

# **C-H-C MICRO FINANCE LTD**

(Incorporated in the Kingdom of Cambodia)

## **FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2005**

**C-H-C MICRO FINANCE LTD**

(Incorporated in the Kingdom of Cambodia)

Financial statements for the year ended 31 December 2005

**CONTENTS**

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|                                   | Page |
|-----------------------------------|------|
| Statement by Management           | 1    |
| Report of Independent Auditors    | 2    |
| Balance Sheet                     | 3    |
| Statement of Income               | 4    |
| Statement of Changes in Equity    | 5    |
| Statement of Cash Flows           | 6    |
| Notes to the Financial Statements | 7-19 |

THIS REPORT CONTAINS A SECTION FOR THE NATIONAL BANK OF CAMBODIA USE  
WHICH DOES NOT FORM PART OF THE FINANCIAL STATEMENTS (PAGE I TO VI)

## **STATEMENT BY MANAGEMENT**

We, the undersigned, being the Chairman of the Board and General Manager of C-H-C Micro Finance Ltd (the “Company”), do hereby state that in our opinion:

- i) The results of the operations of the Company for the financial year ended 31 December 2005 have not been materially affected by any item, transaction and event of any material and unusual nature nor has any such item, transaction and event occurred in the interval between the end of the financial year and the date of this report, and
- ii) the accompanying financial statements have been drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2005 and of the results of its operations and cash flows for the year ended on that date, in compliance with the National Bank of Cambodia’s guidelines and the accounting policies set out in the notes to the financial statements.

Signed on behalf of C-H-C Micro Finance Ltd.

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Dr. Sok Thim  
Chairman of the Board

Date: 28 April 2006

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Mr. King Kap Kalyan  
General Manager

Date: 28 April 2006

## **REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF C-H-C MICRO FINANCE LTD**

We have audited the accompanying financial statements of C-H-C Micro Finance Ltd (the “Company”), which have been prepared in accordance with the accounting policies set out in the notes to the financial statements. These financial statements are the responsibility of the Company’s Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Cambodia Standards on Auditing and the requirements of the National Bank of Cambodia (“NBC”). Those principles require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2005 and of the results of its operations and cash flows for the year then ended, in accordance with NBC’s guidelines and the accounting policies set out in the notes to the financial statements.

Without qualifying our opinion, we draw attention to note 13 to the financial statements whereby no provision for tax liabilities has been made to take into account the effect of permanent differences resulting from expenses included in the statement of income which are not allowed as deduction by the Law on Taxation for tax purposes.

The accompanying financial statements are prepared for jurisdiction of Cambodia and the guideline issued by the National Bank of Cambodia. It is not intended to present the financial position and results to operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdiction other than Cambodia.

Saksom Meas  
Managing Partner

**Morison Kak & Associés**  
Certified Public Accountants  
Registered Auditors

Date: 28 April 2006

**BALANCE SHEET AS AT 31 DECEMBER 2005**

|  | Note | 31-Dec-05      |                  | 31-Dec-04      |
|--|------|----------------|------------------|----------------|
|  |      | USD            | KHR'000          | USD            |
| <b>ASSETS</b>                                |      |                |                  |                |
| Cash in hand                                 | 4    | 10,786         | 44,353           | 15,369         |
| Deposits and placements with banks           | 5    | 22,951         | 94,375           | 9,084          |
| Balances with central bank - current account |      | 250            | 1,028            | -              |
| Statutory deposit with the NBC               | 6    | 3,250          | 13,364           | -              |
| Loans and advances                           | 7    | 506,602        | 2,083,148        | 262,255        |
| Amount due from shareholders                 | 8    | 9,750          | 40,092           | -              |
| Other assets                                 | 9    | 5,449          | 22,405           | 17,950         |
| Property and equipment                       | 10   | 21,527         | 88,518           | 18,802         |
| <b>TOTAL ASSETS</b>                          |      | <b>580,565</b> | <b>2,387,283</b> | <b>323,460</b> |
| <b>LIABILITIES AND CAPITAL</b>               |      |                |                  |                |
| <b>LIABILITIES</b>                           |      |                |                  |                |
| Deposits from customers                      | 11   | 4,590          | 18,874           | -              |
| Short term borrowings                        | 12   | 49,693         | 204,338          | -              |
| Provision for income tax                     | 13   | 165            | 678              | -              |
| Other creditors and accruals                 | 14   | 11,573         | 47,588           | 36,053         |
| <b>TOTAL LIABILITIES</b>                     |      | <b>66,021</b>  | <b>271,478</b>   | <b>36,053</b>  |
| <b>LONG TERM BORROWINGS</b>                  | 15   | <b>200,000</b> | <b>822,400</b>   | -              |
| <b>CAPITAL AND RESERVES</b>                  |      |                |                  |                |
| Share capital                                | 16   | 65,000         | 267,280          | -              |
| Subordinated debt                            | 17   | 242,157        | 995,750          | -              |
| Fund balance                                 | 17   | -              | -                | 243,284        |
| Current year profit                          |      | 7,387          | 30,375           | 44,123         |
| <b>TOTAL CAPITAL AND RESERVES</b>            |      | <b>314,544</b> | <b>1,293,405</b> | <b>287,407</b> |
| <b>TOTAL LIABILITIES AND CAPITAL</b>         |      | <b>580,565</b> | <b>2,387,283</b> | <b>323,460</b> |

