

**PRASETHPHEAP FINANCE PLC.**

**Financial Statements  
for the period from 2 March 2016  
(date of incorporation) to  
31 December 2016  
and  
Report of the Independent Auditors**

## Corporate Information

Company	Prasethpheap Finance Plc.	
Registration No	00003008	
Registered office	#B78, street 199, Sangkat Tomnup Teuk, Khan Chamkarmorn Phnom Penh, Cambodia	
Shareholders	Oknha Dr. Quach Mengly PFSA Plc.	
Board of Directors	Oknha Dr. Quach Mengly Mr. Leak Veasna Mr. Keo Lundi Mr. Kang Hemchon Mr. Suos Sovann Mr. Moc Nach Mr. Kim Tevin	Chairman Director Independent Director Independent Director Independent Director Director Director (resigned on 1 February 2017)
Management team	Mr. Moc Nach Mr. Kim Tevin  Mr. Sen Chettana  Mr. Heng Tola Mr. Ngoey Thy Ms. Buon Chansophea	Chief Executive Officer Chief Finance Officer (resigned on 1 February 2017) Chief Finance Officer (appointed on 1 April 2017) Human Resource & Admin Unit Manager Operation Unit Manager Chief Accountant
Principal banker	ACLEDA Bank Plc.	
Auditors	KPMG Cambodia Ltd	

# Prasethpheap Finance Plc.

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## Report of the Board of Directors

The Board of Directors hereby submit their report together with the audited financial statements of Prasethpheap Finance Plc. ("the Company") for the period from 2 March 2016 (date of incorporation) to 31 December 2016.

### Principal activities

The principal activities of the Company are to provide credit service and other financial services to low income families in the Kingdom of Cambodia.

### Financial results

The financial results of the Company for the period from 2 March 2016 (date of incorporation) to 31 December 2016 were as follows:

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Profit before income tax	147,060	593,682
Income tax expense	(28,878)	(116,580)
Net profit for the period	<u>118,182</u>	<u>477,102</u>

### Dividends

No dividends were declared or paid during the financial period and the Directors do not recommend any dividend to be paid for the period.

### Share capital

As at 31 December 2016, the Company paid up share capital is US\$1,000,000 divided into 1,000,000 shares at par value of US\$1 per share.

On 17 March 2017, the NBC approved to the Company's request dated 15 December 2016 to the plan to revise the Company's share capital and shareholding structure as follows:

## **Prasethpheap Finance Plc.**

### **Share capital (continued)**

- Increase share capital from US\$1,000,000 to US\$2,915,766 (transferred from other capital account amounting to US\$1,315,766 and additional capital injection amounting to US\$600,000 paid on 24 March 2017) and change the shareholding structure to reflect such capital increase; and
- The Amendment of Memorandum and Articles of Association was approved from NBC on 17 March 2017.

The Company is under process to obtain the approval from the Ministry of Commerce ("MoC") as at the date of this report.

### **Reserves and provisions**

There were no material movements to or from reserves and provisions during the financial period other than as disclosed in the financial statements.

### **Bad and doubtful loans**

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans and making of provision for doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate provision had been made for bad and doubtful loans.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Company, inadequate to any material extent.

### **Current assets**

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current assets, other than loans, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company had been written down to amounts which they might be expected to realise.

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

### **Valuation methods**

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

## **Prasethpheap Finance Plc.**

### **Contingent and other liabilities**

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial period which secures the liabilities of any other person except as disclosed in the financial statements; and
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial period other than in the ordinary course of its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

### **Change of circumstances**

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

### **Items of an unusual nature**

The results of the operations of the Company for the financial period were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

### **Events since the reporting date**

On 13 March 2017, the NBC issued Prakas No. B7-017-109 to cap the interest rate to a maximum of 18% per annum for any maturity of loan. This Prakas is effective for new loan contract including restructured loan and/or refinancing loans with signature and/or finger-printed from 1 April 2017. At the date of this report, all the Company's loan to customers are calculated at the interest rate of over 18% per annum.

