



ANGKOR MIKROHERANHVATHO
(KAMPUCHEA) CO., LTD

Financial Statements
and
Auditors' report
31 December 2006

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 Ms. Isabelle Mary Kidney Mr. Gerhard Bruckermann Mr. Tanmay Chetan Mr. Adam Mooney
Auditor	KPMG Cambodia Ltd
Principal bankers	Acleda Bank Plc Ltd

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Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd (“the Company” or “AMK”) for the year ended 31 December 2006.

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 2006 were as follows:

	KHR'000
Profit before income tax	1,878,342
Income tax	(282,161)
Profit after income tax	<u>1,596,181</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.

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.

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
Ms. Isabelle Mary Kidney
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.

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 2006, 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 followed 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:

21/3/07



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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 2006, 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 42.

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 followed 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. The financial statements of the Company for the year ended 31 December 2005 were audited by another firm of auditors whose report dated 30 March 2006 expressed an unqualified opinion on the financial statements.

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 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 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 2006, and of its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards, accounting principles generally followed in Cambodia and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

KPMG
KPMG Cambodia Ltd
Phnom Penh



21 March 2007

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Balance sheet As at 31 December 2006

	Note	2006		2005	
		KHR'000	US\$	KHR'000	US\$
Assets					
Cash on hand	3	155,253	38,268	67,790	16,486
Deposits and placements with banks	4	1,885,096	464,653	2,043,551	496,973
Statutory deposits	5	517,446	127,544	272,819	66,347
Due from a shareholder	6	23,581	5,812	-	-
Loans to customers	7	21,190,538	5,223,204	10,070,681	2,449,096
Other receivables	8	469,404	115,702	242,460	58,964
Intangible assets	9	50,743	12,508	25,318	6,157
Property and equipment	10	1,012,764	249,634	468,453	113,923
		<u>25,304,825</u>	<u>6,237,325</u>	<u>13,191,072</u>	<u>3,207,946</u>
Liabilities and shareholder's funds					
Deposits from customers	11	172,462	42,509	46,996	11,429
Due to a shareholder	6	202,647	49,950	94,370	22,950
Borrowings	12	12,647,939	3,117,560	2,846,581	692,262
Other liabilities	13	274,666	67,702	171,846	41,791
Provision for income tax	14	229,293	56,518	3,411	830
Provision for retirement benefits	15	363,094	89,498	209,325	50,906
		<u>13,890,101</u>	<u>3,423,737</u>	<u>3,372,529</u>	<u>820,168</u>
Shareholder's funds					
Share capital	16	10,148,925	2,501,584	10,148,925	2,468,124
Retained profits/ (accumulated losses)		1,265,799	312,004	(330,382)	(80,346)
		<u>11,414,724</u>	<u>2,813,588</u>	<u>9,818,543</u>	<u>2,387,778</u>
Total shareholder's funds		<u>25,304,825</u>	<u>6,237,325</u>	<u>13,191,072</u>	<u>3,207,946</u>

The accompanying notes form part of these financial statements

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Income statement

Year ended 31 December 2006

	Note	2006		2005	
		KHR'000	US\$	KHR'000	US\$
Interest income	17	5,754,662	1,418,453	2,796,013	679,964
Interest expenses	18	(86,915)	(21,424)	(3,711)	(902)
Net interest income		5,667,747	1,397,029	2,792,302	679,062
Other operating income	19	807,907	199,139	67,419	16,395
Operating income		6,475,654	1,596,168	2,859,721	695,457
Fee and commission expenses	20	(241,073)	(59,422)	(121,504)	(29,549)
Operating and other expenses	21	(4,247,286)	(1,046,903)	(2,666,695)	(648,515)
(Provision for)/reversal of bad and doubtful loans	7	(108,953)	(26,856)	14,963	3,639
Profit before income tax		1,878,342	462,987	86,485	21,032
Income tax	14	(282,161)	(69,549)	(29,003)	(7,053)
Net profit		1,596,181	393,438	57,482	13,979

The accompanying notes form part of these financial statements

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Statement of changes in equity Year ended 31 December 2006

	Share capital KHR'000	Accumulated profit/(losses) KHR'000	Total KHR'000
Balance as at 1 January 2005	8,702,224	(387,864)	8,314,360
Issuance of share capital	1,446,701	-	1,446,701
Net profit for the year	-	57,482	57,482
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2005	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
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
(US\$ equivalent)	2,501,584	312,004	2,813,588
	<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 2006