**Signed and authorised for release on behalf of the Management**

Dr. Sok Thim  
Chairman of the Board  
28 April 2006

Mr. King Kap Kalyan  
General Manager  
28 April 2006

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

## STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2005

|   | Note | 31-Dec-05           |                      | 31-Dec-04            |
|---|------|---------------------|----------------------|----------------------|
|   |      | USD                 | KHR'000              | USD                  |
| <b>STATEMENT OF INCOME</b>                              |      |                     |                      |                      |
| Interest income   | 18   | 145,745             | 599,304              | 69,865               |
| Interest expense  |      | <u>(13,855)</u>     | <u>(56,972)</u>      | <u>-</u>             |
| Net interest income                                     |      | <b>131,890</b>      | <b>542,332</b>       | <b>69,865</b>        |
| Non-interest income                                     | 19   | 22,165              | 91,143               | 92,003               |
| Payroll and other staff costs                           |      | (65,733)            | (270,293)            | (67,745)             |
| Depreciation of property and equipment                  |      | (9,372)             | (38,538)             | (9,105)              |
| Other operating expenses                                | 20   | <u>(69,214)</u>     | <u>(284,610)</u>     | <u>(35,003)</u>      |
| <b>Operating profit before provision for impairment</b> |      | <b>9,736</b>        | <b>40,034</b>        | <b>50,015</b>        |
| Provision for impairment losses                         |      | <u>(1,500)</u>      | <u>(6,168)</u>       | <u>(5,892)</u>       |
| <b>Profit before income tax</b>                         |      | <b>8,236</b>        | <b>33,866</b>        | <b>44,123</b>        |
| Income tax expense                                      |      | <u>(849)</u>        | <u>(3,491)</u>       | <u>-</u>             |
| <b>Net profit after income tax</b>                      |      | <b><u>7,387</u></b> | <b><u>30,375</u></b> | <b><u>44,123</u></b> |

**Signed and authorised for release on behalf of the Management**

\_\_\_\_\_  
 Dr. Sok Thim  
 Chairman of the Board  
 28 April 2006

\_\_\_\_\_  
 Mr. King Kap Kalyan  
 General Manager  
 28 April 2006

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

|  | Share<br>capital<br>USD | Fund<br>balance<br>USD | Subordi-<br>nated debt<br>USD | Retained<br>earnings<br>USD | Total<br>USD     |
|--|-------------------------|------------------------|-------------------------------|-----------------------------|------------------|
| Balance as at 1 January 2004   | -                       | 243,284                | -                             | -                           | 243,284          |
| Net profit for the year  | -                       | -                      | -                             | 44,123                      | 44,123           |
| <b>Balance as at 31 December 2004</b>                                | <b>-</b>                | <b>243,284</b>         | <b>-</b>                      | <b>44,123</b>               | <b>287,407</b>   |
| Balance as at 1 January 2005 (*)                                     | -                       | 243,284                | -                             | 44,123                      | 287,407          |
| Capital endowment  | 45,250                  | (45,250)               | -                             | -                           | -                |
| Shares paid during the year  | 10,000                  | -                      | -                             | -                           | 10,000           |
| Issued and unpaid share capital                                      | 9,750                   | -                      | -                             | -                           | 9,750            |
| Subordinated debt  | -                       | (198,034)              | 198,034                       | -                           | -                |
| Retained earnings  | -                       | -                      | 44,123                        | (44,123)                    | -                |
| Balance as restated (**)   | 65,000                  | -                      | 242,157                       | -                           | 307,157          |
| Net profit for the year  | -                       | -                      | -                             | 7,387                       | 7,387            |
| <b>Balance as at 31 December 2005</b>                                | <b>65,000</b>           | <b>-</b>               | <b>242,157</b>                | <b>7,387</b>                | <b>314,544</b>   |
| <b>Balance as at 31 December 2005</b><br><b>(KHR'000 equivalent)</b> | <b>267,280</b>          | <b>-</b>               | <b>995,750</b>                | <b>30,375</b>               | <b>1,293,405</b> |

(\*) As CHC credit program

(\*\*) As C-H-C Micro Finance Ltd

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

|  | 31-Dec-05        |                  | 31-Dec-04       |
|--|------------------|------------------|-----------------|
|  | USD              | KHR'000          | USD             |
| <b>Cash flows from operating activities</b>  |                  |                  |                 |
| Profit before income tax   | 8,236            | 33,866           | 44,123          |
| <i>Adjustment for:</i>   |                  |                  |                 |
| Depreciation of property and equipment   | 9,372            | 38,538           | 9,105           |
| (Gain)/loss on disposals of property and equipment                                     | (283)            | (1,164)          | 88              |
| Operating profit before changes in working capital                                     | 17,325           | 71,240           | 53,316          |
| Increase/(decrease) in cash attributable to changes in working assets and liabilities: |                  |                  |                 |
| Loans and advances   | (244,347)        | (1,004,755)      | (98,970)        |
| Other assets   | 12,501           | 51,404           | (16,170)        |
| Statutory deposit with the NBC   | (3,250)          | (13,364)         | -               |
| Deposits from customers  | 4,590            | 18,874           | -               |
| Short-term borrowings  | 49,693           | 204,338          | -               |
| Provision for income tax   | 165              | 678              | -               |
| Other creditors and accruals   | (24,480)         | (100,662)        | 29,495          |
| Cash absorbed by operations  | (187,803)        | (772,247)        | (32,329)        |
| Income tax expense   | (849)            | (3,491)          | -               |
| <b>Net cash used in operating activities</b>   | <b>(188,652)</b> | <b>(775,738)</b> | <b>(32,329)</b> |
| <b>Cash flows from investing activities</b>  |                  |                  |                 |
| Purchases of property and equipment  | (17,556)         | (72,190)         | (9,780)         |
| Proceeds from sales of property and equipment  | 5,742            | 23,611           | -               |
| <b>Net cash used in investing activities</b>   | <b>(11,814)</b>  | <b>(48,579)</b>  | <b>(9,780)</b>  |
| <b>Cash flows from financing activities</b>  |                  |                  |                 |
| Proceeds from long-term borrowings   | 200,000          | 822,400          | -               |
| Proceeds from share allotment  | 10,000           | 41,120           | -               |
| <b>Net cash generated from financing activities</b>                                    | <b>210,000</b>   | <b>863,520</b>   | <b>-</b>        |
| <b>Net changes in cash and cash equivalents</b>  | <b>9,534</b>     | <b>39,203</b>    | <b>(42,109)</b> |
| <b>Cash and cash equivalents at beginning of year</b>                                  | <b>24,453</b>    | <b>100,553</b>   | <b>66,562</b>   |
| <b>Cash and cash equivalents at end of year</b>  | <b>33,987</b>    | <b>139,756</b>   | <b>24,453</b>   |
| <i>Represented by:</i>   |                  |                  |                 |
| Cash in hand   | 10,786           | 44,353           | 15,369          |
| Deposits and placements with banks   | 22,951           | 94,375           | 9,084           |
| Balances with central bank - current account   | 250              | 1,028            | -               |
|  | <b>33,987</b>    | <b>139,756</b>   | <b>24,453</b>   |

