



ANNUAL REPORT 2014



អ៊ីអេស មីក្រូហិរញ្ញវត្ថុ (ខេមបូឌា)
AEON MICROFINANCE (CAMBODIA) CO., LTD.

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INDEPENDENT CREATIVE

*Thinking,
Action,
Integrity*



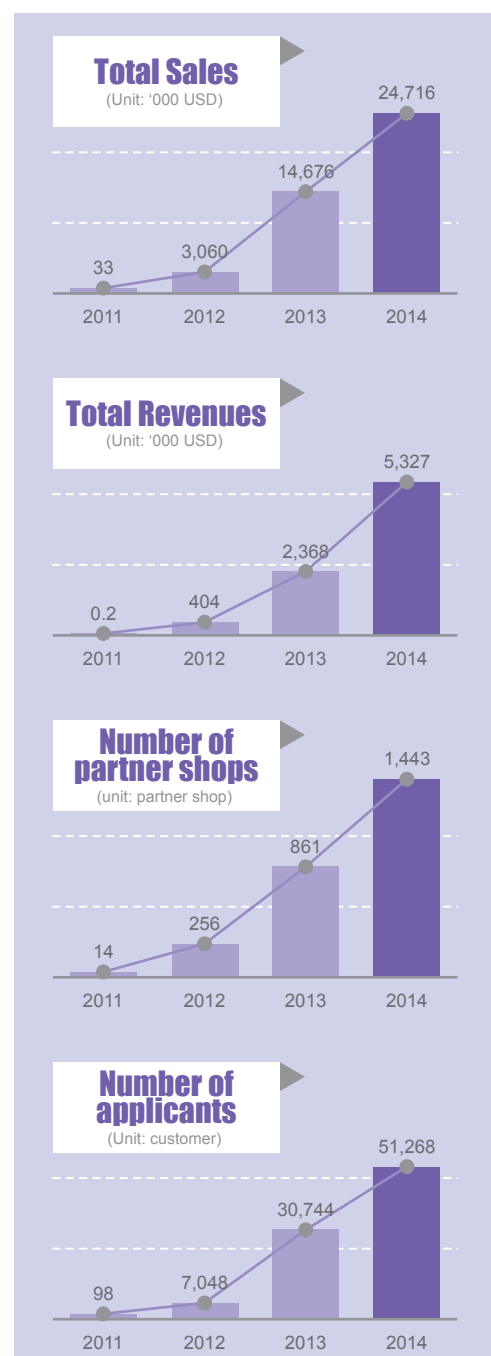
Our Business objective is to provide retail finance for a wide range of individual customers. We are especially well known as a pioneer of providers of a pay by installment service (hire–purchase) and of personal loans for people purchasing our consumer products using a quick and easy process, which is new service in Cambodia, but popular in other countries.

Our BACKGROUND

The Company was incorporated as a private limited liability company in Cambodia on 5 October 2011 under Registration No. Co.2380 E/2011 issued by the Ministry of Commerce on 7 October 2011. The Company obtained its license as a micro-finance institution from the National Bank of Cambodia ("NBC") dated 21 November 2011. The Company is wholly-owned by AEON Thana Sinsap (Thailand) Public Company Limited, a company registered in Thailand. The ultimate parent company is AEON Financial Service Co., Ltd., a company registered in Japan and listed on the Tokyo Stock Exchange.

FISCAL YEAR	2012	2013	2014
Customer Base			
Agreement Base Customer	4,264	18,484	30,749
Network			
Corporate Merchant	251	861	1,443

FISCAL YEAR	2012	2013	2014
Financial Status			
Total assets	2,726,384	14,060,179	26,447,805
Accounts receivable	2,187,687	10,913,456	20,825,039
Total shareholders' equity	431,883	3,985,019	4,859,700
Capital	1,000,000	4,000,000	4,000,000



**Mr. Daisuke Maeda**

Vice-Chairman of the Board and Managing Director

Message FROM MANAGEMENT

I highly appreciate your strong demand for the use of our installment services, which have started to penetrate Cambodia's retail market.

The Cambodian economy in the year 2014 has continued to reflect steady growth with 7.3% of GDP. The company also showed strong sales, increasing by 165% since 2013 through its emphasis on agriculture products and personal loans.

In order to provide our customers with a convenient, safe and satisfactory service, not only in Phnom Penh but also in the provinces, we have launched new branches in major provincial areas (Battambang and Kampong Cham). As for branch expansion, we also have launched a branch in AEON Mall Phnom Penh, the biggest and most modern shopping center in Cambodia, which

attracts 100,000 customers per day. Directed by this strategy, the company has achieved remarkable growth and profitability. Moreover, we have focused on enhancement of internal control and corporate governance through establishing an internal control system and annual compliance and information protection training and so on.

In 2015, the Cambodian economy is expected to achieve further growth. In order to contribute to growth in the retail finance market, we would continue to strengthen our core business, General Hire–Purchase, Motorcycle Hire–Purchase, Agriculture Hire–Purchase, Personal Loan and new and innovative products. In addition, we would enhance on conducting CSR activities for contributing to Cambodian society.

Board of DIRECTORS



**Mr.
Yasuhiko Kondo**

POSITION Chairman of the Board

BORN (year) 1960

EDUCATION Bachelor Degree of Art in Psychology, Chukyo University, Japan



**Mr.
Daisuke Maeda**

POSITION Vice-chairman of the Board and Managing Director

BORN (year) 1976

EDUCATION Bachelor of Mass Communication, Kansai University, Japan



**Mr.
Kozo Tsushiro**

POSITION Non-Executive Director

BORN (year) 1975

EDUCATION Bachelor of Engineering Degree at Fukuoka University, Japan

2013 – Present Chairman of the Board
AEON Microfinance (Cambodia)
Private Company Limited

2013 – Present Director, AEON (Thailand)
Co., Ltd.

2013 – 2014 Chairman of the Board
AEON Leasing Service (Lao)
Co., Ltd.

2012 – Present Chairman of the Board
AEON Microfinance (Myanmar)
Co., Ltd.

2012 – Present Chairman AEON Thailand
Foundation

2011 – 2014 Chairman of the Board
ACS Servicing (Thailand) Co., Ltd.

2011 – 2014 Chairman of the Board AEON Insurance
Service (Thailand) Co., Ltd.

2011 – 2014 Chairman of the Board
ACS Capital Corporation Ltd.

2011 – Present Vice Chairman of the Board and
Managing Director AEON Thana
Sinsap (Thailand) Plc.

1999 – 2011 Director AEON Financial Service
Co., Ltd.

2011 – Present Vice-chairman of the Board
and Managing Director,
AEON Microfinance (Cambodia)
Private Company Limited

2009 – Present Chief Representative,
ACS Corporation Limited
(Representative office in Cambodia)

2008 – 2009 Senior Vice President Head of
Marketing & Sale,
AEON Thana Sinsap (Thailand)
Plc.

2014 – Present Board of Directors,
AEON Microfinance (Cambodia)
Private Company Limited

2014 – Present Executive Vice President of
Corporate Planning Office of
AEON Thana Sinsap (Thailand)
Plc.