	Note	2006		2005	
		KHR'000	US\$	KHR'000	US\$
Cash flows from operating activities					
Net cash used in operating activities	22	(9,024,606)	(2,224,453)	(5,060,403)	(1,230,643)
Cash flows from investing activities					
Purchase of intangible assets		(61,876)	(15,252)	(24,225)	(5,891)
Purchase of property and equipment		(789,952)	(194,713)	(114,793)	(27,916)
Proceeds from disposal of property and equipment		4,084	1,007	-	-
Net cash used in investing activities		(847,744)	(208,958)	(139,018)	(33,807)
Cash flows from financing activities					
Proceeds from borrowings, net		9,801,358	2,415,913	2,846,581	692,262
Proceeds from issuance of share capital		-	-	1,446,701	351,824
Net cash generated from financing activities		9,801,358	2,415,913	4,293,282	1,044,086
Net decrease in cash and cash equivalents		(70,992)	(17,498)	(906,139)	(220,364)
Cash and cash equivalents at beginning of year		2,111,341	520,419	3,017,480	733,823
Cash and cash equivalents at end of year	23	2,040,349	502,921	2,111,341	513,459

The accompanying notes form part of these financial statements

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements

31 December 2006

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 economically active poor population 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 nine provinces of Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Pursat, Siem Reap and Otdor Meanchey. 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 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 2006, the Company had 188 employees (31 December 2005: 108).

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 2006

2. Significant accounting policies (continued)

(b) Basis of aggregation

The financial statements comprise the financial statements of the head office and the nine branches in Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Pursat, Siem Reap and Otdor Meanchey provinces, 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 4,057 (2005: KHR 4,112). 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 2006

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) 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.

(h) 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.

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.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

2. Significant accounting policies (continued)

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

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.

(i) Deposits and placement with banks

Deposits and placements with banks are carried at cost.

(j) 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 equipment	50%

(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.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

2. Significant accounting policies (continued)

(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) 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.

(m) 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 year	Percentage of total pension provided to employees
Less than one year	0%
One to two years	20%
Three to four years	30%
Above five years	50%

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

(n) Deposits from customers

Deposits from customers are stated at cost plus accrued interest.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

2. Significant accounting policies (continued)

(o) 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.

(p) Operating lease

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

(q) 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.

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

2. Significant accounting policies (continued)

(r) 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.

3. Cash on hand

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Head office	8,377	2,065	1,773	431
Provincial branches				
Banteay Meanchey	13,422	3,308	12,378	3,010
Battambang	22,328	5,504	24,267	5,902
Kompong Chain	11,196	2,760	-	-
Konpong Chlmang	2,617	645	-	-
Kompong Speu	10,063	2,480	2,757	670
Kompong Thom	28,860	7,114	-	-
Otdor Meanchey	34,328	8,461	-	-
Pursat	5,179	1,277	6,655	1,618
Siem Reap	18,883	4,654	19,960	4,855
	<u>155,253</u>	<u>38,268</u>	<u>67,790</u>	<u>16,486</u>

The above amounts are analysed as follows:

By currency:

Khmer Riel	126,792	31,253	50,022	12,165
Thai Baht	9,482	2,337	9,260	2,252
US Dollar	18,979	4,678	8,508	2,069
	<u>155,253</u>	<u>38,268</u>	<u>67,790</u>	<u>16,486</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

4. Deposits and placements with banks

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Aceda Bank Plc Ltd	1,879,954	463,385	1,807,370	439,536
National Bank of Cambodia	5,142	1,268	236,181	57,437
	<u>1,885,096</u>	<u>464,653</u>	<u>2,043,551</u>	<u>496,973</u>

The above amounts are analysed as follows:

(a) By maturity:

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Within one month	1,885,096	464,653	1,940,751	471,973
Between 2 to 3 months	-	-	102,800	25,000
	<u>1,885,096</u>	<u>464,653</u>	<u>2,043,551</u>	<u>496,973</u>

(b) By currency:

Khmer Riel	589,289	145,253	420,739	102,320
Thai Baht	1,118,820	275,775	713,402	173,493
US Dollars	176,987	43,625	909,410	221,160
	<u>1,885,096</u>	<u>464,653</u>	<u>2,043,551</u>	<u>496,973</u>