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

## **1. General**

C-H-C Micro Finance Ltd. (the “Company”), formerly known as Cambodian Health Committee Credit Program was a credit program of Cambodian Health Committee (“CHC”), an NGO established in March 1994 in response to the public health problems especially tuberculosis (“TB”) among rural poor in Svay Rieng province. In October 1994, CHC began implementing rural credit program known as Cambodian Health Committee Credit Program as part of an effort to reduce TB prevalence by reducing poverty.

The Company is engaged in the provision of micro financing activities in three branches located in Phnom Penh, Kep city and Kampot province.

On 08 July 2005, the Company was incorporated with the Ministry of Commerce as a result of the Memorandum and Articles of Association signed on 15 June 2005 between CHC, its directors and CARD-NGO. The Company obtained its licence from the National Bank of Cambodia to operate as a micro finance institution on 14 September 2005. Under the micro finance licence, the Company is authorised to grant credit and saving services for poor and low-income households and small enterprises operating in the Kingdom of Cambodia.

The registered office is located in Phnom Penh at No.20, Street 590 and as at 31 December 2005, the Company has 24 employees.

## **2. Basis of preparation**

The financial statements of the Company are prepared under the historical cost convention in accordance with the guidelines issued by the NBC, accounting principles generally accepted in the Kingdom of Cambodia and practice within the micro-finance industry. Those principles require that financial instruments be carried at cost less provision for impairment. This practice differs from the International Financial Reporting Standards which require that loans and receivables be carried at amortised cost using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

The presentation of financial statements in conformity with accounting principles generally accepted in the Kingdom of Cambodia requires the Management to make the best estimates and reasonable assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on the information available as of the date of the financial statements. Actual results, therefore, could differ from those estimates.

The accompanying financial statements are prepared for jurisdiction of Cambodia and are not intended to present the financial position and results of operations and cash flows in accordance with generally accepted accounting principles and practice in other countries and those who are not informed about Cambodia’s procedures and practices.

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

The national currency of Cambodia is the Khmer Riel (“KHR”). However, as the Company transacts essentially in US Dollar (“USD”) and maintains its books of accounts primarily in USD, the Management has determined the USD to be the Company’s measurement and functional currency as it reflects the economic substance of the underlying events and circumstances of the Company.

In compliance with the requirements of the NBC, all assets, liabilities, profit and loss statement items in foreign currencies at the end of the year are converted into thousand Khmer Riel (KHR’000) using the official exchange rate announced by the NBC at the balance sheet date, of 1 USD = 4,112 KHR (31 December 2004: KHR 4,027). Such conversions should not be construed as representations that the KHR amounts have been, could be, or could in the future be, converted into USD at this or any other rate of exchange.

Certain comparative figures have been reclassified or restated whenever necessary to accord with the current year presentation.

## **3. Significant accounting policies**

### **3.1 Transactions in foreign currencies**

Assets and liabilities expressed in currencies other than USD are translated into USD at the rate of exchange quoted by the NBC at the date of the balance sheet. Income and expenses arising in foreign currencies are converted at the rate of exchange prevailing on the transaction dates. Exchange differences arising from conversion are reported on a net basis in the statement of income.

### **3.2 Cash and cash equivalents**

Cash and cash equivalents comprise cash, bank balances and short-term funds which is convertible in cash within one month.

### **3.3 Statutory deposits with central bank**

Statutory deposits represent mandatory reserve deposits and cash maintained with the NBC in compliance with the Law on Banking and Financial Institutions (“LBFI”) and are not available to finance the Company day-to-day operations and hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

### **3.4 Loans and advances**

Loans and advances are presented using the principal amounts outstanding at the end of the year after deducting any provisions for losses.

### 3. Significant accounting policies (continued)

#### 3.5 Provision for loan impairment

Provision for loan impairment is based on the latest NBC guidelines and is made with regard to specific risks on loans individually reviewed and classified as substandard, doubtful or loss regardless of the assets (except cash) lodged as collateral.

NBC guidelines require the following loan classification and level of provisioning:

| Classification | Overdue  | Rate of provision |
|----------------|--|-------------------|
| Substandard    | - More than thirty days  | 10%               |
| Doubtful       | - 60 days and more (original term of up to one year)<br>- 180 days or more (original term of more than one year) | 30%               |
| Loss           | - 90 days and more (original term of up to one year)<br>- 360 days or more (original term of more than one year) | 100%              |

Exception on the above provision rate may be considered but this is conditional on the actual market value of the collateral having been deemed acceptable by the NBC on a case-by-case basis.

#### 3.6 Recognition of income and expense

Interests earned on loans and bank saving deposits are recognised on a cash basis.

Customer's loan accounts are classified as non-performing where repayments are in arrears for more than thirty days.

Expenses are recognised when incurred.

#### 3.7 Property and equipment

Property and equipment is stated at cost less accumulated depreciation.

Depreciation is calculated using the diminishing value basis in accordance with the Law on Taxation at the following rates per annum:

|                                 |               |
|---------------------------------|---------------|
| Furniture and fixtures          | 25% Declining |
| IT equipment & office equipment | 50% Declining |
| Motor vehicles                  | 25% Declining |

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

#### 3.8 Other provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

**3. Significant accounting policies (continued)****3.9 Income tax**

Income tax is calculated on the basis of taxable profit, which is calculated by adjusting the financial result for certain expense items (such as costs of representation, over/under depreciation, etc.) in accordance with Cambodian regulations. Taxes other than on income are recorded within operating expenses.

