-
Otdor Meanchey	1,344,029	335,756	744,775	183,578
Preah Vihear	662,193	165,424	-	-
Prey Veng	891,610	222,735	-	-
Pursat	4,052,715	1,012,420	3,462,892	853,560
Siem Reap	3,989,236	996,562	2,362,629	582,359
Svay Rieng	1,228,452	306,883	-	-
Takeo	913,472	228,197	-	-
	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>
(g) By performance:				
Standard loans:				
Secured	8,503,423	2,124,263	3,224,690	794,846
Unsecured	33,267,658	8,310,682	18,163,180	4,476,998
Sub-standard loans:				
Secured	3,660	914	873	215
Unsecured	11,301	2,823	15,424	3,801
Doubtful loans:				
Secured	953	238	-	-
Unsecured	1,048	262	-	-
Loans loss:				
Secured	3,022	755	1,583	390
Unsecured	3,604	900	2,034	502
	<u>41,794,669</u>	<u>10,440,837</u>	<u>21,407,784</u>	<u>5,276,752</u>
(h) By interest rate (per annum):				
External customers		30% - 36%		30% - 36%
Staff loans		12%		12%

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

7. Loans to customers (continued)

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

Staff loans consist of general staff loans and asset purchase loans. General staff loans are unsecured whereas asset purchase loans are secured by the asset purchased or any other asset equal to or more than the value of the loans. Repayments of principal and interest are made on a monthly basis. As at 31 December 2007, there are 191 staff loans (2006: 62), and all loans are classified as standard or performing loans.

8. Other receivables

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Interest receivable	665,229	166,183	351,139	86,552
Prepayments and deposits	184,620	46,120	116,446	28,702
Others	14,592	3,645	1,819	448
	<u>864,441</u>	<u>215,948</u>	<u>469,404</u>	<u>115,702</u>

9. Intangible assets

	Micro Banker Software license	
	KHR'000	US\$
Cost		
At 1 January 2007	132,507	32,662
Translation difference	-	440
	<u>132,507</u>	<u>33,102</u>
At 31 December 2007	<u>132,507</u>	<u>33,102</u>
Less: accumulated amortisation		
At 1 January 2007	81,764	20,154
Charge for the year	25,372	6,338
Translation difference	-	272
	<u>107,136</u>	<u>26,764</u>
At 31 December 2007	<u>107,136</u>	<u>26,764</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

9. Intangible assets (continued)

	Micro Banker Software license	
	KHR'000	US\$
Net book value		
At 31 December 2007	25,371	6,338
At 31 December 2006	50,743	12,508

10. Property and equipment

	Motor Vehicles KHR'000	Motorcycles KHR'000	Computer and office equipment KHR'000	Total KHR'000
Cost				
At 1 January 2007	815,572	470,505	377,634	1,663,711
Additions	194,229	593,730	393,760	1,181,719
Disposals	-	(13,226)	(11,869)	(25,095)
At 31 December 2007	1,009,801	1,051,009	759,525	2,820,335
Less: Accumulated depreciation				
At 1 January 2007	317,894	146,353	186,700	650,947
Charge for the year	153,048	158,191	144,815	456,054
Disposals	-	(8,012)	(10,359)	(18,371)
At 31 December 2007	470,942	296,532	321,156	1,088,630
Net book value				
At 31 December 2007	538,859	754,477	438,369	1,731,705
At 31 December 2006	497,678	324,152	190,934	1,012,764