(c) By interest rates (per annum):

	2006	2005
Aceda Bank Plc Ltd	2% -5%	2% -5%

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

5. Statutory deposits

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Statutory deposits on:				
Registered share capital	507,446	125,079	271,819	66,104
Customers' deposits	10,000	2,465	1,000	243
	<u>517,446</u>	<u>127,544</u>	<u>272,819</u>	<u>66,347</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 2006

7. Loans to customers

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Village Bank loans:				
Credit line	5,660,416	1,395,222	904,090	219,866
End of term	9,818,052	2,420,028	8,203,351	1,994,979
Installment	2,518,457	620,768	31,777	7,728
Individual loans:				
Emergency - end of term	146,991	36,231	32,394	7,878
Installment	3,075,993	758,194	878,553	213,656
Staff loans	187,875	46,309	124,694	30,324
	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</u>
Allowance for bad and doubtful loans				
Specific	(5,246)	(1,293)	(3,724)	(906)
General	(212,000)	(52,255)	(100,454)	(24,429)
	<u>(217,246)</u>	<u>(53,548)</u>	<u>(104,178)</u>	<u>(25,335)</u>
	<u>21,190,538</u>	<u>5,223,204</u>	<u>10,070,681</u>	<u>2,449,096</u>
Total number of loans		67,586		36,267

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

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
At beginning of year	104,178	25,335	146,233	36,240
Provision/(reversal) during the year	108,953	26,856	(14,963)	(3,639)
Written off during the year	-	-	(24,236)	(5,894)
Currency revaluation	4,115	1,357	(2,856)	(1,372)
At end of year	<u>217,246</u>	<u>53,548</u>	<u>104,178</u>	<u>25,335</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

7. Loans to customers (continued)

The loans to customers are analysed as follows:

(a) By maturity:

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Within 1 month	491,408	121,126	387,989	94,355
2 to 3 months	3,389,696	835,518	4,549,187	1,106,320
4 to 12 months	15,751,694	3,882,596	4,206,716	1,023,034
More than 12 months	1,774,986	437,512	1,030,967	250,722
	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</u>

(b) By currency:

Khmer Riel	16,077,513	3,962,907	6,785,510	1,650,173
Thai Baht	5,142,396	1,267,536	3,264,655	793,934
US Dollar	187,875	46,309	124,694	30,324
	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</u>

(c) By economic sector:

Agriculture	16,169,431	3,985,564	8,499,489	2,066,996
Construction	48,997	12,077	21,107	5,133
Household/family	370,133	91,233	158,847	38,630
Services	424,446	104,621	95,484	23,221
Trade and commerce	4,198,027	1,034,761	1,294,271	314,755
Transportation	126,571	31,198	36,757	8,939
Other categories	70,179	17,298	68,904	16,757
	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</u>

(d) By residency status:

Residents	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</u>
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(e) By relationship:

External customers	21,219,909	5,230,443	10,050,165	2,444,106
Staff loans	187,875	46,309	124,694	30,325
	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

7. Loans to customers (continued)

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
(f) By locations:				
Head office	187,875	46,309	124,694	30,324
Provincial branches				
Banteay Meanchey	5,142,398	1,267,537	3,264,655	793,934
Battambang	1,337,748	329,738	564,914	137,382
Kompong Cham	1,380,372	340,244	-	-
Kompong Chnnang	725,479	178,821	-	-
Kompong Speu	4,462,724	1,100,006	2,999,991	729,570
Kompong Thom	1,600,892	394,600	-	-
Ordor Meanchey	744,775	183,578	-	-
Pursat	3,462,892	853,560	2,388,965	580,974
Siem Reap	2,362,629	582,359	831,640	202,247
	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</u>
(g) By performance:				
Standard loans:				
Secured	3,224,690	794,846	876,448	213,144
Unsecured	18,163,180	4,476,998	9,293,686	2,260,138
Sub-standard loans:				
Secured	873	215	196	47
Unsecured	15,424	3,802	760	185
Doubtful loans:				
Secured	-	-	-	-
Unsecured	-	-	200	49
Loans loss:				
Secured	1,583	390	1,909	464
Unsecured	2,034	501	1,660	404
	<u>21,407,784</u>	<u>5,276,752</u>	<u>10,174,859</u>	<u>2,474,431</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 2006

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 2006, there are 62 staff (2005: 46), and all loans are classified as standards or performing loans.