### **The Board of Directors**

The members of the Board of Directors during the period and at the date of this report are:

Oknha Dr. Quach Mengly	Chairman
Mr. Leak Veasna	Director
Mr. Keo Lundi	Independent Director
Mr. Kang Hemchon	Independent Director
Mr. Suos Sovann	Independent Director
Mr. Moc Nach	Director
Mr. Kim Tevin	Director (resigned on 1 February 2017)

## Prasethpheap Finance Plc.

### Directors' interests

The Directors who held office at the end of the financial period and their interests in the shares of the Company are as follows:

	2016	
	% of Ownership	Number of shares of US\$1 each
Oknha Dr Quach Mengly	<u>94.92</u>	<u>949,200</u>

### Directors' benefits

During and at the end of the financial period, no arrangements existed to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the beginning of financial period, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

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

The Board of Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the period from 2 March 2016 (date of incorporation) to 31 December 2016. In preparing these financial statements, the Board of Directors are required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Company's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so;
- (v) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Board of Directors confirm that they have complied with the above requirements in preparing the financial statements.

# Prasethpheap Finance Plc

## Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 9 to 44 which present fairly, in all material respects, the financial position of Prasethpheap Finance Plc. as at 31 December 2016, and its financial performance and its cash flows for the period from 2 March 2016 (date of incorporation) to 31 December 2016 in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors

  
Oknha Dr. Quach Mengly  
Chairman



  
Moc Nach  
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 28 APR 2017





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## **Report of the independent auditors To the shareholders Prasethpheap Finance Plc.**

### ***Qualified Opinion***

We have audited the financial statements of Prasethpheap Finance Plc. ("the Company"), which comprise the statement of financial position as at 31 December 2016, the income statement, statement of changes in equity and statement of cash flows for the period from 2 March 2016 (date of incorporation) to 31 December 2016, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 44.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the period from 2 March 2016 (date of incorporation) to 31 December 2016 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.

### ***Basis for Qualified Opinion***

As disclosed in Note 17 to the financial statements, the Company recorded the interest income from loans to customers amounting to US\$538,707 (equivalent to KHR2,174,760) for the period from 2 March 2016 (date of incorporation) to 31 December 2016 using a combination of cash and accruals basis of accounting due to limitation of its loan tracking system. This practice is not in compliance with CAS and the guidelines of the NBC relating to the preparation and presentation of the financial statements. We are unable to quantify the amounts to be adjusted in the financial statements, accordingly we were unable to satisfy ourselves as to the accuracy, existence and completeness of the interest income and interest receivables recorded in the financial statements for the period from 2 March 2016 to 31 December 2016 and as of 31 December 2016 by other audit procedures.

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### ***Other Information***

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the report of the Board of Directors on pages 1 to 5, and the annual report which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and guidelines of the National Bank of Cambodia relating to the presentation 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

***Auditors' Responsibilities for the Audit of the Financial Statements (continued)***

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For KPMG Cambodia Ltd



Nge Huy  
Partner

Phnom Penh, Kingdom of Cambodia

28 April 2017

# Prasethpheap Finance Plc.

## Balance sheet As at 31 December 2016

		As at 31 December 2016	
	Note	US\$	KHR'000 (Note 4)
<b>ASSETS</b>			
Cash on hand		13,286	53,636
Deposits and placements with NBC	6	50,044	202,028
Deposits and placements with banks	7	794,408	3,207,025
Loans to customers - net	8	2,868,658	11,580,772
Other assets	9	89,947	363,116
Property and equipment	10	23,191	93,622
Intangible assets	11	5,720	23,092
Deferred tax asset - net	12	534	2,156
<b>TOTAL ASSETS</b>		<u>3,845,788</u>	<u>15,525,447</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Other payables	13	12,983	52,413
Current income tax liabilities	12	112,830	455,495
Borrowings	14	432,949	1,747,815
<b>Total liabilities</b>		<u>558,762</u>	<u>2,255,723</u>
<b>Equity</b>			
Share capital	15	1,000,000	4,037,000
Share premium		63,078	254,646
Other capital	16	2,105,766	8,500,977
Legal reserve		5,909	23,855
Retained earnings		112,273	453,246
<b>Total shareholder's equity</b>		<u>3,287,026</u>	<u>13,269,724</u>
<b>LIABILITIES AND EQUITY</b>		<u>3,845,788</u>	<u>15,525,447</u>