2014 – Present Auditor AEON Leasing
Service (Lao) Co., Ltd.

2012 – 2014 Vice President of Corporate
Planning Office of AEON
Thana Sinsap (Thailand)
Plc.

2009 – 2012 Assistant Vice President of
Corporate Planning Office
of AEON Thana Sinsap (Thailand)
Plc.

**Working
Experience**

ADVISORY



**Mr.
Om Seng Bora**

POSITION Independent Director

BORN (year) 1977

EDUCATION Master Degree in Business Administration from Preston University, United States



**Mrs.
Khieu Mealy**

POSITION Independent Director

BORN (year) 1964

EDUCATION Bachelor of Law at National Institute of Management and Royal University of Law and Economic



**H.E.
Sok Siphana** Advisory

POSITION Advisory

BORN (year) 1960

EDUCATION Juris Doctor (J.D.), Widener University School of Law, Delaware, (USA), Doctor of Philosophy (Ph.D.), Bond University School of Law, Queensland (Australia)

- 2013 – Present Independent Board of Director of Phnom Penh Water Supply Authority
- 2013 – Present Co-founder & Board of Directors of Cambodia Investors Club
- 2013 – Present Board of Directors of Start-up Business Network
- 2012 – Present Member of Cambodia Chamber of Commerce
- 2011 – Present Independent Director, AEON Microfinance (Cambodia) Private Company Limited
- 2010 – Present Chairman of Cambodia Microfinance Institute
- 2010 – Present Chairman of Aplus Consulting and Aplus School for Professionals

- 2014 – Present Independent Director, AEON Microfinance (Cambodia) Private Company Limited
- 2014 – Present Board member of Nokor Tep Women Cancer Hospital
- 2013 – Present Executive Board Member of the National Commercial Arbitration Center
- 2012 – Present Chairperson of Song Saa Foundation, a NGO involving with coastal conservative area
- 2009 – Present Partner of SokSiphana & associates Law Firm

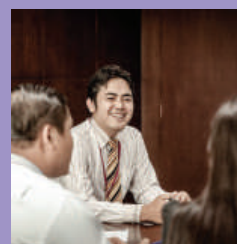
- 2009- Present Managing Partner, SokSiphana&associates a law firm specialized in international trade and corporate law
- 2011- Present Chairman of the Board, Cambodian Development Resource Institute (CDRI), Cambodia's oldest and prominent independent research institute
- 2009- Present Advisor to the Royal Government of Cambodia (with Rank of Minister), concurrently attached to the Ministry of Foreign Affairs and International Cooperation (MFAIC), the Council for the Development of Cambodia (CDC), and the Supreme National Economic Council (SNEC)
- 2005- 2009 Director, International Trade Center UNCTAD/WTO (Geneva)
- 1999 - 2005 Secretary of State Ministry of Commerce, Royal Government of Cambodia