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

10. Property and equipment (continued)

	Motor Vehicles US\$	Motorcycles US\$	Computer and office equipment US\$	Total US\$
Cost				
At 1 January 2007	201,028	115,974	93,082	410,084
Additions	48,521	148,321	98,366	295,208
Disposals	-	(3,304)	(2,965)	(6,269)
Translation difference	2,712	1,564	1,256	5,532
At 31 December 2007	<u>252,261</u>	<u>262,555</u>	<u>189,739</u>	<u>704,555</u>
Less: Accumulated depreciation				
At 1 January 2007	78,357	36,074	46,019	160,450
Charge for the year	38,233	39,518	36,177	113,928
Disposals	-	(2,002)	(2,588)	(4,590)
Translation difference	1,057	487	621	2,165
At 31 December 2007	<u>117,647</u>	<u>74,077</u>	<u>80,229</u>	<u>271,953</u>
Net book value				
At 31 December 2007	<u>134,614</u>	<u>188,478</u>	<u>109,510</u>	<u>432,602</u>
At 31 December 2006	<u>122,671</u>	<u>79,900</u>	<u>47,063</u>	<u>249,634</u>

11. Deposits from customers

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
General savings	111,623	27,885	33,924	8,362
Loan-linked savings	238,998	59,705	91,307	22,506
Staff savings	166,772	41,661	47,231	11,641
	<u>517,393</u>	<u>129,251</u>	<u>172,462</u>	<u>42,509</u>

The general (voluntary) savings is available for the Company's borrowers only and bears interest at the rate of 18% per annum. The interest charge is accrued to individual borrowers' accounts every six months in June and December.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

11. Deposits from customers (continued)

The loan-linked savings is a compulsory deposit on individual loans disbursed as required by the Company. 2% of the principal loan amount disbursed to borrowers is recorded as loan-linked savings and bears interest at the rate of 12% per annum. The loan-linked savings is refunded at the end of the loan cycle.

Staff savings bear interest at the rate of 5% per annum.

The deposits from customers are analysed as follows:

(a) By currency:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Khmer Riel	294,792	73,643	93,618	23,076
Thai Baht	55,829	13,947	31,613	7,792
US Dollar	166,772	41,661	47,231	11,641
	<u>517,393</u>	<u>129,251</u>	<u>172,462</u>	<u>42,509</u>

(b) By maturity:

Within 1 month	287,368	71,788	83,361	20,547
2 to 3 months	18,924	4,727	14,471	3,567
4 to 12 months	162,469	40,587	67,138	16,549
More than 12 months	48,632	12,149	7,492	1,846
	<u>517,393</u>	<u>129,251</u>	<u>172,462</u>	<u>42,509</u>

12. Borrowings

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Concern Worldwide	23,228,725	5,802,829	11,936,757	2,942,262
Micro Finance Alliance Fund	395,102	98,702	711,182	175,298
Oikocredit	4,056,000	1,013,240	-	-
BlueOrchard	4,159,250	1,039,033	-	-
	<u>31,839,077</u>	<u>7,953,804</u>	<u>12,647,939</u>	<u>3,117,560</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

12. Borrowings (continued)

The borrowings are analysed as follows:

(a) By Maturity:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Within 1 year	1,127,282	281,609	435,727	107,402
2 to 5 years	7,483,070	1,869,366	275,455	67,896
Above 5 years	23,228,725	5,802,829	11,936,757	2,942,262
	<u>31,839,077</u>	<u>7,953,804</u>	<u>12,647,939</u>	<u>3,117,560</u>

(b) By currency:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Khmer Riel	17,672,327	4,414,771	711,182	175,298
Thai Baht	4,159,250	1,039,033	-	-
US Dollars	10,007,500	2,500,000	11,936,757	2,942,262
	<u>31,839,077</u>	<u>7,953,804</u>	<u>12,647,939</u>	<u>3,117,560</u>

Concern Worldwide, Dublin, the majority shareholder, has entered into a loan agreement with the Company for US\$2.5 million (equivalent to KHR10,143 million). The loan is unsecured and has a maximum term of fifteen years. There is no fixed repayment schedule. Annual interest is 1% and interest payment can be made once every five years, on or before 31 December. The first interest installment will become due on 31 December 2011. The loan carries an interest moratorium for the years 2005 and 2006.