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

## Prasethpheap Finance Plc.

### Income statement for the period from 2 March 2016 (date of incorporation) to 31 December 2016

	Note	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
		US\$	KHR'000 (Note 4)
Interest income	17	554,395	2,238,093
Interest expense		(47,329)	(191,067)
<b>Net interest income</b>		<u>507,066</u>	<u>2,047,026</u>
Other operating income		2,374	9,584
<b>Operating profit</b>		<u>509,440</u>	<u>2,056,610</u>
Allowance for bad and doubtful loans to customers	8	(16,489)	(66,566)
General and administrative expenses	18	(345,891)	(1,396,362)
<b>Profit before income tax</b>		<u>147,060</u>	<u>593,682</u>
Income tax expense	12	(28,878)	(116,580)
<b>Net profit for the period</b>		<u><u>118,182</u></u>	<u><u>477,102</u></u>

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

## Prasethpheap Finance Plc.

### Statement of changes in equity for the period from 2 March 2016 (date of incorporation) to 31 December 2016

	Share Capital US\$	Share premium US\$	Other capital US\$	Legal reserve US\$	Retained earnings US\$	Total US\$
At 2 March 2016 (date of incorporation)	-	-	-	-	-	-
Initial capitalisation (Note 5 (b))	1,000,000	65,122	2,081,441	-	-	3,146,563
Additional contribution during the period	-	1,982	40,429	-	-	42,411
Capital withdrawn	-	(4,026)	(16,104)	-	-	(20,130)
Net profit for the period	-	-	-	-	118,182	118,182
Transfers	-	-	-	5,909	(5,909)	-
At 31 December 2016	<u>1,000,000</u>	<u>63,078</u>	<u>2,105,766</u>	<u>5,909</u>	<u>112,273</u>	<u>3,287,026</u>
(KHR'000 equivalents) (Note 4)	<u>4,037,000</u>	<u>254,646</u>	<u>8,500,977</u>	<u>23,855</u>	<u>453,246</u>	<u>13,269,724</u>

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

## Prasethpheap Finance Plc.

### Statement of cash flows for the period from 2 March 2016 (date of incorporation) to 31 December 2016

	Note	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
		US\$	KHR'000 (Note 4)
<b>Cash flows from operating activities</b>			
Net cash used in operating activities	19	(2,703,119)	(10,912,490)
<b>Cash flows from investing activities</b>			
Purchases of property and equipment		(33,506)	(135,264)
Purchases of intangible assets		(7,430)	(29,995)
Statutory deposit with NBC		(50,000)	(201,850)
Deposit with banks		(300,000)	(1,211,100)
Net cash used in investing activities		(390,936)	(1,578,209)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		649,945	2,623,828
Repayment of borrowings		(216,996)	(876,013)
Share capital		1,000,000	4,037,000
Other capital		2,105,766	8,500,977
Share premium		63,078	254,646
Net cash generated from financing activities		3,601,793	14,540,438
<b>Net increase in cash and cash equivalents</b>		<b>507,738</b>	<b>2,049,739</b>
Cash and cash equivalent at the beginning of the period		-	-
<b>Cash and cash equivalents at the end of the period</b>	20	<b>507,738</b>	<b>2,049,739</b>

# **Prasethpheap Finance Plc.**

## **Notes to the financial statements for the period from 2 March 2016 (date of incorporation) to 31 December 2016**

### **1. Reporting entity**

Prasethpheap Finance Plc. (“the Company”) was incorporated as a public liability company on 2 March 2016 under registration No.00003008 with the Ministry of Commerce. On 31 August 2016, the National Bank of Cambodia (“the Central Bank” or “NBC”) granted the Company a permanent licence to conduct business as a micro-finance institution in the Kingdom of Cambodia.

The principal activities of the Company are to provide credit service and other financial services to low income families in the Kingdom of Cambodia. It currently operates through its head office in Phnom Penh and another two branches located in Phnom Penh and Bati of Takeo Province.

Prior to 2 March 2016 the Company’s activities were carried out by the Pracheacheat Finance Organisation (“PFO”). The Company was initially capitalised by transferring into the Company substantially all the net assets of the PFO as of 1 March 2016. The details of the initial capitalisation and net assets transferred are presented in Note 5 to the financial statements.

The head office of the Company is located at House No. B78, Street 199, Sangkat Tomnup Teuk, Khan Chamkarmorn, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2016, the Company had 39 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 28 April 2017.