8. Other receivables

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Interest receivable	351,139	86,552	160,951	39,142
Prepayments and deposits	116,446	28,702	68,530	16,666
Others	1,819	448	12,979	3,156
	<u>469,404</u>	<u>115,702</u>	<u>242,460</u>	<u>58,964</u>

9. Intangible assets

	Micro Banker Software license	
	KHR'000	US\$
Cost		
At 1 January 2006	70,631	17,177
Additions	61,876	15,252
Exchange difference	-	233
	<u>132,507</u>	<u>32,662</u>
At 31 December 2006		
Less: accumulated amortisation		
At 1 January 2006	45,313	11,020
Charged during the year	36,451	8,985
Exchange difference	-	149
	<u>81,764</u>	<u>20,154</u>
At 31 December 2006		

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

9. Intangible assets (continued)

	Micro Banker Software license	
	KHR'000	US\$
Net book value		
At 31 December 2006	50,743	12,508
	<u>50,743</u>	<u>12,508</u>
At 31 December 2005	25,318	6,157
	<u>25,318</u>	<u>6,157</u>

10. Property and equipment

	Motor Vehicles KHR'000	Motorcycles KHR'000	Computer equipment KHR'000	Total KHR'000
Cost				
Balance as at 1 January 2006	443,398	212,974	222,282	878,654
Additions	372,174	262,426	155,352	789,952
Disposals	-	(4,895)	-	(4,895)
	<u>815,572</u>	<u>470,505</u>	<u>377,634</u>	<u>1,663,711</u>
At 31 December 2006	815,572	470,505	377,634	1,663,711
	<u>815,572</u>	<u>470,505</u>	<u>377,634</u>	<u>1,663,711</u>
Less: Accumulated depreciation				
Balance as at 1 January 2006	219,911	74,396	115,894	410,201
Charge for the year	97,983	72,768	70,806	241,557
Disposals	-	(811)	-	(811)
	<u>317,894</u>	<u>146,353</u>	<u>186,700</u>	<u>650,947</u>
At 31 December 2006	317,894	146,353	186,700	650,947
	<u>317,894</u>	<u>146,353</u>	<u>186,700</u>	<u>650,947</u>
Net book value				
At 31 December 2006	497,678	324,152	190,934	1,012,764
	<u>497,678</u>	<u>324,152</u>	<u>190,934</u>	<u>1,012,764</u>
At 31 December 2005	223,487	138,578	106,388	468,453
	<u>223,487</u>	<u>138,578</u>	<u>106,388</u>	<u>468,453</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

10. Property and equipment (continued)

	Motor Vehicles US\$	Motorcycles US\$	Computer equipment US\$	Total US\$
Cost				
Balance as at 1 January 2006	107,830	51,793	54,057	213,680
Additions	91,736	64,685	38,292	194,713
Disposals	-	(1,207)	-	(1,207)
Exchange difference	1,462	703	733	2,898
At 31 December 2006	201,028	115,974	93,082	410,084
Less: Accumulated depreciation				
Balance as at 1 January 2006	53,480	18,092	28,185	99,757
Charge for the year	24,152	17,936	17,453	59,541
Disposals	-	(200)	-	(200)
Exchange difference	725	246	381	1,352
At 31 December 2006	78,357	36,074	46,019	160,450
Net book value				
At 31 December 2006	122,671	79,900	47,063	249,634
At 31 December 2005	54,350	33,701	25,872	113,923

11. Deposits from customers

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
General savings	33,924	8,362	19,233	4,677
Loan-linked savings	91,307	22,506	27,763	6,752
Staff savings	47,231	11,641	-	-
	172,462	42,509	46,996	11,429

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 2006

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 rate of 12% per annum. The loan-linked savings is be refunded at the end of the loan cycle.

Staff savings bear interest of 5% per annum.