On 12 January 2007, the Concern Worldwide, Dublin, made another loan agreement with the Company for KHR20,000 million (equivalent to US\$5 million). The loan has maximum term of fifteen years with interest at a rate of 1% of outstanding loan principal balance. The first interest installment will become due on 31 December 2011. Alternatively, Concern Worldwide (Dublin) has the option to re-invest the interest in the form of share capital or withhold the amount for their future investment in the Company's microfinance operations. (Note 16)

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

12. Borrowings (continued)

The Company entered into a loan agreement with Micro Finance Alliance Fund, Phillipines, on 12 December 2005 for KHR800 million. The loan is unsecured, expires in three years from the date of the respective draw down and bears interest at a rate of 11.63%, inclusive of withholding tax of 14%, on the outstanding loan balance. Repayments are on a quarterly basis for both interest and principal.

The Company entered into a loan agreement with Oikocredit, Ecumenical Development Cooperative Society, U.A, on 3 September 2007 for KHR4,056 million. The loan is expired in three years from the date of the first disbursement and bears interest at a rate of 12.79% per annum inclusive of the 14% withholding tax. Succeeding annual interest rate shall be revised annually by Oikocredit based on 7% plus the ADB projected annual inflation rate for the year. The interest will be payable semi-annually, the first payment of interest to be made six months after the first disbursement and every six months thereafter.

The Company entered into a loan agreement with Dexia Micro-Credit Fund (Sub Fund BlueOrchard Debt) on 21 September 2007 for THB16 million and on 23 October 2007 for THB15.750 million. The repayment of the principal will be made at maturity date on 21 September 2009 and 23 October 2009 respectively. The interest will be payable semi-annually, the first payment of interest to be made six months after disbursement and every six months thereafter. The loans bear interest at a rate of 12.56% and 11.82% per annum respectively.

13. Other liabilities

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Interest payable	357,067	89,200	11,101	2,736
Staff bonus	198,819	49,667	109,296	26,940
Staff incentive	94,987	23,729	77,077	18,999
Other tax payables	40,023	9,998	23,057	5,683
Others	67,497	16,862	54,135	13,344
	<u>758,393</u>	<u>189,456</u>	<u>274,666</u>	<u>67,702</u>

As at 31 December 2007 the interest payable to Concern Worlwide, Dublin, amounted to KHR224 million.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

14. Income tax

Provision:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Balance at beginning of year	229,293	56,518	3,411	830
Income tax expense	641,844	160,340	282,161	69,549
Income tax paid	(318,780)	(79,635)	(56,279)	(13,872)
Translation difference	-	763	-	11
Balance at end of year	<u>552,357</u>	<u>137,986</u>	<u>229,293</u>	<u>56,518</u>

Tax expense:

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.

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

	2007			2006		
	KHR'000	US\$	%	KHR'000	US\$	%
Profit before income tax	<u>3,937,208</u>	<u>983,564</u>		<u>1,878,342</u>	<u>462,987</u>	
Income tax using statutory rate	787,442	196,713	20	375,669	92,598	20
Tax effect of:						
Non-taxable income	(145,598)	(36,373)	4	(93,508)	(23,049)	(5)
Effective income tax rate	<u>641,844</u>	<u>160,340</u>	16	<u>282,161</u>	<u>69,549</u>	15

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

15. Provision for retirement benefits

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Balance at the beginning of year	363,094	89,498	209,325	50,906
Payment during the year	(2,906)	(726)	(3,465)	(854)
Charge during the year	280,469	70,065	160,033	39,446
Translation difference	(7,094)	(565)	(2,799)	-
Balance at end of year	<u>633,563</u>	<u>158,272</u>	<u>363,094</u>	<u>89,498</u>

16. Share capital

The details of shareholding are as follows:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Shares 405,957 of KHR 25,000 each:				
Concern Worldwide (Dublin)	10,146,425	2,534,705	10,146,425	2,500,968
Concern Worldwide (UK)	2,500	625	2,500	616
	<u>10,148,925</u>	<u>2,535,330</u>	<u>10,148,925</u>	<u>2,501,584</u>