Provision is made, where material, for deferred taxation in respect of timing difference arising from the recognition of items of income and expenditure in the financial statements on bases different from that used for taxation purposes.

**3.10 Related parties**

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

Under the LBFI, the definition of related parties includes parties who hold, directly or indirectly, at least 10 percent of the capital or voting rights and includes any individual who participates in the administration, direction, management or internal control of the Company.

**4. Cash in hand**

|                                    | 31-Dec-05     |               | 31-Dec-04     |
|------------------------------------|---------------|---------------|---------------|
|                                    | USD           | KHR'000       | USD           |
| Cash in hand in Phnom Penh, KHR    | 250           | 1,028         | 496           |
| Cash in hand in Kompong Trach, KHR | 6,948         | 28,570        | -             |
| Cash in hand in Kampot, KHR        | 113           | 465           | 5,200         |
| Cash in hand in Kep, KHR           | -             | -             | 660           |
| Cash in hand in Svay Rieng, KHR    | -             | -             | 21            |
| Cash in hand in Phnom Penh, USD    | 1,478         | 6,078         | 6,390         |
| Cash in hand in Kompong Trach, USD | 1,248         | 5,132         | -             |
| Cash in hand in Kampot, USD        | 749           | 3,080         | 2,602         |
|                                    | <b>10,786</b> | <b>44,353</b> | <b>15,369</b> |

**5. Deposits and placements with banks**

|                              | 31-Dec-05     |               | 31-Dec-04    |
|------------------------------|---------------|---------------|--------------|
|                              | USD           | KHR'000       | USD          |
| Aceda Bank Svay Rieng, KHR   | -             | -             | 2,646        |
| Aceda Bank Phnom Penh, KHR   | 640           | 2,632         | 2,596        |
| Aceda Bank Kampot, KHR       | 20,210        | 83,104        | 1,240        |
| Canadia Bank Phnom Penh, KHR | 507           | 2,085         | 751          |
| Foreign Trade Bank, USD      | 627           | 2,578         | 1,351        |
| Rural Development Bank, USD  | 967           | 3,976         | 500          |
|                              | <b>22,951</b> | <b>94,375</b> | <b>9,084</b> |

**6. Statutory deposit with central bank**

This represents a five percent interest free statutory deposit on capital to comply with NBC's *Prakas* No.B 7-00-06 dated 11 January 2000 amended by *Prakas* No. B 7-02-45 dated 25 February 2002.

**7. Loans and advances to customers**

|  | 31-Dec-05      |                  | 31-Dec-04      |
|--|----------------|------------------|----------------|
|  | USD            | KHR'000          | USD            |
| Loans to customers                       | 508,102        | 2,089,315        | 268,624        |
| Provisions for doubtful debts – Specific | (1,500)        | (6,167)          | (6,369)        |
|  | <b>506,602</b> | <b>2,083,148</b> | <b>262,255</b> |

(i) Movements in the provisions for bad and doubtful loans were as follows:

|                            | 31-Dec-05    |              | 31-Dec-04    |
|----------------------------|--------------|--------------|--------------|
|                            | USD          | KHR'000      | USD          |
| At the beginning of year   | 6,369        | 26,189       | 477          |
| Addition during the year   | 1,500        | 6,168        | 5,892        |
| Write off during the year  | (4,987)      | (20,507)     | -            |
| Write back during the year | (1,382)      | (5,683)      | -            |
|                            | <b>1,500</b> | <b>6,167</b> | <b>6,369</b> |

(ii) Further classification is as follows:

|                    | 31-Dec-05      |                  | 31-Dec-04      |
|--------------------|----------------|------------------|----------------|
|                    | USD            | KHR'000          | USD            |
| Standard loans:    |                |                  |                |
| Secured            | 496,102        | 2,039,971        | 268,624        |
| Unsecured          | 7,000          | 28,784           | -              |
| Substandard loans: |                |                  |                |
| Secured            | -              | -                | -              |
| Unsecured          | -              | -                | -              |
| Doubtful loans:    |                |                  |                |
| Secured            | -              | -                | -              |
| Unsecured          | 5,000          | 20,560           | -              |
| Loss loans:        |                |                  |                |
| Secured            | -              | -                | -              |
| Unsecured          | -              | -                | -              |
|                    | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |

**7. Loans and advances to customers (continued)**

(iii) Further analysis of the above loans and advances is provided below:

|                               | 31-Dec-05      |                  | 31-Dec-04      |
|-------------------------------|----------------|------------------|----------------|
|                               | USD            | KHR'000          | USD            |
| (a) By maturity period:       |                |                  |                |
| Within six months             | 213,626        | 878,430          | 116,650        |
| Seven to twelve months        | 294,476        | 1,210,885        | 151,974        |
|                               | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |
| (b) By security:              |                |                  |                |
| Secured                       | 496,102        | 2,039,971        | 268,624        |
| Unsecured                     | 12,000         | 49,344           | -              |
|                               | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |
| (c) By currency denomination: |                |                  |                |
| US Dollar                     | 344,954        | 1,418,450        | 225,492        |
| Khmer Riel                    | 163,148        | 670,865          | 43,132         |
|                               | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |
| (d) By status of residence:   |                |                  |                |
| Residents                     | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |
| (e) By relationship:          |                |                  |                |
| Non-related parties           | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |
| (f) By type of loans:         |                |                  |                |
| Group loans                   | 188,335        | 774,433          | 141,386        |
| Individual loans              | 319,767        | 1,314,882        | 127,238        |
|                               | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |
| (g) By location:              |                |                  |                |
| Svay Rieng                    | -              | -                | 7,897          |
| Kampot                        | 408,135        | 1,678,250        | 227,727        |
| Kep                           | 51,917         | 213,483          | -              |
| Phnom Penh                    | 48,050         | 197,582          | 33,000         |
|                               | <b>508,102</b> | <b>2,089,315</b> | <b>268,624</b> |