The deposits from customers are analysed as follows:

(a) By currency:

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Khmer Riel	93,618	23,076	27,203	6,616
Thai Baht	31,613	7,792	19,793	4,813
US Dollar	47,231	11,641	-	-
	<u>172,462</u>	<u>42,509</u>	<u>46,996</u>	<u>11,429</u>

(b) By maturity:

Within 1 month	83,361	20,547	21,778	5,296
2 to 3 months	14,471	3,567	4,031	980
4 to 12 months	67,138	16,549	20,736	5,043
More than 12 months	7,492	1,846	451	110
	<u>172,462</u>	<u>42,509</u>	<u>46,996</u>	<u>11,429</u>

12. Borrowings

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Concern Worldwide	11,936,757	2,942,262	2,846,581	692,262
Micro Finance Alliance Fund	711,182	175,298	-	-
	<u>12,647,939</u>	<u>3,117,560</u>	<u>2,846,581</u>	<u>692,262</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

12. Borrowings (continued)

Maturity of the above borrowings is as follows:

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Within one year	435,727	107,402	-	-
2 to 5 years	275,455	67,896	-	-
Above 5 years	11,936,757	2,942,262	2,846,581	692,262
	<u>12,647,939</u>	<u>3,117,560</u>	<u>2,846,581</u>	<u>692,262</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 instalment will become due on 31 December 2011. The loan carries an interest moratorium for the years 2005 and 2006. 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)

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.

13. Other liabilities

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Interest payable	11,101	2,736	-	-
Staff bonus	109,296	26,940	71,388	17,361
Staff incentive	77,077	18,999	40,459	9,839
Other tax payables	23,057	5,683	10,332	2,513
Others	54,135	13,344	49,667	12,078
	<u>274,666</u>	<u>67,702</u>	<u>171,846</u>	<u>41,791</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

14. Income tax

Provision:

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Balance at beginning of year	3,411	830	-	-
Expenses	282,161	69,549	29,003	7,053
Payments	(56,279)	(13,872)	(25,592)	(6,223)
Exchange difference	-	11	-	-
	<u>229,293</u>	<u>56,518</u>	<u>3,411</u>	<u>830</u>
Balance at end of year	<u>229,293</u>	<u>56,518</u>	<u>3,411</u>	<u>830</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:

	2006			2005		
	KHR'000	US\$	%	KHR'000	US\$	%
Profit before income tax	<u>1,878,342</u>	<u>462,987</u>		<u>86,485</u>	<u>21,032</u>	
Income tax using statutory rate	375,669	92,598	20	17,297	4,206	20
Tax effect of:						
(Non-taxable income)/ non-deductible expenses	(93,508)	(23,049)	(5)	28,562	6,946	33
Loss carried forward utilisation	-	-		(45,859)	(11,152)	(53)
	<u>282,161</u>	<u>69,549</u>	15	<u>-</u>	<u>-</u>	-
Effect of adjustment to reflect minimum tax payable	-	-	-	29,003	7,053	-
Effective income tax rate	<u>282,161</u>	<u>69,549</u>	15	<u>29,003</u>	<u>7,053</u>	34

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

15. Provision for retirement benefits

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Balance at the beginning of year	209,325	50,906	103,384	25,142
Payment during the year	(3,465)	(854)	(1,020)	(248)
Charge during the year	160,033	39,446	104,992	25,533
Currency revaluation at balance sheet date	(2,799)	-	1,969	479
	<u>363,094</u>	<u>89,498</u>	<u>209,325</u>	<u>50,906</u>

16. Share capital

The details of shareholding are as follows:

	2006		2005	
	KHR'00	US\$	KHR'000	US\$
Shares 405,957 of KHR 25,000 each:				
Concern Worldwide (Dublin)	10,146,425	2,500,968	10,146,425	2,467,516
Concern Worldwide (UK)	2,500	616	2,500	608
	<u>10,148,925</u>	<u>2,501,584</u>	<u>10,148,925</u>	<u>2,468,124</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 2006

17. Interest income

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Loans to customers	5,709,510	1,407,323	2,745,656	667,718
Deposits and placements with banks	45,152	11,130	50,357	12,246
	<u>5,754,662</u>	<u>1,418,453</u>	<u>2,796,013</u>	<u>679,964</u>

18. Interest expenses

	2006		2005	
	KHR'00	US\$	KHR'000	US\$
Borrowings	76,024	18,739	-	-
Deposits from customers	10,891	2,685	3,711	902
	<u>86,915</u>	<u>21,424</u>	<u>3,711</u>	<u>902</u>

19. Other operating income

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Bad debts recovered	1,845	455	8,055	1,959
Foreign exchange gain/(loss)	634,099	156,297	(36,868)	(8,966)
Micro-finance training services	-	-	19,187	4,666
Loan fee income	125,263	30,876	59,465	14,461
Other income	46,700	11,511	17,580	4,275
	<u>807,907</u>	<u>199,139</u>	<u>67,419</u>	<u>16,395</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 2006

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 100% of interest income and 100% of principal collected respectively.