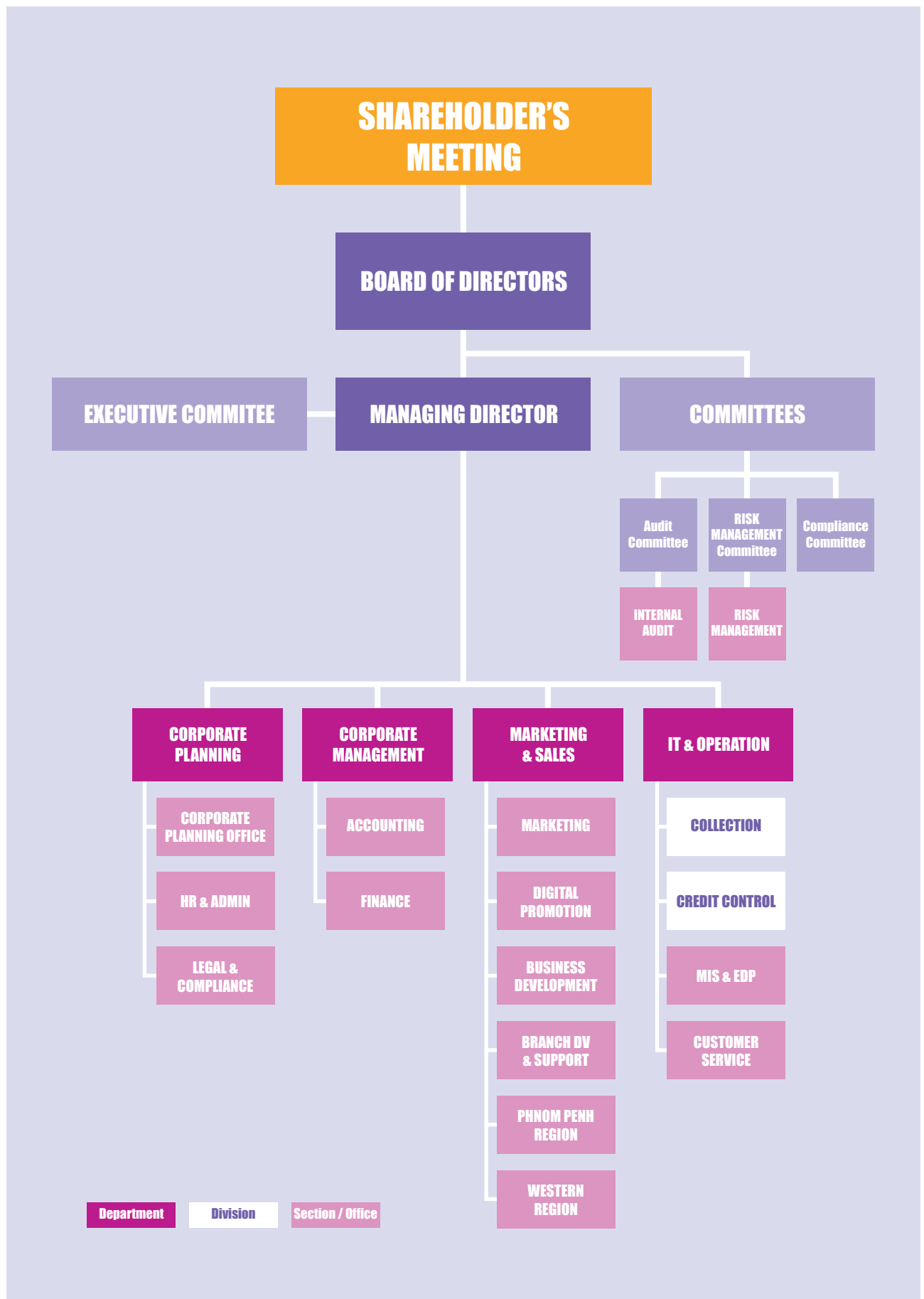
for the last 5 years



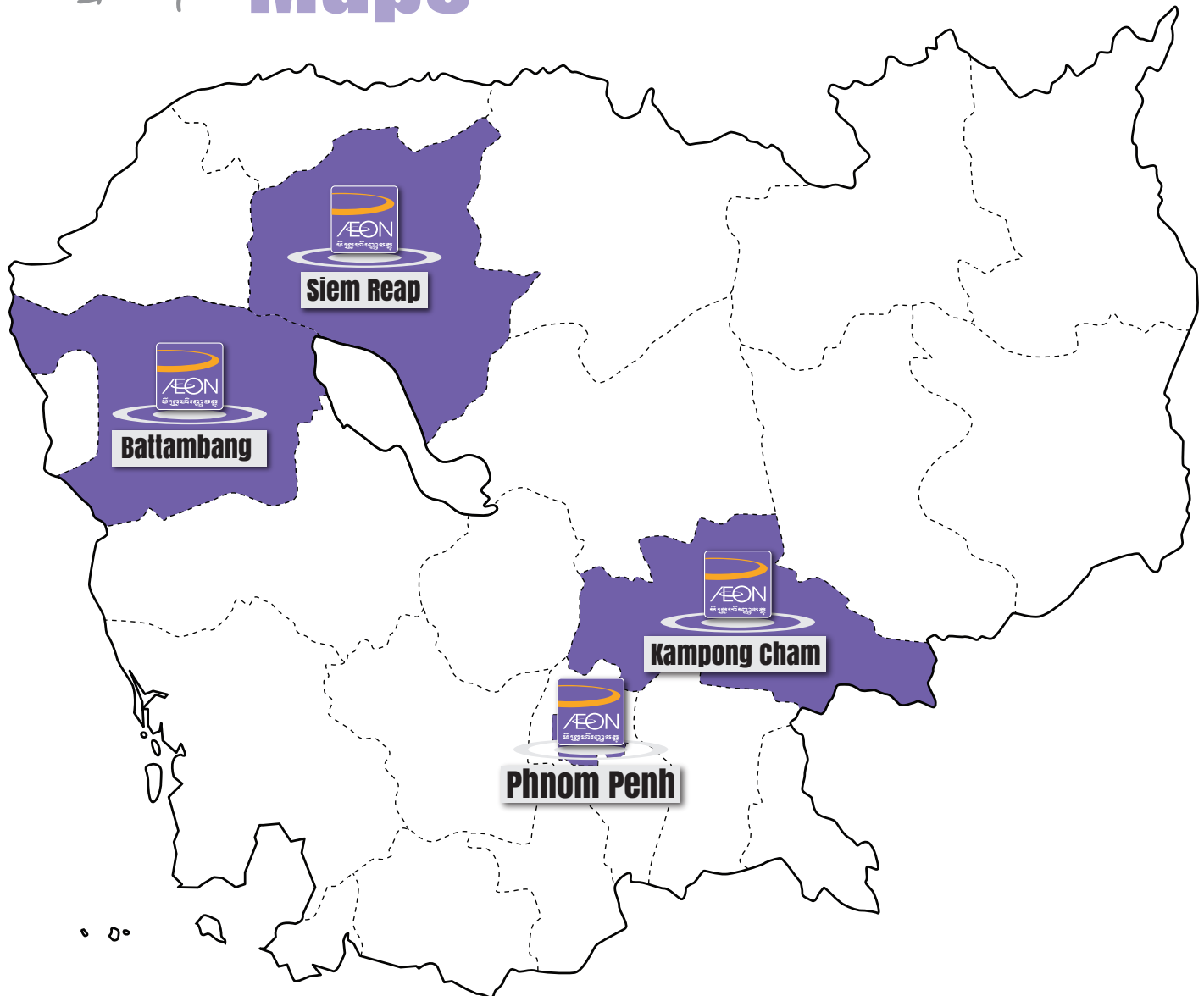
ORGANIZATION

Chart





Branch Maps



Phnom Penh

- **Phnom Penh Branch:**
Ground Floor, Building 721, Preah Monivong Blvd,
Sangkat Boeung Keng Kang 3, Khan Chamkarmon,
Phnom Penh
- **Sovanna Branch:**
No. D29, Street Diamond, Village 4,
Sangkat Tonob Tek, Khan Chamkarmon,
Phnom Penh
- **AEON Mall Phnom Penh Branch:**
First Floor of AEON Mall Store, No. 132, St.
Sothearos, Sangket Tonle Bassac, Khan Chamkarmon,
Phnom Penh

Province

- **Siem Reap Branch:**
No. 26, St. Tep Vong, Mondul 2 Village,
Sangkat Svay Dongkom, Siem Reap City,
Siem Reap Province
- **Battambang Branch:**
No. 35-36, Street 1, Borey Mohatep,
Sangkat Svay Por, Battambang District,
Battambang Province
- **Kampong Cham Branch:**
National No.7, Sangkat Vealvong,
Kampong Cham City,
Kampong Cham Province

BUSINESS HIGHLIGHTS 2014

AEON MALL Phnom Penh Grand Opening



AEON Mall Phnom Penh (AEON Mall) had its grand opening on 28 June 2014, and is the first international standard shopping mall in Cambodia with a floor area of 68,000m² and tenants occupying approx. 190 shops. The opening of AEON Mall has had a huge and surprising impact on the Cambodian market.

As we are an AEON Group member, we have opened a

branch in AEON Mall and have started to launch a Personal Loan installment service for customers. As for the commemoration of the grand opening, we have conducted an innovative promotional offer of 0% interest.

AEON Mall has brought Cambodians a new lifestyle and we also provide a financial service to take their life to the next level of prosperity.



AEON Mall Opening Special Promotion

Installment service



The company enhanced its installment service for Agricultural Machinery and provides seasonal payment which implements a more convenient payment method for customers according to the income cycle for farmers. As a result, the company achieved USD 2.98 million sales (3,785% LY) for the Agriculture category in 2014. The company launched a cosmetic installment service to allow customers to enjoy high quality cosmetics through the installment service. The company has expanded the installment service to respond to customer demand and customers can now enjoy the installment service

for Home Appliances, Mobile Phones, Personal Computers, Furniture, Cosmetics, Motorcycles and Agricultural Machinery etc.

The company has expanded the dealer network by opening new branches in Battambang and Kampong Cham in 2014. We have newly recruited 571 partner shops in all operational areas and the accumulated number of partner shops have reached 1,443 (238% LY). The total sales for Hire–Purchase in 2014 amounted to USD 19.7 million an increase of 135% from 2013.

Personal Loan



We launched the Personal Loan service in March 2014. In order to provide a fast and convenient service to customers, we have introduced new method of service provision in Cambodia as we do not require collateral and guarantors for our services. We are offering this service at all

six branches to respond to customers' demands in provinces as well as in Phnom Penh. As a result, sales have increased every month and marked USD 633,220 for the monthly sales in December 2014.

AEON Lounge



We have opened AEON Lounge in AEON Mall in conjunction with AEON Mall and AEON. AEON Lounge provides a relaxation area and complementary snacks and beverages to the worldwide AEON Gold

Credit Card members and one-day ticket holders who are our installment service customers from AEON Mall branch.