**7. Loans and advances to customers (continued)**

(iii) Further analysis of the above loans and advances is provided below: (continued)

|                          | 31-Dec-05             |                         | 31-Dec-04             |
|--------------------------|-----------------------|-------------------------|-----------------------|
|                          | USD                   | KHR'000                 | USD                   |
| (h) By economic sectors: |                       |                         |                       |
| Agriculture              | 171,880               | 706,770                 | 99,574                |
| Trade and commerce       | 313,180               | 1,287,796               | 157,011               |
| Service                  | 12,444                | 51,170                  | 8,244                 |
| Transportation           | 6,317                 | 25,976                  | 1,957                 |
| Construction             | 102                   | 419                     | 377                   |
| Household/family         | 4,179                 | 17,184                  | 595                   |
| Others                   | -                     | -                       | 866                   |
|                          | <b><u>508,102</u></b> | <b><u>2,089,315</u></b> | <b><u>268,624</u></b> |
| (i) By large exposures:  |                       |                         |                       |
| Non-large exposures      | <b><u>508,102</u></b> | <b><u>2,089,315</u></b> | <b><u>268,624</u></b> |

The loans yield interest at the following rates per annum:

|                  | 2005      | 2004      |
|------------------|-----------|-----------|
| Group loans      | 42% - 48% | 42% - 48% |
| Individual loans | 30% - 42% | 30% - 42% |

**8. Amount due from shareholders**

This represents amount due from three shareholders who have subscribed for C-H-C share capital, namely Dr. Chiv Bunthy, Dr. Sok Thim and Mr. King Kap Kalyan; each holding 5% of the share capital as below:

|                     | 31-Dec-05           |                      |
|---------------------|---------------------|----------------------|
|                     | USD                 | KHR'000              |
| Dr. Chiv Bunthy     | 3,250               | 13,364               |
| Dr. Sok Thim        | 3,250               | 13,364               |
| Mr. King Kap Kalyan | 3,250               | 13,364               |
|                     | <b><u>9,250</u></b> | <b><u>40,092</u></b> |

Subsequent to the year-end, this amount has been paid by these shareholders on 27 April 2006.

**9. Other assets**

|                       | 31-Dec-05    |               | 31-Dec-04     |
|-----------------------|--------------|---------------|---------------|
|                       | USD          | KHR'000       | USD           |
| CHC-Health project    | 2,500        | 10,280        | 14,262        |
| Internal account (IA) | 1,406        | 5,781         | 2,266         |
| Advance to staff      | 1,049        | 4,313         | 496           |
| Prepayments           | 436          | 1,793         | 900           |
| Others                | 58           | 238           | 26            |
|                       | <b>5,449</b> | <b>22,405</b> | <b>17,950</b> |

**10. Property and equipment**

| Cost                            | Land         | Furniture<br>and fitting | Office<br>equipment &<br>Computers | Motor<br>vehicles | Total         |
|---------------------------------|--------------|--------------------------|------------------------------------|-------------------|---------------|
|                                 | USD          | USD                      | USD                                | USD               | USD           |
| At 1 January 2005               | -            | 4,309                    | 14,393                             | 9,175             | 27,877        |
| Additions                       | 2,600        | 3,190                    | 2,266                              | 9,500             | 17,556        |
| Disposals                       | -            | (142)                    | (582)                              | (5,288)           | (6,012)       |
| At 31 December 2005             | <b>2,600</b> | <b>7,357</b>             | <b>16,077</b>                      | <b>13,387</b>     | <b>39,421</b> |
| <b>Accumulated depreciation</b> |              |                          |                                    |                   |               |
| At 1 January 2005               | -            | 1,077                    | 5,704                              | 2,294             | 9,075         |
| Charge for the year             | -            | 1,605                    | 4,766                              | 3,001             | 9,372         |
| Disposals                       | -            | (35)                     | (291)                              | (227)             | (553)         |
| At 31 December 2005             | -            | <b>2,647</b>             | <b>10,179</b>                      | <b>5,068</b>      | <b>17,894</b> |
| <b>Net book value</b>           |              |                          |                                    |                   |               |
| At 31 December 2005             | <b>2,600</b> | <b>4,710</b>             | <b>5,898</b>                       | <b>8,319</b>      | <b>21,527</b> |
| At 31 December 2004             | -            | <b>3,232</b>             | <b>8,689</b>                       | <b>6,881</b>      | <b>18,802</b> |
| Depreciation charge for 2004    | -            | 1,091                    | 5,720                              | 2,294             | 9,105         |

**10. Property and equipment (continued)**

| <i>Equivalents in KHR'000</i>   | KHR'000       | KHR'000       | KHR'000       | KHR'000       | KHR'000        |
|---------------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>Cost</b>                     |               |               |               |               |                |
| At 1 January 2005               | -             | 17,719        | 59,184        | 37,727        | 114,630        |
| Additions                       | 10,691        | 13,117        | 9,318         | 39,064        | 72,190         |
| Disposals                       | -             | (584)         | (2,393)       | (21,744)      | (24,721)       |
| At 31 December 2005             | <b>10,691</b> | <b>30,253</b> | <b>66,109</b> | <b>55,047</b> | <b>162,099</b> |
| <b>Accumulated depreciation</b> |               |               |               |               |                |
| At 1 January 2005               | -             | 4,429         | 23,455        | 9,433         | 37,317         |
| Charge for the year             | -             | 6,600         | 19,598        | 12,340        | 38,538         |
| Disposals                       | -             | (144)         | (1,197)       | (933)         | (2,274)        |
| At 31 December 2005             | -             | <b>10,884</b> | <b>41,856</b> | <b>20,840</b> | <b>73,581</b>  |
| <b>Net book value</b>           |               |               |               |               |                |
| At 31 December 2005             | <b>10,691</b> | <b>19,368</b> | <b>24,252</b> | <b>34,207</b> | <b>88,518</b>  |
| At 31 December 2004             | -             | <b>13,290</b> | <b>35,729</b> | <b>28,295</b> | <b>77,314</b>  |
| Depreciation charge for 2004    | -             | 4,486         | 23,521        | 9,433         | 37,440         |

**11. Deposits from customers**

This represents interest free saving deposits of group loans borrowers carried forward from CHC - NGO.