21. Operating and other expenses

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Communication	164,009	40,426	125,047	30,410
Depreciation and amortisation	278,008	68,526	184,839	44,951
Office rentals	196,091	48,334	132,107	32,127
Office supplies and equipment	256,664	63,264	157,290	38,252
Professional services	182,899	45,082	91,138	22,164
Staff costs	2,462,476	606,970	1,553,152	377,712
Transportation costs	341,249	84,114	159,772	38,855
Technical support costs	128,869	31,765	111,024	27,000
Utilities	75,776	18,678	47,868	11,641
Other expenses	161,245	39,744	104,458	25,403
	<u>4,247,286</u>	<u>1,046,903</u>	<u>2,666,695</u>	<u>648,515</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 2006

22. Net cash used in operating activities

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Profit before income tax	1,878,342	462,987	86,485	21,032
Adjustments for:				
Depreciation and amortisation	278,008	68,526	184,839	44,951
Loan written off recovered	-	-	(24,236)	(5,894)
Provision for/(reversal of) bad and doubtful loans	108,953	26,856	(14,963)	(3,639)
Unrealised exchange (gain)/loss	(634,099)	(156,297)	36,868	8,966
Operating profit before changes in operating assets and liabilities	1,631,204	402,072	268,993	65,416
Decrease/(increase) in:				
Statutory deposits	(244,627)	(60,298)	(1,000)	(243)
Due from a shareholder	(23,581)	(5,812)	-	-
Loans to customers	(10,594,711)	(2,611,465)	(5,364,016)	(1,304,479)
Other receivables	(226,944)	(55,939)	(61,587)	(14,977)
Increase/(decrease) in:				
Deposits from customers	125,466	30,926	32,882	7,996
Due to a shareholder	108,277	26,689	(61,784)	(15,025)
Other liabilities	102,820	25,344	45,760	11,128
Provision for retirement benefits	153,769	37,902	105,941	25,764
Cash used in operations	(8,968,327)	(2,210,581)	(5,034,811)	(1,224,420)
Income tax paid	(56,279)	(13,872)	(25,592)	(6,223)
Net cash used in operating activities	(9,024,606)	(2,224,453)	(5,060,403)	(1,230,643)

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

23. Cash and cash equivalents

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
Cash on hand	155,253	38,268	67,790	16,486
Deposits and placements with banks	1,885,096	464,653	2,043,551	496,973
	<u>2,040,349</u>	<u>502,921</u>	<u>2,111,341</u>	<u>513,459</u>

24. Commitments and contingencies

(a) Lease commftment

The Company has lease commitments in respect of the lease of the Company's registered office and branches in Phnom Penh, Banteay Meanchey, Battambang, Kompong Cham, Kompong ChImang, Kompong Speu, Kompong Thom, Pursat, Siem Reap and Otdor Meanchey. The total remaining rental commitments as at 31 December are due as follows:

	2006		2005	
	KHR'00	US\$	KHR'000	US\$
Within one year	249,404	61,475	135,071	32,848
2 to 3 years	374,433	92,293	203,955	49,600
4 to 5 years	8,520	2,100	88,819	21,600
	<u>632,357</u>	<u>155,868</u>	<u>427,845</u>	<u>104,048</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 2006

25. Related party transactions

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

	2006		2005	
	KHR'000	US\$	KHR'000	US\$
With shareholder				
Borrowings	9,091,176	2,240,862	2,846,581	692,262
Technical support charged	128,869	31,765	111,024	27,000
	<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 2006

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 2006

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'00	Non-interest sensitive KHR'00	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 2006

26. Financial risk management policies (continued)

(ii) Interest rate risk (continued)