Point Card Processing Service

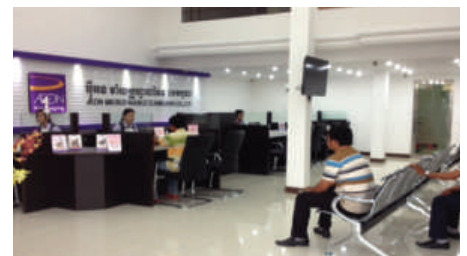
AEON Phnom Penh Store (AEON) has established a loyalty program, known as the AEON Point Card, and we are appointed as a service provider of a recruitments and data entry service. In 2014, we succeeded in recruiting 30,000 new Point Card Members. AEON provides a points scheme and discount promotions for Point Card Members.



New Branch Opening

In order to expand our business, we have launched three new branches: Battambang branch (May), AEON Mall branch (June) and Kampong Cham branch (October) in 2014. Battambang and Kampong Cham are among the largest population provinces after Phnom Penh, and are famous for their agriculture businesses. We provide a Personal loan service and installment service for agriculture machinery in addition to general hire purchase.

AEON Mall branch provide a Personal Loan service and an installment service in AEON Mall and marked almost USD 500,000 sales in July, the second month after opening. AEON Mall attracted a large number of customers and we succeeded in providing services to meet customers' demands.



Newly Opened Battambang Branch (May, 2014)



Service at Branches

BUSINESS RISK FACTOR



A strong risk management culture has been promoted in order to ensure business sustainability and success. As a result, we take a proactive approach to constantly increase risk awareness and manage risk across the organization. To enhance the risk management structure and strategy, a Risk Management Section and Risk Management Committee has been established.

The Risk Management Section has also been designed as an independent section which is separate from other sections and is able to control the risk management environment in the company. The Risk Management Section is responsible for overseeing, planning and conducting its own risk management. Furthermore, the Risk Management Section oversees a wide array of risks including Credit Risk, Market Risk, Liquidity Risk and Operational Risk (Administrative Risk, Information Technology Risk, Legal & Compliance Risk, Human Risk, Tangible Asset Risk and Reputational Risk). Additionally, the Risk Management Section also operates an Internal Risk Management Meeting with all section heads once a month to collect the risk information with regard to potential impact on AEON.

Risk Management Meeting & Committee

The Risk Management Committee is chaired by the Chairman of the Board and conducted with overseas group companies including headquarters in Thailand and Japan. The main responsibility of this committee is to ensure that we operate with a sound, effective and efficient risk management system. The committee also focuses on conducting comprehensive studies, discussion and sharing of information with overseas group companies to improve and challenge the risk manage-

ment factors. In addition, we conduct Risk Management meetings internally with a member of management in the company on a monthly basis. We collect risk factors for each section and branch in order to evaluate risk status.

We believe that the establishment of a strong risk management culture and control system leads to sustainable long-term growth and profitability for our business in Cambodia's market.



Water well digging (November, 2014)



Tree planting (March, 2014)



Tree planting (March, 2014)



Tree planting (March, 2014)

CORPORATE

Social Responsibility

Based on the management philosophy of AEON Financial Service, which supports customers' "lifestyles by placing value on both their futures and their trust", we aim to provide valuable products and services through comprehensive financial services such as the installment service, personal service and innovative service. As a Cambodian corporate citizen, we recognize the importance of our mission to serve as a leading force in part of the economy and also our social responsibilities. During 2014, we donated water wells to Takeo province to support rural areas. We also offer scholarships to university students to assist with their study. To make a clean and green environment we planted trees near AEON Mall Phnom Penh.

We have established an information protection policy in order to protect personal information as a company which handles customers' personal information.

In 2015, we are focusing on continuously undertaking corporate social responsibility activities to contribute to Cambodian society and enhance reliability through Japanese standard management.

Water well digging
(November, 2014)

Report of the independent auditors To the shareholder AEON Microfinance (Cambodia) Co., Ltd.

We have audited the accompanying financial statements of AEON Microfinance (Cambodia) Co., Ltd. ("the Company"), which comprise the balance sheet as at 31 December 2014, and the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 7 to 40.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AEON Microfinance (Cambodia) Co., Ltd. as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

Other matter

The financial statements of the Company as at and for the year ended 31 December 2013 were audited by another auditors who expressed an unmodified opinion on those statements on 24 March 2014.

For KPMG Cambodia Ltd



Nge Huy
Audit Partner

Phnom Penh, Kingdom of Cambodia
24 March 2015

Balance sheet as at 31 December 2014

		2014		2013	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand		179,065	729,690	48,376	193,262
Balances with the National Bank of Cambodia	5	201,399	820,701	201,259	804,030
Balances with other banks	6	686,790	2,798,669	516,634	2,063,953
Loans to customers	7	20,408,370	83,164,108	10,833,960	43,281,670
Other assets	8	1,057,285	4,308,436	1,792,529	7,161,153
Property and equipment	9	1,544,937	6,295,618	292,083	1,166,872
Intangible assets	10	2,316,744	9,440,732	375,338	1,499,475
Deferred tax assets	12	53,215	216,851	-	-
TOTAL ASSETS		<u>26,447,805</u>	<u>107,774,805</u>	<u>14,060,179</u>	<u>56,170,415</u>

Liabilities and shareholder's equity

		2014		2013	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Liabilities					
Accounts payable and accrued expenses	11	590,251	2,405,273	267,849	1,070,057
Current income tax liability	12	176,353	718,638	13,593	54,304
Due to related parties	21	91,501	372,866	13,718	54,803
Borrowings	13	20,730,000	84,474,750	9,780,000	39,071,100
Total liabilities		<u>21,588,105</u>	<u>87,971,527</u>	<u>10,075,160</u>	<u>40,250,264</u>
Shareholder's equity					
Share capital	14	4,000,000	16,300,000	4,000,000	15,980,000
Retained earnings/(Accumulated losses)		859,700	3,503,278	(14,981)	(59,849)
Total shareholder's equity		<u>4,859,700</u>	<u>19,803,278</u>	<u>3,985,019</u>	<u>15,920,151</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		<u>26,447,805</u>	<u>107,774,805</u>	<u>14,060,179</u>	<u>56,170,415</u>

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

Income statement for the year ended 31 December 2014

		2014		2013	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	15	5,035,805	20,520,905	2,269,449	9,066,449
Interest expense	13	(217,835)	(887,678)	(51,197)	(204,532)
Net interest income		<u>4,817,970</u>	<u>19,633,227</u>	<u>2,218,252</u>	<u>8,861,917</u>
Fees, commissions and other income	16	292,527	1,192,048	99,022	395,593
Operating profit		<u>5,110,497</u>	<u>20,825,275</u>	<u>2,317,274</u>	<u>9,257,510</u>
Allowance for losses on loans to customers	7	(458,894)	(1,869,993)	(87,841)	(350,925)
Other operating expenses	17	(3,602,982)	(14,682,152)	(1,641,905)	(6,559,410)
Profit before income tax		<u>1,048,621</u>	<u>4,273,130</u>	<u>587,528</u>	<u>2,347,175</u>
Income tax expense	12	(173,940)	(708,806)	(34,392)	(137,397)
Net profit for the year		<u><u>874,681</u></u>	<u><u>3,564,324</u></u>	<u><u>553,136</u></u>	<u><u>2,209,778</u></u>