**12. Short term borrowings**

This represents overdrafts from Rural Development Bank which originally matured on 16 January 2006. Subsequent to the year-end, the Company has obtained an extension of six months ending 16 July 2006.

**13. Provision for income tax**

|                               | 31-Dec-05  |            | 31-Dec-04 |
|-------------------------------|------------|------------|-----------|
|                               | USD        | KHR'000    | USD       |
| Balance at beginning of year  | -          | -          | -         |
| Charge during the year        | 849        | 3,491      | -         |
| Taxation paid during the year | (684)      | (2,813)    | -         |
| Balance at end of year        | <b>165</b> | <b>678</b> | -         |

No provision has been made for tax liabilities resulting from permanent differences relating to items not allowed as deduction for tax purposes.

**14. Other creditors and accruals**

|   | 31-Dec-05     |               | 31-Dec-04     |
|---|---------------|---------------|---------------|
|   | USD           | KHR'000       | USD           |
| CHC (Health)                            | 6,102         | 25,091        | 32,932        |
| Accrued audit fee                       | 3,100         | 12,747        | 1,400         |
| Provision for withholding tax on rental | 180           | 740           | -             |
| Withholding tax payable                 | 158           | 650           | -             |
| Others                                  | 2,033         | 8,360         | 1,721         |
|   | <b>11,573</b> | <b>47,588</b> | <b>36,053</b> |

**15. Long term borrowings**

This represents three lines of credits borrowed from the Rural Development Bank (“RDB”) totalling to USD 200,000 during the year. The interest rate charged to the Company is nine and eleven percent per annum and commission fees of 1% based on the amount withdrawn. Details of the three lines of credits are as follows:

- First line of credit amounting to USD 50,000 was obtained from RDB on 21 April 2005, at interest rate of 9% per annum for a period of three years.
- Second line of credit amounting to USD 50,000 was obtained from RDB on January 2005, at interest rate of 11% per annum for a period of eighteen months.
- Second line of credit amounting to USD 100,000 was obtained from RDB on January 2005, at interest rate of 9% per annum for a period of three years.

**16. Share capital**

The details of shareholding are as follows:

|  | 31-Dec-05     |                |
|--|---------------|----------------|
|  | USD           | KHR'000        |
| 6,500 fully contributed shares of USD 10 each: |               |                |
| CHC - NGO                                      | 45,250        | 186,068        |
| CARD - NGO                                     | 10,000        | 41,120         |
| Dr. Chiv Bunthy                                | 3,250         | 13,364         |
| Dr. Sok Thim                                   | 3,250         | 13,364         |
| Mr. King Kap Kalyan                            | 3,250         | 13,364         |
|  | <b>65,000</b> | <b>267,280</b> |

(See also note 17 below).

**17. Fund balance and subordinated debt**

Fund balance represented the difference between total assets and total liabilities computed as at 31 December 2003. This fund balance is part of the total funds granted by Oxfam America and Oxfam Hong Kong from 1994 to January 2003 to CHC NGO for CHC Credit Program and related activities. Portion of the granted funds has been used to cover CHC Credit related expenses since its inception from October 1994 to 31 December 2003 and to absorb loan losses.

On 30 June 2005, the Board of Directors of CHC NGO resolved to allocate shareholding in C-H-C Micro Finance to CHC NGO, and to authorise Dr. Chiv Bunthy, Dr. Sok Thim, Mr. King Kap Kalyan and a foreign NGO, namely CARD, to become shareholders of C-H-C Micro Finance Ltd.

A reconciliation of the above resolutions is shown below.

|  | 30-Jun-05<br>USD             |
|--|------------------------------|
| Fund balance as at 01 January 2005                                     | 243,284                      |
| Retained earnings as at 01 January 2005                                | <u>44,123</u>                |
| <b>Total fund available for appropriation</b>                          | <b><u><u>287,407</u></u></b> |
| <b>1. Appropriation for share capital at par value of USD 10 each:</b> |                              |
| CHC NGO share capital  | <u>45,250</u>                |
| <b>1. Total appropriation for share capital</b>                        | <b>45,250</b>                |
| <b>2. Transfer to subordinated debt account</b>                        | <b><u>242,157</u></b>        |
| <b>Total appropriation of fund</b>                                     | <b><u><u>287,407</u></u></b> |

**18. Interest income**

|                                    | 31-Dec-05                    |                              | 31-Dec-04                   |
|------------------------------------|------------------------------|------------------------------|-----------------------------|
|                                    | USD                          | KHR'000                      | USD                         |
| Loans and advances                 | 145,722                      | 599,209                      | 69,641                      |
| Deposits and placements with banks | <u>23</u>                    | <u>95</u>                    | <u>224</u>                  |
|                                    | <b><u><u>145,745</u></u></b> | <b><u><u>599,304</u></u></b> | <b><u><u>69,865</u></u></b> |

**19. Non-interest income**

|                                   | 31-Dec-05     |               | 31-Dec-04     |
|-----------------------------------|---------------|---------------|---------------|
|                                   | USD           | KHR'000       | USD           |
| Grant income from OXFAM America   | -             | -             | 85,400        |
| Gain on exchange                  | 14,759        | 60,689        | 2,064         |
| Gain on disposals of fixed assets | 694           | 2,854         | -             |
| Loan losses recoveries            | 6,559         | 26,971        | 953           |
| Other income                      | 153           | 629           | 3,586         |
|                                   | <b>22,165</b> | <b>91,143</b> | <b>92,003</b> |