2005	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'00	Total KHR'000	Weighted average interest %
Assets								
Cash on hand			-	-	-	67,790	67,790	-
Deposits and placements with banks	675,115	816,800	-	-	-	551,636	2,043,551	2.8%
Statutory deposits	-	-	-	-	-	272,819	272,819	-
Loans to customers								
- Performing	387,989	4,549,187	4,206,716	1,026,242	-		10,170,134	37.4%
- Non performing	-	-	-	-	-	4,725	4,725	-
- Allowance	-	-	-	-	-	(104,178)	(104,178)	-
Other receivables	-	-	-	-	-	242,460	242,460	-
Total assets	1,063,104	5,365,987	4,206,716	1,026,242	-	1,035,252	12,697,301	
Liabilities								
Deposits from customers	2,545	4,031	39,969	451	-		46,996	12.1%
Due to a shareholder	-	-	-	-	-	-94,370	94,370	-
Borrowings	-	-	-	-	2,846,581		2,846,581	-
Other liabilities	-	-	-	-	-	-171,846	171,846	-
Provision for income tax	-	-	-	-	-	3,411	3,411	-
Provision for retirement benefits	-	-	-	-	-	209,325	209,325	-
Total liabilities	2,545	4,031	39,969	451	2,846,581	478,952	3,372,529	
Maturity gap	1,060,559	5,361,956	4,166,747	1,025,791	(2,846,581)	556,300	9,324,772	

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued)

31 December 2006

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 2006

26. Financial risk management policies (continued)

(c) Liquidity risk (continued)

2006	Up to 1 month KHR'000	1–3 months KHR'000	3–12 months KHR'000	1–5 years KHR'00	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 2006

26. Financial risk management policies (continued)

(c) Liquidity risk (continued)

2005	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	67,790	-	-	-	-	-	67,790
Deposits and placements with banks	1,940,751	102,800	-	-	-	-	2,043,551
Statutory deposits	-	-	-	-	-	272,819	272,819
Loans to customers							
- Performing	387,989	4,549,187	4,206,716	1,026,242	-	-	10,170,134
- Non performing	-	-	-	-	-	4,725	4,725
- Allowance	-	-	-	-	-	(104,178)	(104,178)
Other receivables	182,055	30,347	19,984	-	-	10,074	242,460
Total assets	2,578,585	4,682,334	4,226,700	1,026,242	-	183,440	12,697,301
Liabilities							
Deposits from customers	21,778	4,031	20,736	451	-	-	46,996
Due to a shareholder	-	-	-	-	-	-94,370	94,370
Borrowings	-	-	-	-	2,846,581	-	2,846,581
Other liabilities	-	-	-	-	-	-171,846	171,846
Provision for income tax	3,411	-	-	-	-	-	3,411
Provision for retirement benefits	-	-	-	-	-	-209,325	209,325
Total liabilities	25,189	4,031	20,736	451	2,846,581	475,541	3,372,529
Maturity gap	2,553,396	4,678,303	4,205,964	1,025,791	(2,846,581)	(292,101)	9,324,772

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued)
31 December 2006

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 2006.

28. Comparative figures

The following comparative figures have been restated to conform with the current year presentation.

	As reclassified KHR'000	As previously presented KHR'000
Balance sheet:		
Balances with banks	-	1,807,370
Balances with Central Bank	-	509,000
Deposits and placements with banks	2,043,551	-
Statutory deposits	272,819	-
	<u>2,316,370</u>	<u>2,316,370</u>
Interest receivables	-	160,951
Other assets	-	81,509
Other receivables	242,460	-
	<u>242,460</u>	<u>242,460</u>
Accruals	-	269,627
Due to a shareholder	94,370	-
Other liabilities	171,846	-
Provision for income tax	3,411	-
	<u>269,627</u>	<u>269,627</u>

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

Notes to the financial statements (continued) 31 December 2006

28. Comparative figures (continued)

	As reclassified KHR'000	As previously presented KHR'000
Income statement:		
Loan fee income	-	59,465
Unrealised gain on foreign exchange, net	-	(36,868)
Other operating income	-	44,822
Other operating income	67,419	-
	<hr/>	<hr/>
	67,419	67,419
	<hr/>	<hr/>
Staff costs	-	1,553,152
Administrative expenses	-	842,747
Transport costs	-	159,772
Technical support costs	-	111,024
Operating and other expenses	2,666,695	-
	<hr/>	<hr/>
	2,666,695	2,666,695
	<hr/>	<hr/>