As per the loan agreement with Concern Worldwide (Dublin) as discussed in Note 12, Concern Worldwide (Dublin) has the option to re-invest the interest in the form of share capital or withhold the amount for their future investment in the Company's microfinance operations.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

17. Interest income

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Loans to customers	10,950,322	2,735,529	5,709,510	1,407,323
Deposits and placements with banks	83,130	20,767	45,152	11,130
	<u>11,033,452</u>	<u>2,756,296</u>	<u>5,754,662</u>	<u>1,418,453</u>

18. Interest expenses

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Borrowings	460,406	115,015	76,024	18,739
Deposits from customers	40,749	10,180	10,891	2,685
	<u>501,155</u>	<u>125,195</u>	<u>86,915</u>	<u>21,424</u>

19. Other operating income

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Bad debts recovered	2,469	617	1,845	455
Foreign exchange gain	1,001,842	250,272	634,099	156,297
Loan fee income	242,998	60,704	125,263	30,876
Other income	87,029	21,741	46,700	11,511
	<u>1,334,338</u>	<u>333,334</u>	<u>807,907</u>	<u>199,139</u>

The Company did not receive any donations in-kind or subsidies during the year.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

20. Fee and commission expenses

The commission expenses represent the payments towards the village bank committee incentive. The basis of the incentive is calculated at a rate of 3% and 0.5% of interest income and principal collected respectively.

21. Operating and other expenses

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Communications	289,049	72,208	164,009	40,426
Depreciation and amortisation	481,426	120,266	278,008	68,526
Office rentals	352,177	87,978	196,091	48,334
Office supplies and equipment	400,899	100,149	256,664	63,264
Professional services	368,571	92,074	182,899	45,082
Staff costs	4,357,046	1,088,445	2,462,476	606,970
Transportation costs	569,425	142,250	341,249	84,114
Technical support costs	129,215	32,280	128,869	31,765
Utilities	121,855	30,441	75,776	18,678
Other expenses	196,197	49,013	161,245	39,744
	<u>7,265,860</u>	<u>1,815,104</u>	<u>4,247,286</u>	<u>1,046,903</u>

Technical support costs represent the salaries of the Chief Executive Officer and the Training and Marketing Manager which are paid directly by the shareholder, Concern Worldwide (Dublin).

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

22. Net cash used in operating activities

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Profit before income tax	3,937,208	983,564	1,878,342	462,987
Adjustments for:				
Depreciation and amortisation	481,426	120,266	278,008	68,526
Provision for bad and doubtful loans	217,976	54,453	108,953	26,856
Gain on disposal of property and equipment	(7,742)	(1,934)	-	-
Operating profit before changes in operating assets and liabilities	4,628,868	1,156,349	2,265,303	558,369
Decrease/(increase) in:				
Statutory deposits	(12,000)	(2,998)	(244,627)	(60,298)
Due from a shareholder	23,581	5,891	(23,581)	(5,812)
Loans to customers	(20,401,025)	(5,096,434)	(11,228,810)	(2,767,762)
Other receivables	(395,037)	(98,685)	(226,944)	(55,939)
Increase/(decrease) in:				
Deposits from customers	344,931	86,168	125,466	30,926
Due to a shareholder	105,384	26,326	108,277	26,689
Other liabilities	483,727	120,841	102,820	25,344
Provision for retirement benefits	270,469	67,567	153,769	37,902
Cash used in operations	(14,951,102)	(3,734,975)	(8,968,327)	(2,210,581)
Income tax paid	(318,780)	(79,635)	(56,279)	(13,872)
Net cash used in operating activities	(15,269,882)	(3,814,610)	(9,024,606)	(2,224,453)

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

23. Cash and cash equivalents

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Cash on hand	282,765	70,638	155,253	38,268
Deposits and placements with banks	4,511,587	1,127,052	1,885,096	464,653
	<u>4,794,352</u>	<u>1,197,690</u>	<u>2,040,349</u>	<u>502,921</u>