#### **(b) Basis of measurement**

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



# **Prasethpheap Finance Plc.**

## **Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016**

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

#### **(c) Functional and presentation currency**

The national currency of Cambodia is the Khmer Riel (“KHR”). However as the Company transacts its business and maintains its accounting records in two currencies, Khmer Riel (“KHR”) and 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 rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated into US\$ at the exchange rates 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 year in which the estimates are revised and in any future periods affected.

Key accounting estimates and judgements applied in the preparation of the financial statements include estimates of recoverable amounts for loans and advances which have a separate accounting policy stated in Note 3(g).

### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently in these financial statements.

#### **(a) Financial instruments**

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

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 3. Significant accounting policies (continued)

#### (b) Basis of aggregation

The Company's financial statements comprise the financial statements of the head office and its branches. All inter-branch balances and transactions have been eliminated.

#### (c) 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.

#### (d) Deposits and placements with banks

Deposits and placements with banks are stated at cost less allowance for any uncollectable amounts.

#### (e) Deposits and placements with NBC

Deposits and placements with the NBC, including capital guarantee deposit, are carried at cost. Capital guarantee deposit is maintained in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital as required by the NBC. Deposits and placements with the NBC is report at cost basis.

#### (f) Loans to customers

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

#### (g) 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	Allowance
<b>Short-term loans (less than one year):</b>		
Standard	0 – 29 days	0%
Sub-standard	30 – 59 days	10%
Doubtful	60 – 89 days	30%
Loss	90 days or more	100%

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 3. Significant accounting policies (continued)

#### (g) Allowance for bad and doubtful loans (continued)

Long-term loans (more than one year):

Standard	0 – 29 days	0%
Sub-standard	30 – 179 days	10%
Doubtful	180 – 359 days	30%
Loss	360 days or more	100%

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 is 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. Interest on non-performing loan is not accrued.

In addition, the Company makes a general allowance for bad and doubtful loans as at balance sheet date which is over the mandatory specific level of provisioning as required by the NBC above at the rate of 1% of total outstanding of standard loans. Management believes that this more reasonably reflect the allowance necessary to absorb risks relating to problems in the macro-economic environment, natural disasters, and widespread deterioration in rural household income, which would render customers incapable of reimbursing their outstanding loans.

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

#### (h) Interest in suspense

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

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

#### (i) Other assets

Other assets are carried at cost. An estimate is made for doubtful receivables based on a review of outstanding amounts at the reporting date.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 3. Significant accounting policies (continued)

#### (j) Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property 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	20%
Furniture and fixtures	25%
Office equipment	25%
Computers equipment	25%

(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.

#### (k) Intangible assets

Intangible assets consist of computer software license and related costs are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software license is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised over an estimate useful life of five years using a straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 3. Significant accounting policies (continued)

#### (l) 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 estimate future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(g).

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.

#### (m) Other payables

Other payables are stated at their cost.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 3. Significant accounting policies (continued)

#### (n) Borrowings

Borrowings are stated at the amount of the principal outstanding.

#### (o) 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.

#### (p) Legal reserve

Based on the Memorandum and Articles of Association, the Company shall transfer from retained earnings based on the rate of 5% of the current year net profit (after tax) to legal reserve.

#### (q) Income and expense recognition

Interest income on loans, balance with the NBC and balances with other banks are 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 on daily accrued basis.

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

Expenses are recognised on an accrual basis.

#### (r) Operating leases

Leases when substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as 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 become due.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 3. Significant accounting policies (continued)

#### (s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of 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 balance sheet 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 amounts of assets and liabilities, using tax rates enacted at the balance sheet date.

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

#### (t) Related parties

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

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10% 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 US\$ into KHR

The financial statements are stated in United States Dollar ("USD"). The translations of United States Dollar amount into Khmer Riel ("KHR") are included solely for convenient purposes and have been made using the prescribed official exchange rate as of 31 December 2016 of USD 1: KHR 4,037 published by the NBC.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 4. Translation of US\$ into KHR (continued)

These convenience translations should not be construed as representations that the USD amounts have been, could have been, or could in the future be, converted into KHR at this or any other rate of exchange.