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

Statement of changes in equity for the year ended 31 December 2014

	Share capital US\$	(Accumulated losses) /retained earnings US\$	US\$
At 1 January 2014	4,000,000	(14,981)	3,985,019
Net profit for the year	-	874,681	874,681
At 31 December 2014	<u>4,000,000</u>	<u>859,700</u>	<u>4,859,700</u>
(KHR'000 equivalents) (Note 4)			
At 31 December 2014	<u>16,300,000</u>	<u>3,503,278</u>	<u>19,803,278</u>
At 1 January 2013	1,000,000	(568,117)	431,883
Additional share capital contribution	3,000,000	-	3,000,000
Net profit for the year	-	553,136	553,136
At 31 December 2013	<u>4,000,000</u>	<u>(14,981)</u>	<u>3,985,019</u>
(KHR'000 equivalents) (Note 4)			
At 31 December 2013	<u>15,980,000</u>	<u>(59,849)</u>	<u>15,920,151</u>

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

Statement of cash flows for the year ended 31 December 2014

		2014		2013	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash used in operating activities	18	(7,114,462)	(28,991,433)	(9,696,030)	(38,735,636)
Cash flows from investing activities					
Acquisition of property and equipment	9	(1,499,015)	(6,108,486)	(251,839)	(1,006,100)
Acquisition of intangible assets	10	(2,035,538)	(8,294,817)	(283,742)	(1,133,549)
Net cash used in investing activities		(3,534,553)	(14,403,303)	(535,581)	(2,139,649)
Cash flows from financing activities					
Proceeds from borrowings	13	65,020,000	264,956,500	10,290,000	41,108,550
Repayment of borrowings	13	(54,070,000)	(220,335,250)	(2,660,000)	(10,626,700)
Share capital contribution		-	-	3,000,000	11,985,000
Net cash generated from financing activities		10,950,000	44,621,250	10,630,000	42,466,850
Net increase in cash and cash equivalents		300,985	1,226,514	398,389	1,591,565
Cash and cash equivalents at the beginning of the year		566,269	2,307,546	167,880	670,680
Cash and cash equivalents at the end of the year	19	867,254	3,534,060	566,269	2,262,245

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

Notes to the financial statements for the year ended 31 December 2014

1. Reporting entity

AEON Microfinance (Cambodia) Co., Ltd. ("the Company") is a licensed micro-finance institution ("MFI") incorporated and registered in the Kingdom of Cambodia.

The Company was incorporated as a private limited liability company in Cambodia on 5 October 2011 under Registration No. Co.2380 E/2011 issued by the Ministry of Commerce. On 7 October 2011, the Company obtained its license as a micro-finance institution from the National Bank of Cambodia ("NBC") dated 21 November 2011. The Company is wholly-owned by AEON Thana Sinsap (Thailand) Public Company Limited, a company registered in Thailand. The ultimate parent company is AEON Co., Ltd., a company registered in Japan.

The principal activities of the Company are as follows:

- Microfinance operations such as lending and saving;
- Lending services in the form of hire-purchase (instalment) and loan;
- Borrowing of funds and mobilising savings as appropriate subject to compliance with NBC's regulations; and
- Other business-related services subject to the approval by the NBC.

The head office of the Company is located at Building No. 721, Monivong Blvd, Sangkat Boeung Keng Kang III, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2014, the Company had 396 employees (2013: 190 employees).

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Cambodian Accounting Standards ("CAS") and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements.

The financial statements of the Company were authorised for issue by the Board of Directors on 24 March 2015.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

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

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in United States Dollars (“US\$”). Management has determined the US\$ to be the Company’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

Transactions in currencies other than US\$ are translated into US\$ at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US\$ at the reporting date are translated into US\$ at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

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

(a) Financial instruments

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

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original 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.

(c) Deposits and placement with banks

Deposits and placements with banks are stated at cost.

(d) Statutory deposits

Statutory deposits included in balances with the NBC are maintained in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by the defined percentage of the minimum share capital.

(e) 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 allowance.

(f) Allowance for bad and doubtful loans

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

Classification	Number of days past due	Rate of allowances
Short-term loans (less than one year):		
Sub-standard	30 – 59 days	10%
Doubtful	60 – 89 days	30%
Loss	Over 90 days	100%
Long-term loans (more than one year):		
Sub-standard	30 – 179 days	10%
Doubtful	180 – 359 days	30%
Loss	Over 360 days	100%

The specific allowance 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. Further, management provides additional allowance to loans classified as non-performing that are more than 90 days past due (other than those loans already classified as loss) such that these loans are also fully provided as at reporting date.

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the allowance 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.

The allowance will be calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The allowance shall be recorded in the Company's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard.

Recoveries on loans previously written off and reversal of previous allowances are disclosed as other operating income in the income statement.

(g) Interest in suspense

Interest in suspense represents interest on non-performing loans and advances, that is recorded as a allowance rather than income until it is realised on a cash basis.

Interest in suspense is disclosed as a deduction from interest receivables.

(h) Other assets

Other assets are carried at cost.

(i) 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 and equipment 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 straight-line basis over the estimated useful lives of the individual assets as follows:
- | | |
|------------------------------|--------------|
| • Leasehold improvements | 3 – 10 years |
| • IT equipment and computers | 3 – 5 years |
| • Office equipment | 2 – 3 years |
| • Furniture and fixtures | 5 years |
- (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.

(j) Intangible assets

Intangible assets consist of computer software licenses and related costs and are stated at cost less accumulated amortisation and accumulated impairment losses; if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on a straight line method over five years.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(f).

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

(l) Borrowings

Borrowings are stated at cost.

(m) Provisions

Provisions are 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.

(n) Income and expense 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 administrative 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.

Expenses are recognised on an accrual basis.

(o) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

(p) 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 shareholders' equity, in which case it is also disclosed as a component of shareholders' equity.

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

Deferred tax is provided using the balance sheet 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 reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) 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% 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.

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars ("US\$"). The translations of US\$ amounts into Khmer Riel ("KHR") are included solely for the compliance with the guidelines of the NBC relating to the preparation and presentation of the financial statements and have been made using the prescribed official exchange rate of US\$1: KHR4,075 published by the NBC on 31 December 2014 (31 December 2013: US\$1: KHR3,995). These convenient translations are not audited and should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

5. Balances with the National Bank of Cambodia

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current account	1,399	5,701	1,259	5,030
Capital guarantee	200,000	815,000	200,000	799,000
	<u>201,399</u>	<u>820,701</u>	<u>201,259</u>	<u>804,030</u>

Under Prakas No. 87-00-06 on the Licensing of MFIs dated 11 January 2000, the Company is required to maintain a capital guarantee deposit equivalent to 5% of registered capital with the NBC. This deposit is not available for use in the Company's day-to-day operations but is refundable when the Company voluntarily ceases to operate the business in Cambodia.