24. Commitments and contingencies

(a) Lease commitments

The Company has lease commitments in respect of the lease of the Company's registered office and branches in Phnom Penh, Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Pursat, Siem Reap, Otdor Meanchey, Prey Veng, Svay Rieng, Kandal, Takeo, Kratie and Preah Vihear. The total remaining rental commitments as at 31 December are due as follows:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
Within 1 year	29,724	7,425	249,404	61,475
2 to 3 years	51,443	12,851	374,433	92,293
4 to 5 years	-	-	8,520	2,100
	<u>81,167</u>	<u>20,276</u>	<u>632,357</u>	<u>155,868</u>

(b) Taxation contingencies

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

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

25. Related party transactions

The Company had significant related party transactions during the year as follows:

	2007		2006	
	KHR'000	US\$	KHR'000	US\$
With shareholder				
Borrowings	23,228,725	5,802,829	9,091,176	2,240,862
Technical support charged	129,215	32,280	128,869	31,765
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

26. Financial risk management policies

The guidelines and policies adopted by the Company to manage the risks that arise in the conduct of their 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 balance sheet. 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.

(b) Operational risk

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

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

26. Financial risk management policies

(c) Market risk

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

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

(i) Foreign currency exchange risk

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

(ii) Interest rate risk

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

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

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

26. Financial risk management policies (continued)

(ii) Interest rate risk (continued)

2007	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 %
Assets								
Cash on hand	-	-	-	-	-	282,765	282,765	-
Deposits and placements with banks	4,511,587	-	-	-	-	-	4,511,587	3.5%
Statutory deposits	-	-	529,446	-	-	-	529,446	3.0%
Due from a shareholder	-	-	-	-	-	-	-	-
Loans to customers								
- Performing	1,054,880	7,405,307	27,035,362	6,275,532	-	-	41,771,081	33.0%
- Non performing	-	-	-	-	-	23,588	23,588	-
- Allowance	-	-	-	-	-	(421,082)	(421,082)	-
Other receivables	-	-	-	-	-	864,441	864,441	-
Total assets	5,566,467	7,405,307	27,564,808	6,275,532	-	749,712	47,561,826	
Liabilities								
Deposits from customers	9,108	18,924	440,729	48,632	-	-	517,393	11.7%
Due to a shareholder	-	-	-	-	-	308,031	308,031	-
Borrowings	40,625	38,396	1,048,261	7,483,070	23,228,725	-	31,839,077	8.5%
Other liabilities	-	-	-	-	-	758,393	758,393	-
Provision for income tax	-	-	-	-	-	552,357	552,357	-
Provision for retirement benefits	-	-	-	-	-	633,563	633,563	-
Total liabilities	49,733	57,320	1,488,990	7,531,702	23,228,725	2,252,344	34,608,814	
Maturity gap	5,516,734	7,347,987	26,075,818	(1,256,170)	(23,228,725)	(1,502,632)	12,953,012	

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

26. Financial risk management policies (continued)

(ii) Interest rate risk (continued)

2006	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 %
Assets								
Cash on hand	-	-	-	-	-	155,253	155,253	-
Deposits and placements with banks	1,174,710	-	-	-	-	710,386	1,885,096	2.5%
Statutory deposits	-	-	507,446	-	-	10,000	517,446	2.7%
Due from a shareholder	-	-	-	-	-	23,581	23,581	-
Loans to customers								
- Performing	491,408	3,389,696	15,751,694	1,755,072	-	-	21,387,870	36.3%
- Non performing	-	-	-	-	-	19,914	19,914	-
- Allowance	-	-	-	-	-	(217,246)	(217,246)	-
Other receivables	-	-	-	-	-	469,404	469,404	-
Total assets	1,666,118	3,389,696	16,259,140	1,755,072	-	1,171,292	24,241,318	
Liabilities								
Deposits from customers	2,098	14,471	148,293	7,492	-	108	172,462	9.9%
Due to a shareholder	-	-	-	-	-	202,647	202,647	-
Borrowings	40,625	79,021	316,081	275,455	11,936,757	-	12,647,939	1.2%
Other liabilities	-	-	-	-	-	274,666	274,666	-
Provision for income tax	-	-	-	-	-	229,293	229,293	-
Provision for retirement benefits	-	-	-	-	-	363,094	363,094	-
Total liabilities	42,723	93,492	464,374	282,947	11,936,757	1,069,808	13,890,101	
Maturity gap	1,623,395	3,296,204	15,794,766	1,472,125	(11,936,757)	101,484	10,351,217	