### 5. Initial capitalisation - net assets transfer

The Company was initially capitalised by transferring into the Company substantially all the net assets of the Pracheacheat Finance Organisation ("PFO") as of 1 March 2016, at the following values:

	US\$
<b>Assets</b>	
Cash on hand	30,006
Deposits and placements with other banks	364,532
Loans to customers	3,464,622
Allowance for bad and doubtful loans	(100,881)
Other assets	72,198
Property and equipment – Cost	48,548
Property and equipment – Accumulated depreciation	(19,918)
Intangible assets – Cost	10,250
Intangible assets – Accumulated amortisation	(2,820)
<b>Total assets</b>	<b>3,866,537</b>
<b>Liabilities</b>	
Overdraft	292,476
Borrowings	189,499
Current income tax liabilities	86,049
Other payables	151,950
<b>Total liabilities</b>	<b>719,974</b>
<b>Net assets transferred</b>	<b>3,146,563</b>

The value of the net assets transferred was recognised as follows:

Issuance of shares	1,000,000
Share premium	65,122
Other capital	2,081,441
	<b>3,146,563</b>



## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 6. Deposits and placements with NBC

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Capital guarantee (i)	50,000	201,850
Current accounts (ii)	44	178
	<u>50,044</u>	<u>202,028</u>

- (i) The capital guarantee deposit is maintained with the NBC in compliance with Prakas No. B7-00-006 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 5% of the Company's registered share capital. The guarantee deposit will be refunded to the Company when the Company decides to close the business which is not contained the deposit from customers.

The capital guarantee deposit earns interest at the rate of 0.22% per annum.

- (ii) Current account earns no interest.

#### 7. Deposits and placements with banks

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Fixed deposits	300,000	1,211,100
Current accounts	397,654	1,605,329
Savings deposits	96,754	390,596
	<u>794,408</u>	<u>3,207,025</u>

Deposits and placements with other banks are analysed as follows:

(a) By maturity:		
Within 1 month	494,408	1,995,925
4 to 12 months	300,000	1,211,100
	<u>794,408</u>	<u>3,207,025</u>

- (b) By interest rate (per annum):

	2016
Fixed deposits	5.50%
Current accounts	0.00%
Savings deposits	0.015% - 0.25%

## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 8. Loans to customers – net

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Individual loans	2,975,971	12,013,995
Group loans	7,868	31,763
	<hr/>	<hr/>
Gross loans	2,983,839	12,045,758
	<hr/>	<hr/>
Allowance for bad and doubtful loans:		
General	(28,402)	(114,660)
Specific	(86,779)	(350,326)
	<hr/>	<hr/>
	(115,181)	(464,986)
	<hr/>	<hr/>
Loans to customers - net	2,868,658	11,580,772
	<hr/> <hr/>	<hr/> <hr/>
Movements of loans to customers are as follows:		
At 2 March 2016 (date of incorporation)	-	-
Transfer from PFO (Note 5)	3,464,622	13,986,679
Additions during the period	5,144,248	20,767,329
Repayments during the period	(5,623,020)	(22,700,132)
Loan written off	(2,011)	(8,118)
	<hr/>	<hr/>
At 31 December	2,983,839	12,045,758
	<hr/> <hr/>	<hr/> <hr/>

Movements of allowances for bad and doubtful loans to customers are as follows:

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
At 2 March 2016 (date of incorporation)	-	-
Transfer from PFO (Note 5)	100,881	407,257
Allowance during the period	16,489	66,566
Loans written off	(2,105)	(8,498)
Currency translation difference	(84)	(339)
	<hr/>	<hr/>
At end of the period	115,181	464,986
	<hr/> <hr/>	<hr/> <hr/>

## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 8. Loans to customers – net (continued)

Gross loans to customers are analysed as follows:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
(a) By maturity		
Within 1 month	19,914	80,393
1 to 3 months	16,991	68,593
3 to 12 months	189,753	766,033
Over 12 months	2,757,181	11,130,739
	<u>2,983,839</u>	<u>12,045,758</u>
(b) By currency		
Khmer riels	32,780	132,333
US Dollars	2,951,059	11,913,425
	<u>2,983,839</u>	<u>12,045,758</u>
(c) By economic sector:		
Household/family	1,456,987	5,881,857
Agriculture	233,473	942,531
Transportation	82,822	334,352
Trade and commerce	823,278	3,323,573
Service	48,987	197,761
Construction	192,549	777,320
Staff loans	145,743	588,364
	<u>2,983,839</u>	<u>12,045,758</u>
(d) By residency status:		
Residents	2,983,839	12,045,758
	<u>2,983,839</u>	<u>12,045,758</u>
(e) By relationship		
Related parties	43,586	175,957
External customers	2,940,253	11,869,801
	<u>2,983,839</u>	<u>12,045,758</u>

## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 8. Loans to customers – net (continued)

The loans to customers are analysed as follows: (continued)

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
(f) Loan by performance		
Standard loans		
- Secured	2,840,226	11,465,992
- Unsecured	-	-
Sub-standard loans		
- Secured	46,367	187,184
- Unsecured	-	-
Doubtful loans		
- Secured	21,578	87,110
- Unsecured	-	-
Loss loans		
- Secured	69,312	279,813
- Unsecured	6,356	25,659
	<u>2,983,839</u>	<u>12,045,758</u>
(g) By interest rates (per annum):		2016
Group loans		32.4% - 38.4%
Individual loans		14.4% - 38.4%

#### 9. Other assets

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Interest receivables	26,288	106,125
Rental deposits	35,200	142,102
Others	28,459	114,889
	<u>89,947</u>	<u>363,116</u>

## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 10. Property and equipment

31 December 2016	Leasehold Improvements US\$	Furniture and fittings US\$	Office equipment US\$	Computer equipment US\$	US\$	Total	KHR'000 (Note 4)
<b>Cost</b>							
At 2 March 2016 (date of incorporation)	-	-	-	-	-	-	-
Transferred from PFO (Note 5)	10,644	5,472	15,860	16,572	48,548	195,989	195,989
Additions	770	802	1,533	1,771	4,876	19,684	19,684
At 31 December 2016	<u>11,414</u>	<u>6,274</u>	<u>17,393</u>	<u>18,343</u>	<u>53,424</u>	<u>215,673</u>	<u>215,673</u>
<b>Accumulated depreciation</b>							
At 2 March 2016 (date of incorporation)	-	-	-	-	-	-	-
Transferred from PFO (Note 5)	4,893	2,278	6,794	5,953	19,918	80,409	80,409
Depreciation charge for the period	1,879	1,211	3,459	3,766	10,315	41,642	41,642
At 31 December 2016	<u>6,772</u>	<u>3,489</u>	<u>10,253</u>	<u>9,719</u>	<u>30,233</u>	<u>122,051</u>	<u>122,051</u>
<b>Carrying amounts</b>							
At 31 December 2016	<u><u>4,642</u></u>	<u><u>2,785</u></u>	<u><u>7,140</u></u>	<u><u>8,624</u></u>	<u><u>23,191</u></u>	<u><u>93,622</u></u>	<u><u>93,622</u></u>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 11. Intangible assets

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
<b>Cost</b>		
At 2 March 2016 (date of incorporation)	-	-
Transferred from PFO (Note 5)	10,250	41,379
	<hr/>	<hr/>
At 31 December 2016	10,250	41,379
	<hr/>	<hr/>
<b>Accumulated amortisation</b>		
At 2 March 2016 (date of incorporation)	-	-
Transferred from PFO (Note 5)	2,820	11,384
Amortisation for the period	1,710	6,903
	<hr/>	<hr/>
At 31 December 2016	4,530	18,287
	<hr/>	<hr/>
<b>Carrying amounts</b>		
At 31 December 2016	5,720	23,092
	<hr/>	<hr/>

### 12. Income tax

#### (a) Current income tax liability

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
At beginning of the period	-	-
Transferred from PFO (Note 5)	86,049	347,380
Income tax expense	29,412	118,736
Income tax paid	(2,631)	(10,621)
	<hr/>	<hr/>
At end of the period	112,830	455,495
	<hr/>	<hr/>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 12. Income tax (continued)

#### (b) Income tax expense

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.

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Current income tax	29,412	118,736
Deferred tax assets	(534)	(2,156)
	<u>28,878</u>	<u>116,580</u>

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

		Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	%	US\$	KHR'000 (Note 4)
Profit before income tax		<u>147,060</u>	<u>593,682</u>
Income tax rate of 20%	20.00%	29,412	118,736
Non-deductible expenses	7.62%	(11,202)	(45,222)
Others	7.25%	10,668	43,066
Current income tax expense	19.64%	<u>28,878</u>	<u>116,580</u>

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

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 12. Income tax (continued)