The capital guarantee deposit earns interest at 1/4 of 6 month LIBOR per annum whereas the current account does not earn interest.

6. Balances with other banks

This pertains to current accounts maintained in US\$ with local banks which do not earn interest.

7. Loans to customers

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	20,707,485	84,383,001	10,859,397	43,383,290
Staff loans	117,555	479,037	54,058	215,963
Gross loans	20,825,040	84,862,038	10,913,455	43,599,253
Allowance for losses on loans to customers				
At 1 January	79,495	323,942	7,235	28,904
Allowance during the year	458,894	1,869,993	87,841	350,925
Written off	(121,719)	(496,005)	(15,581)	(62,246)
Allowance at 31 December	416,670	1,697,930	79,495	317,583
Loans to customers, net	20,408,370	83,164,108	10,833,960	43,281,670
Loans to customers are analysed as follows:				

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By performance:				
Standard loans				
Unsecured	20,301,479	82,728,527	10,777,989	43,058,066
Sub-standard loans				
Unsecured	316,322	1,289,012	118,705	474,226
Doubtful loans				
Unsecured	205,204	836,206	16,117	64,387
Loss loans				
Unsecured	2,035	8,293	644	2,574
	20,825,040	84,862,038	10,913,455	43,599,253
(b) By maturity:				
Within 1 month	164,502	670,346	29,263	116,906
1 to 3 months	320,981	1,307,998	135,713	542,173
3 to 12 months	6,864,886	27,974,410	3,592,466	14,351,902
More than 12 months	13,474,671	54,909,284	7,156,013	28,588,272
	20,825,040	84,862,038	10,913,455	43,599,253

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(c) By economic sector:				
Agriculture	2,641,982	10,766,077	-	-
Staff loans	117,555	479,037	54,058	215,962
Others (individual)	18,065,503	73,616,924	10,859,397	43,383,291
	<u>20,825,040</u>	<u>84,862,038</u>	<u>10,913,455</u>	<u>43,599,253</u>
(d) By currency				
US Dollars	<u>20,825,040</u>	<u>84,862,038</u>	<u>10,913,455</u>	<u>43,599,253</u>
(e) By residency status:				
Residents	<u>20,825,040</u>	<u>84,862,038</u>	<u>10,913,455</u>	<u>43,599,253</u>
(f) By interest rate (per annum):				
Individual loans	<u>6.12% - 46.92%</u>		<u>6.12% - 34.80%</u>	

8. Other assets

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deposits on computer software	24,320	99,104	1,217,859	4,865,347
Interest receivable	513,949	2,094,342	304,427	1,216,185
Prepayments	127,124	518,030	126,931	507,089
Rental and other deposits	18,481	75,310	49,326	197,057
Others	373,411	1,521,650	93,986	375,475
	<u>1,057,285</u>	<u>4,308,436</u>	<u>1,792,529</u>	<u>7,161,153</u>

9. Property and equipment

Cost	Leasehold improvements US\$	Furniture and fixtures US\$	Office equipment US\$	IT equipment and computers US\$	US\$	Total KHR'000 (Note 4)
At 1 January 2014	138,094	20,546	41,367	181,386	381,393	1,554,177
Additions	774,765	62,486	46,530	615,234	1,499,015	6,108,486
Written off	(1,929)	-	-	-	(1,929)	(7,861)
At 31 December 2014	<u>910,930</u>	<u>83,032</u>	<u>87,897</u>	<u>796,620</u>	<u>1,878,479</u>	<u>7,654,802</u>
Less: Accumulated depreciation						
At 1 January 2014	19,107	5,322	13,485	51,396	89,310	363,938
Depreciation for the year	140,826	10,808	20,907	72,388	244,929	998,086
Written off	(697)	-	-	-	(697)	(2,840)
At 31 December 2014	<u>159,236</u>	<u>16,130</u>	<u>34,392</u>	<u>123,784</u>	<u>333,542</u>	<u>1,359,184</u>
Carrying amounts						
At 31 December 2014	<u>751,694</u>	<u>66,902</u>	<u>53,505</u>	<u>672,836</u>	<u>1,544,937</u>	<u>6,295,618</u>

Cost	Leasehold improvements US\$	Furniture and fixtures US\$	Office equipment US\$	IT equipment and computers US\$	US\$	Total KHR'000 (Note 4)
At 1 January 2013	13,462	12,801	20,288	83,003	129,554	517,565
Additions	124,632	7,745	21,079	98,383	251,839	1,006,100
At 31 December 2013	138,094	20,546	41,367	181,386	381,393	1,523,665
Less: Accumulated depreciation						
At 1 January 2013	5,697	2,178	4,483	19,380	31,738	126,793
Depreciation for the year	13,410	3,144	9,002	32,016	57,572	230,000
At 31 December 2013	19,107	5,322	13,485	51,396	89,310	356,793
Carrying amounts						
At 31 December 2013	118,987	15,224	27,882	129,990	292,083	1,166,872

10. Intangible assets

	2014		2013	
Cost	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	423,991	1,727,764	140,249	560,295
Additions	2,035,538	8,294,817	283,742	1,133,549
At 31 December	2,459,529	10,022,581	423,991	1,693,844
Less: Accumulated amortisation				
At 1 January	48,653	198,261	8,357	33,386
Depreciation for the year	94,132	383,588	40,296	160,983
At 31 December	142,785	581,849	48,653	194,369
Carrying amounts				
At 31 December	2,316,744	9,440,732	375,338	1,499,475

11. Accounts payable and accrued expenses

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Payable to dealers and suppliers	371,868	1,515,362	121,004	483,411
Accrued expenses	106,872	435,504	75,534	301,758
Advance payments from customers	64,255	261,839	51,419	205,419
Tax liabilities	26,497	107,975	18,236	72,853
Others	20,759	84,593	1,656	6,616
	590,251	2,405,273	267,849	1,070,057

Tax liabilities include salary tax and other withholding taxes payable.

12. Income tax

(a) Deferred tax, net

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deferred tax assets	77,139	314,341	-	-
Deferred tax liabilities	(23,924)	(97,490)	-	-
	<u>53,215</u>	<u>216,851</u>	<u>-</u>	<u>-</u>

The movement of net deferred tax assets is as follows:

At 1 January	-	-	-	-
Credited to income statement	53,215	216,851	-	-
At 31 December	<u>53,215</u>	<u>216,851</u>	<u>-</u>	<u>-</u>

Deferred tax assets/(liabilities) are attributable to the following:

Property and equipment	(23,924)	(97,490)	-	-
Allowance for loan losses	64,288	261,973	-	-
Unearned income	12,851	52,368	-	-
	<u>53,215</u>	<u>216,851</u>	<u>-</u>	<u>-</u>

(b) Current income tax liability

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	13,593	55,391	696	2,781
Current income tax expense	227,155	925,657	34,392	137,397
Income tax paid	(64,395)	(262,410)	(21,495)	(85,874)
At 31 December	<u>176,353</u>	<u>718,638</u>	<u>13,593</u>	<u>54,304</u>

In accordance with Cambodian Law on Taxation, 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.