**20. Other operating expenses**

|   | 31-Dec-05     |                | 31-Dec-04     |
|---|---------------|----------------|---------------|
|   | USD           | KHR'000        | USD           |
| Office supplies                         | 3,528         | 14,507         | 1,493         |
| Advertising                             | 118           | 485            | 472           |
| Reception and entertainment             | 360           | 1,480          | -             |
| Telecommunication charges               | 1,969         | 8,097          | 293           |
| Stationeries and printing costs         | 2,223         | 9,141          | 722           |
| Conference and meeting                  | 1,317         | 5,416          | 292           |
| Office and IT equipment repairs         | 997           | 4,100          | 505           |
| Office rental                           | 4,210         | 17,312         | 492           |
| Utilities expense                       | 3,679         | 15,128         | 1,132         |
| Insurance premiums                      | 20            | 82             | 140           |
| Security expense                        | 210           | 864            | -             |
| Travels and missions                    | 14,355        | 59,028         | 7,709         |
| Repairs and maintenance                 | -             | -              | 2,270         |
| Loss on exchange                        | 21,213        | 87,228         | 5,284         |
| Professional fees & other related costs | 7,195         | 29,586         | 12,324        |
| Bank charge                             | -             | -              | 329           |
| Commission expense                      | 2,283         | 9,388          | 754           |
| Other tax expense                       | 990           | 4,071          | -             |
| Other expense                           | 4,136         | 17,007         | 704           |
| Disposals of property and equipment     | 411           | 1,690          | 88            |
|   | <b>69,214</b> | <b>284,610</b> | <b>35,003</b> |

**21. Lease commitments**

|  | 31-Dec-05            |                      | 31-Dec-04       |
|--|----------------------|----------------------|-----------------|
|  | USD                  | KHR'000              | USD             |
| Not later than one year                            | 6,000                | 24,672               | -               |
| Later than one year and not later than three years | <u>9,000</u>         | <u>37,008</u>        | <u>-</u>        |
|  | <b><u>15,000</u></b> | <b><u>61,680</u></b> | <b><u>-</u></b> |

**22. Comparative figures**

Whenever available, comparative figures extracted from the CHC NGO credit program activities are provided for illustrative purposes.

FOR THE NATIONAL BANK OF CAMBODIA USE ONLY

**SUPPLEMENTARY FINANCIAL INFORMATION  
AND OTHER DISCLOSURES REQUIRED  
BY THE NATIONAL BANK OF CAMBODIA**

**Ratio and information contained in this section have been extracted from data contained  
in the audited financial statements for the year ended 31 December 2005.**

## **STATEMENT BY MANAGEMENT**

We, the undersigned, being the Chairman of the Board and General Manager of C-H-C Micro Finance Ltd (the “Company”), do hereby state that in our opinion, the accompanying supplementary financial information consisting in disclosures requirements set by *Prakas* of the National Bank of Cambodia are properly drawn up so as to reflect fairly the required financial information of the Company as at 31 December 2005. Information and data contained herein is the responsibility of the Company’s management.

Signed on behalf of C-H-C Micro Finance Ltd

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Dr. Sok Thim  
Chairman of the Board

Date: 28 April 2006

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Mr. King Kap Kalyan  
General Manager

Date: 28 April 2006

## NET WORTH AS AT 31 DECEMBER 2005

In accordance with the NBC's *Prakas* No. B-700-47 dated 16 February 2000; the Company should maintain a permanent net worth value to at least its paid-up share capital. The Company's net worth as at 31 December 2005 was calculated as follows:

| CATEGORY A ITEMS  | 31-Dec-05      |                  |
|---|----------------|------------------|
|   | USD            | KHR'000          |
| Paid up capital   | 65,000         | 267,280          |
| Reserves other than re-evaluation reserves                | -              | -                |
| Share premiums  | -              | -                |
| Provision for general banking risks                       | -              | -                |
| Profit brought forward                                    | -              | -                |
| Current year profit                                       | 7,387          | 30,375           |
| Retained earnings   | -              | -                |
| Other items approved by NBC                               | -              | -                |
| <b>SUB-TOTAL A</b>  | <b>72,387</b>  | <b>297,655</b>   |
| <b>CATEGORY B ITEMS</b>                                   |                |                  |
| Related party loans                                       | -              | -                |
| Holding of own shares                                     | -              | -                |
| Accumulated losses  | -              | -                |
| Intangible assets   | -              | -                |
| Loss determined on dates other than year end              | -              | -                |
| <b>SUB-TOTAL B</b>  | <b>-</b>       | <b>-</b>         |
| <b>C. BASE NET WORTH (A-B)</b>                            | <b>72,387</b>  | <b>297,655</b>   |
| <b>CATEGORY D ITEMS</b>                                   |                |                  |
| Revaluation reserves                                      | -              | -                |
| Subordinated debts  | 242,157        | 995,750          |
| Other items approved by the NBC                           | -              | -                |
| <b>SUB-TOTAL D</b>  | <b>242,157</b> | <b>995,750</b>   |
| <b>CATEGORY E ITEMS</b>                                   |                |                  |
| Equity participation in banking or financial institutions | -              | -                |
| Other items   | -              | -                |
| <b>SUB-TOTAL E</b>  | <b>-</b>       | <b>-</b>         |
| <b>F. TOTAL NET WORTH (C+D-E)</b>                         | <b>314,544</b> | <b>1,293,405</b> |