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued)

31 December 2007

26. Financial risk management policies (continued)

(d) Liquidity risk

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

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

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

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

26. Financial risk management policies (continued)

(d) Liquidity risk (continued)

2007	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
Assets							
Cash on hand	282,765	-	-	-	-	-	282,765
Deposits and placements with banks	3,158,111	1,353,476	-	-	-	-	4,511,587
Statutory deposits	-	-	-	-	-	529,446	529,446
Due from a shareholder	-	-	-	-	-	-	-
Loans to customers							
- Performing	1,054,880	7,405,307	27,035,362	6,275,532	-	-	41,771,081
- Non performing	-	-	-	-	-	23,588	23,588
- Allowance	-	-	-	-	-	(421,082)	(421,082)
Other receivables	432,221	259,332	172,888	-	-	-	864,441
Total assets	4,927,977	9,018,115	27,208,250	6,275,532	-	131,952	47,561,826
Liabilities							
Deposits from customers	287,368	18,924	162,469	48,632	-	-	517,393
Due to a shareholders	-	-	-	-	-	308,031	308,031
Borrowings	40,625	38,396	1,048,261	7,483,070	23,228,725	-	31,839,077
Other liabilities	-	-	-	-	-	758,393	758,393
Provision for income tax	552,357	-	-	-	-	-	552,357
Provision for retirement benefits	-	-	-	-	-	633,563	633,563
Total liabilities	880,350	57,320	1,210,730	7,531,702	23,228,725	1,699,987	34,608,814
Maturity gap	4,047,627	8,960,795	25,997,520	(1,256,170)	(23,228,725)	(1,568,035)	12,953,012

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

26. Financial risk management policies (continued)

(d) Liquidity risk (continued)

2006	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
Assets							
Cash on hand	155,253	-	-	-	-	-	155,253
Deposits and placements with banks	1,885,096	-	-	-	-	-	1,885,096
Statutory deposits	-	-	-	-	-	517,446	517,446
Due from a shareholder	-	-	-	-	-	23,581	23,581
Loans to customers							
- Performing	491,408	3,389,696	15,751,694	1,755,072	-	-	21,387,870
- Non performing	-	-	-	-	-	19,914	19,914
- Allowance	-	-	-	-	-	(217,246)	(217,246)
Other receivables	351,139	32,691	85,574	-	-	-	469,404
Total assets	2,882,896	3,422,387	15,837,268	1,755,072	-	343,695	24,241,318
Liabilities							
Deposits from customers	83,361	14,471	67,138	7,492	-	-	172,462
Due to a shareholders	-	-	-	-	-	202,647	202,647
Borrowings	40,625	79,021	316,081	275,455	11,936,757	-	12,647,939
Other liabilities	-	-	-	-	-	274,666	274,666
Provision for income tax	229,293	-	-	-	-	-	229,293
Provision for retirement benefits	-	-	-	-	-	363,094	363,094
Total liabilities	353,279	93,492	383,219	282,947	11,936,757	840,407	13,890,101
Maturity gap	2,529,617	3,328,895	15,454,049	1,472,125	(11,936,757)	(496,712)	10,351,217

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2007

27. Fair values of financial assets and liabilities

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