(c) Income tax expense

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	227,155	925,657	34,392	137,397
Deferred tax expense	(53,215)	(216,851)	-	-
	<u>173,940</u>	<u>708,806</u>	<u>34,392</u>	<u>137,397</u>

The reconciliation of income tax expense computed at the statutory tax rate of 20% to the income tax expense shown in the income statement is as follows:

	2014			2013		
	US\$	KHR'000 (Note 4)	%	US\$	KHR'000 (Note 4)	%
Profit before income tax	1,048,621	4,273,130		587,528	2,347,175	
Income tax using statutory rate	209,724	854,625	20.0%	117,505	469,433	20.0%
Non-deductible expenses	25,613	104,373	2.4%	27,163	108,516	4.6%
Effect to unrecognised deferred tax in prior years	(49,260)	(200,735)	-4.7%	-	-	-
Utilisation of unrecognised Tax losses	-	-	-	(113,725)	(454,331)	-19.4%
Others	(12,137)	(49,457)	-1.2%	3,449	13,779	0.6%
Income tax expense	<u>173,940</u>	<u>708,806</u>	<u>16.6%</u>	<u>34,392</u>	<u>137,397</u>	<u>5.8%</u>

The calculation of taxable income is subject to the review and approval of the tax authorities.

13. Borrowings

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	9,780,000	39,853,500	2,150,000	8,589,250
Additions during the year	65,020,000	264,956,500	10,290,000	41,108,550
Repaid during the year	(54,070,000)	(220,335,250)	(2,660,000)	(10,626,700)
At 31 December	<u>20,730,000</u>	<u>84,474,750</u>	<u>9,780,000</u>	<u>39,071,100</u>

These represent borrowings from overseas banks which bear interest at rates ranging from 0.87% to 2.22% (2013: 0.94% to 1.26%) per annum. Interest expense during the year amounted to US\$217,835 equivalent to KHR887,678 thousand (2013: US\$51,197 equivalent to KHR204,532 thousand).

14. Share capital

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
4,000,000 shares of US\$1 each:				
Registered, issued and fully paid	<u>4,000,000</u>	<u>16,300,000</u>	<u>4,000,000</u>	<u>15,980,000</u>

15. Interest income

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	5,016,611	20,442,690	2,265,297	9,049,862
Staff loan	19,034	77,563	3,978	15,892
Capital guarantee	160	652	174	695
	<u>5,035,805</u>	<u>20,520,905</u>	<u>2,269,449</u>	<u>9,066,449</u>

16. Fees, commissions and other income

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Fee and other income	291,220	1,186,722	99,123	395,996
Gain/(loss) on foreign exchange	1,307	5,326	(101)	(403)
	<u>292,527</u>	<u>1,192,048</u>	<u>99,022</u>	<u>395,593</u>

17. Other operating expenses

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Personnel	1,643,928	6,699,007	844,234	3,372,715
Promotion and advertising	341,508	1,391,645	167,140	667,724
Depreciation and amortisation	339,061	1,381,674	97,868	390,982
Stationeries and printing	149,062	607,428	72,514	289,693
Office rental	246,002	1,002,458	63,960	255,520
Travel	96,341	392,589	60,758	242,728
Vehicle rental and running costs	150,028	611,364	57,121	228,198
Communication	131,785	537,024	46,799	186,962
Taxes and licenses	60,582	246,872	41,267	164,862
Professional fees	65,431	266,631	32,903	131,447
Repairs and maintenance	139,260	567,484	31,103	124,257
Utilities	62,130	253,180	23,165	92,545
Insurance	49,389	201,260	17,482	69,841
Loss on property and equipment written off and disposals	1,232	5,021	-	-
Others	127,243	518,515	85,591	341,936
	<u>3,602,982</u>	<u>14,682,152</u>	<u>1,641,905</u>	<u>6,559,410</u>

18. Net cash used in operating activities

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	1,048,621	4,273,130	587,528	2,347,175
Adjustments for:				
Depreciation and amortisation	339,061	1,381,674	97,868	390,982
Allowance for doubtful loans	458,894	1,869,993	87,841	350,925
Loss on property and equipment written off	1,232	5,021	-	-
Cash generated from operations	<u>1,847,808</u>	<u>7,529,818</u>	<u>773,237</u>	<u>3,089,082</u>
Changes in:				
Balances with the National Bank of Cambodia	-	-	(150,000)	(599,250)
Loans to customers	(10,033,304)	(40,885,714)	(8,741,349)	(34,921,689)
Other assets	735,244	2,996,119	(1,694,184)	(6,768,265)
Accounts payable and accrued expenses	322,402	1,313,788	154,176	615,938
Due to related parties	77,783	316,966	(16,415)	(65,578)
	<u>(7,050,067)</u>	<u>(28,729,023)</u>	<u>(9,674,535)</u>	<u>(38,649,762)</u>
Income tax paid	<u>(64,395)</u>	<u>(262,410)</u>	<u>(21,495)</u>	<u>(85,874)</u>
Net cash used in operating activities	<u><u>(7,114,462)</u></u>	<u><u>(28,991,433)</u></u>	<u><u>(9,696,030)</u></u>	<u><u>(38,735,636)</u></u>

19. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	179,065	729,690	48,376	193,262
Current account with NBC	1,399	5,701	1,259	5,030
Balances with other banks	686,790	2,798,669	516,634	2,063,953
	<u>867,254</u>	<u>3,534,060</u>	<u>566,269</u>	<u>2,262,245</u>

20. Commitments and contingencies

(a) Lease commitments

The Company leases office premises under an operating lease arrangement with minimum lease commitments as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within one year	337,249	1,374,289	21,511	85,937
From two to three years	920,706	3,751,877	63,222	252,572
	<u>1,257,955</u>	<u>5,126,166</u>	<u>84,733</u>	<u>338,509</u>

(b) Taxation contingencies

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. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations. 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 since the incorporation of the Company could be significant.

21. Related party transactions and balances

(a) Related party balances:

Amounts due to related parties.

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
AEON Credit Service Co., Ltd	<u>91,501</u>	<u>372,866</u>	<u>13,718</u>	<u>54,803</u>

Amounts due to related parties are unsecured, interest free and has no fixed term of repayments.

(b) Directors and key management personnel compensation

Compensation including other benefits of directors and key management personnel for the year amounted to US\$218,117 or KHR888,827 thousand (2013: US\$208,378 or KHR832,471 thousand).

22. Financial risk management

The Company's activities are exposed to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risk is core to the financial business, and operational risks are an inevitable consequence of being in business.

In the absence of a derivative market in Cambodia, the Company does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposure.

The Company intends to comply with the NBC's regulations for financial risk management purposes. The Company however recognises that international best practices on risk management are yet to be fully implemented. The Board of Directors has established a Risk Management Section to formulate broad parameters of acceptable risk for the Company and monitor the activities against these parameters.