## LIQUIDITY RATIO AS AT 31 DECEMBER 2005

In accordance with the NBC's *Prakas* No. B 7-00-38 dated 9 February 2000 amended by *Prakas* No. B 7-02-48 dated 25 February 2002; micro-finance institutions are required to calculate a liquidity ratio which should be at least 100%. Details of calculations are shown below:

|  | 31-Dec-05             |                |
|--|-----------------------|----------------|
|  | USD                   | KHR'000        |
| <b>A. NUMERATOR</b>  |                       |                |
| <i>Debit items:</i>  |                       |                |
| Cash   | 10,786                | 44,353         |
| Deposits with the NBC excluding statutory deposit  | 250                   | 1,028          |
| Deposits with banks  | 22,951                | 94,375         |
| Portion of lending to banks and financial institutions<br>with maturity up to one month            | -                     | -              |
| Portion of lending to customers up to one month to run   | -                     | -              |
| Treasury bills with maturity up to one month   | -                     | -              |
| <b>Total debit items</b>   | <b>33,987</b>         | <b>139,756</b> |
| <i>Credit items:</i>   |                       |                |
| Sight accounts with NBC, banks and<br>financial institutions                                       | -                     | -              |
| Borrowing from NBC and banks less than<br>one month to run   | -                     | -              |
| <b>Total credit items</b>  | <b>-</b>              | <b>-</b>       |
| <b>TOTAL A. Lender / (Borrower) position</b><br><i>(Total debit items less total credit items)</i> | <b>33,987</b>         | <b>139,756</b> |
| <b>B. DENOMINATOR</b>  |                       |                |
| Voluntary saving deposits at 25%   | -                     | -              |
| <b>TOTAL B</b>   | <b>-</b>              | <b>-</b>       |
| <b>Liquidity ratio - Numerator / Denominator</b>   | <b>Not applicable</b> |                |

## CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2005

In accordance with the NBC's *Prakas* No. B 7-00-06 dated 11 January 2000; all micro-finance institutions shall observe a solvency ratio which is the ratio of their net worth to their aggregate credit risk exposure. The result found shall not be less than 20 per cent.

|   | Weightings | 31-Dec-05             |                         |
|---|------------|-----------------------|-------------------------|
|   |            | USD                   | KHR'000                 |
| <b>NUMERATOR</b>                            |            |                       |                         |
| <b>A. Net worth as at 31 December</b>       |            | <b><u>314,544</u></b> | <b><u>1,293,405</u></b> |
| <b>DENOMINATOR</b>                          |            |                       |                         |
| Cash in hand                                | 0%         | -                     | -                       |
| Deposits with the National Bank of Cambodia | 0%         | -                     | -                       |
| Claims on Sovereigns rated AAA to AA-       | 0%         | -                     | -                       |
| Claims on Sovereigns rated A+ to A-         | 20%        | -                     | -                       |
| Claims on banks rated AAA to AA-            | 20%        | -                     | -                       |
| Claims on Sovereigns rated BBB+ to BBB-     | 50%        | -                     | -                       |
| Claim on banks rated A+ to A-               | 50%        | -                     | -                       |
| Other assets                                | 100%       | 566,279               | 2,328,539               |
| Off-balance sheet items:                    |            |                       |                         |
| Full risk                                   | 100%       | -                     | -                       |
| Medium risk                                 | 50%        | -                     | -                       |
| Moderate risk                               | 20%        | -                     | -                       |
| <b>B. Total risk-weighted assets</b>        |            | <b><u>566,279</u></b> | <b><u>2,328,539</u></b> |
| <b>SOLVENCY RATIO (A/B)</b>                 |            | <b><u>57%</u></b>     |                         |

### LOAN CLASSIFICATION AND PROVISION FOR BAD AND DOUBTFUL DEBTS

In accordance with the NBC's *Prakas* No. B 7-02-186 dated 13 September 2002; micro-finance institutions shall classify their loan portfolio into four classes defined as standard, substandard, doubtful and loss, and record specific provisions regardless of the assets (except cash) lodged as collateral. The loan classification and provision for bad and doubtful debts as at 31 December 2005 were as follows:

|                               | Principal<br>Loans<br>USD | % of<br>Provision<br>% | NBC<br>Standards<br>USD | MFI's<br>Provision<br>USD | Difference<br>USD |
|-------------------------------|---------------------------|------------------------|-------------------------|---------------------------|-------------------|
| <b>As at 31 December 2005</b> |                           |                        |                         |                           |                   |
| Standard                      | 503,102                   | 0                      | -                       | -                         | -                 |
| Substandard                   | -                         | 10                     | -                       | -                         | -                 |
| Doubtful                      | 5,000                     | 30                     | 1,500                   | 1,500                     | -                 |
| Loss                          | -                         | 100                    | -                       | -                         | -                 |
|                               | <b><u>508,102</u></b>     |                        | <b><u>1,500</u></b>     | <b><u>1,500</u></b>       | <b><u>-</u></b>   |
| <i>Equivalents in KHR'000</i> | KHR' 000                  | %                      | KHR' 000                | KHR' 000                  | KHR' 000          |
| Standard                      | 2,068,755                 | 0                      | -                       | -                         | -                 |
| Substandard                   | -                         | 10                     | -                       | -                         | -                 |
| Doubtful                      | 20,560                    | 30                     | 6,041                   | 6,041                     | -                 |
| Loss                          | -                         | 100                    | -                       | -                         | -                 |
|                               | <b><u>2,089,315</u></b>   |                        | <b><u>6,041</u></b>     | <b><u>6,041</u></b>       | <b><u>-</u></b>   |

**FOREIGN CURRENCY TRANSACTIONS**

In accordance with the NBC's *Prakas* No. B 7-00-50 dated 9 February 2000; financial institutions are required to disclose a summary of assets and liabilities at the balance sheet date in their sources currencies which were as follows:

|                     |            | 31-Dec-05      |                  |
|---------------------|------------|----------------|------------------|
|                     |            | USD            | KHR'000          |
|                     |            | or equivalents | or equivalents   |
| <b>Assets:</b>      |            |                |                  |
|                     | US Dollar  | 205,538        | 845,172          |
|                     | Khmer Riel | 375,027        | 1,542,111        |
|                     |            | <u>580,565</u> | <u>2,387,283</u> |
| <b>Liabilities:</b> |            |                |                  |
|                     | US Dollar  | 59,541         | 244,833          |
|                     | Khmer Riel | 6,480          | 26,645           |
|                     |            | <u>66,021</u>  | <u>271,478</u>   |