The Company holds the following financial assets and liabilities:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Financial assets				
Cash on hand	179,065	729,690	48,376	193,262
Balances with the National Bank of Cambodia	201,399	820,701	201,259	804,030
Balances with other banks	686,790	2,798,669	516,634	2,063,953
Loans to customers	20,408,370	83,164,108	10,833,960	43,281,670
Other assets	887,360	3,615,992	368,358	1,471,589
Total financial assets	<u>22,362,984</u>	<u>91,129,160</u>	<u>11,968,587</u>	<u>47,814,504</u>

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Financial liabilities				
Accounts payable and accrued expenses	499,499	2,035,458	196,538	785,169
Due to related parties	91,501	372,866	13,718	54,803
Borrowings	20,730,000	84,474,750	9,780,000	39,071,100
Total financial assets	<u>21,321,000</u>	<u>86,883,074</u>	<u>9,990,256</u>	<u>39,911,072</u>

(a) Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposure arises principally in lending activities that lead to loans to customers. The credit risk management is carried out by the Company's Risk Management Section.

(i) Credit risk measurement

The Company assesses the probability of default of individual counterparties in accordance with its credit policy, procedures and practices. Risk Management Section is responsible for determining the risk rating policies.

(ii) Risk limit control and mitigation policies

The Company operates and provides loans to individuals within the Kingdom of Cambodia. The Company manages, limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 2% for individual loan and 3% for group loan of the Company's net worth under the conditions of Prakas No. B7-07-163 of the NBC.

(iii) Impairment and allowance policies

The Company is required to follow the mandatory credit classification and allowance in accordance with NBC's Prakas No B7-02-186 dated 13 September 2002 on loan classification and allowance. Refer to Note 3(f) for details.

(iv) Exposure to credit risk

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers				
Neither past due nor impaired	20,029,242	81,619,161	10,646,014	42,530,826
Past due but not impaired	273,825	1,115,837	131,974	527,236
Individually impaired	521,973	2,127,040	135,467	541,191
	<u>20,825,040</u>	<u>84,862,038</u>	<u>10,913,455</u>	<u>43,599,253</u>

Neither past due nor impaired

Loans to customers which are not past due are not considered impaired, unless other information is available to indicate the contrary.

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 30 days, unless other information is available to indicate otherwise.

Impaired loans to customers

In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 30 days. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(f).

(b) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors 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.

(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.

In the absence of derivatives market, the Company does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure.

The Company has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by the National Bank of Cambodia.

(i) Foreign currency exchange risk

The Company operates in the Kingdom of Cambodia and transacts in many currencies, and is exposed to various currency risks, primarily with respect to KHR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency.

As at balance sheet, balances in monetary assets and liabilities denominated in currencies other than US\$ are not significant. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

(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, bank deposits and borrowings.

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

31 December 2014	Up to 1 month US\$	>1 - 3 months US\$	>3 - 12 months US\$	1 -5 years US\$	Over 5 years US\$	Non- interest sensitive US\$	Total US\$
Assets							
Cash on hand	-	-	-	-	-	179,065	179,065
Balances with the National Bank of Cambodia	-	-	200,000	-	-	1,399	201,399
Deposits and placements with banks	-	-	-	-	-	686,790	686,790
Loans and advances to customers							
- Performing	66,037	287,779	6,736,073	13,213,178	-	-	20,303,067
- Non performing	-	-	-	-	-	521,973	521,973
- Allowance	-	-	-	-	-	(416,670)	(416,670)
Other assets	-	-	-	-	-	887,360	887,360
	<u>66,037</u>	<u>287,779</u>	<u>6,936,073</u>	<u>13,213,178</u>	<u>-</u>	<u>1,859,917</u>	<u>22,362,984</u>
Liabilities							
Due to related parties	-	-	-	-	-	91,501	91,501
Borrowings	-	-	10,730,000	10,000,000	-	-	20,730,000
Accounts payable and accrued expenses	-	-	-	-	-	499,499	499,499
Maturity gap	-	-	10,730,000	10,000,000	-	591,000	21,321,000
	<u>66,037</u>	<u>287,779</u>	<u>(3,793,927)</u>	<u>3,213,178</u>	<u>-</u>	<u>1,268,917</u>	<u>1,041,984</u>

31 December 2014	Up to 1 month US\$	> 1 - 3 months US\$	> 3- 12 months US\$	1 -5 years US\$	Over 5 years US\$	Non- interest sensitive US\$	Total US\$
Assets							
Cash on hand	-	-	-	-	-	48,376	48,376
Balances with the National Bank of Cambodia	-	-	200,000	-	-	1,259	201,259
Deposits and placements with banks	-	-	-	-	-	516,634	516,634
Loans and advances to customers							
- Performing	14,775	127,446	3,539,849	7,095,918	-	-	10,777,988
- Non performing	-	-	-	-	-	135,467	135,467
- Allowance	-	-	-	-	-	(79,495)	(79,495)
Other assets	-	-	-	-	-	368,358	368,358
	<u>14,775</u>	<u>127,446</u>	<u>3,739,849</u>	<u>7,095,918</u>	<u>-</u>	<u>990,599</u>	<u>11,968,587</u>
Liabilities							
Due to related parties	-	-	-	-	-	13,718	13,718
Borrowings	-	-	9,780,000	-	-	-	9,780,000
Accounts payable and accrued expenses	-	-	-	-	-	196,537	196,537
	<u>-</u>	<u>-</u>	<u>9,780,000</u>	<u>-</u>	<u>-</u>	<u>210,255</u>	<u>9,990,255</u>
Maturity gap	<u>14,775</u>	<u>127,446</u>	<u>(6,040,151)</u>	<u>7,095,918</u>	<u>-</u>	<u>780,344</u>	<u>1,978,332</u>

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate liabilities at fair value through profit or loss, and the Company does not have derivatives as at the year end. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(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.

31 December 2014	Up to 1 month US\$	>2 - 3 months US\$	>4 - 12 months US\$	1 -5 years US\$	Over 5 years US\$	No Fixed Terms US\$	Total US\$
Liabilities							
Amount due to related parties	-	91,501	-	-	-	-	91,501
Borrowings	-	-	10,000,000	10,730,000	-	-	20,730,000
Accounts payable and accrued expenses	499,499	-	-	-	-	-	499,499
	<u>499,499</u>	<u>91,501</u>	<u>10,000,000</u>	<u>10,730,000</u>	<u>-</u>	<u>-</u>	<u>21,321,000</u>
31 December 2014							
Liabilities							
Amount due to related parties	13,718	-	-	-	-	-	13,718
Borrowings	-	-	9,780,000	-	-	-	9,780,000
Accounts payable and accrued expenses	196,538	-	-	-	-	-	196,538
	<u>210,256</u>	<u>-</u>	<u>9,780,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,990,256</u>

(i) Regulatory capital

The Company's lead regulator, the NBC, sets and monitors capital requirements for the Company as a whole.

The Company's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

(ii) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

23. Fair values of financial assets and liabilities

The Company did not have financial instruments measured at fair value.

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Company's financial assets and liabilities, the fair values, therefore, have not been presented.