#### (c) Deferred tax asset, net

Deferred tax assets are attributable to the following:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Depreciation and amortisation	(109)	(440)
Allowance for bad and doubtful loans	188	759
Unearned income	65	262
Unrealised exchange loss	390	1,575
	<u>534</u>	<u>2,156</u>

### 13. Other payables

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Accrued expenses	8,379	33,826
Interest payable	3,276	13,225
Other tax liabilities	486	1,962
Others	842	3,400
	<u>12,983</u>	<u>52,413</u>



# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 14. Borrowings

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
<i>Non-related parties:</i>		
Rural Development Bank	262,499	1,059,708
Individual	170,450	688,107
	<u>432,949</u>	<u>1,747,815</u>
	<u><u>432,949</u></u>	<u><u>1,747,815</u></u>
Borrowings are analysed as follows:		
	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
(a) By maturity:		
1 to 3 months	40,000	161,480
4 to 12 months	130,450	526,627
1 to 3 years	262,499	1,059,708
	<u>432,949</u>	<u>1,747,815</u>
	<u><u>432,949</u></u>	<u><u>1,747,815</u></u>
(b) By currency:		
Khmer riels	5,450	22,002
US Dollar	427,499	1,725,813
	<u>432,949</u>	<u>1,747,815</u>
	<u><u>432,949</u></u>	<u><u>1,747,815</u></u>
(c) By relationship:		
Related party	-	-
External borrowers	432,949	1,747,815
	<u>432,949</u>	<u>1,747,815</u>
	<u><u>432,949</u></u>	<u><u>1,747,815</u></u>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 14. Borrowings (continued)

	2016
(d) By interest rate (per annum):	
Khmer riels	13.20%
US Dollar	8% - 12%

### 15. Share capital

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
1,000,000 shares of US\$1 each:		
Registered, issued and fully paid	1,000,000	4,037,000

The shareholding structure of the Company is as follows:

	31 December 2016		
	% of Ownership	Number of shares	Amount US\$
Oknha Dr. Quach Mengly	94.92	949,200	949,200
PFSA Plc.	5.08	50,800	50,800
	100.00	1,000,000	1,000,000

According to Article 6 of the Prakas No. B7-016-117 Pro.Kor issued by the NBC on 22 March 2016 on "Minimum registered capital of banking and financial institutions" states that Microfinance institution shall have a minimum registered capital of at least KHR6 billion riel (equivalent to US\$1.5 million).

According to Circular No. B7-016-001 issued by the NBC on 16 June 2016 on "Implementation of Prakas on minimum registered capital of banking and financial institutions" states that the financial institutions are required to increase its minimum registered capital by half of the difference between their current registered capital and new minimum registered capital, at the latest by end of March 2017, and in full, at the latest by 22 March 2018.

## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 15. Share capital (continued)

On 17 March 2017, the NBC approved to the Company's request dated 15 December 2016 to the plan to revise the Company's share capital and shareholding structure as follows:

- Increase share capital from US\$1,000,000 to US\$2,915,766 (transferred from other capital amounting to US\$1,315,766 and capital injection amounting to US\$600,000 paid on 24 March 2017) and change the shareholding structure to reflect such capital increase;
- The Amendment of Memorandum and Articles of Association was approved by the NBC on 17 March 2017.

The revised shareholding structure with par value of US\$1 per share is as follows:

	% of Ownership	Number of shares	Amount US\$
Oknha Dr. Quach Mengly	94.29%	2,749,338	2,749,338
PFSA Plc.	5.71%	166,428	166,428
	<u>100%</u>	<u>2,915,766</u>	<u>2,915,766</u>

The Company is under process to obtain the approval from the Ministry of Commerce ("MoC") for the above revision as at the date of this report.

#### 16. Other capital

This represents the transferred capital contribution from PFO which had not been sought approval to legalise the share capital from the National Bank of Cambodia and the Ministry of Commerce. The detail contributions comprise:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Oknha Dr. Quach Mengly	1,998,793	8,069,127
PFSA Plc.	106,973	431,850
	<u>2,105,766</u>	<u>8,500,977</u>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 17. Interest income

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Loans to customers (*)	538,707	2,174,760
Deposit with banks	15,644	63,155
Capital guarantee	44	178
	<u>554,395</u>	<u>2,238,093</u>

(\*) The interest income from loans to customers were recorded using a combination of cash and accrual basis of accounting due to limitation of its loan tracking system. The Company is in the process of reconstructing the loans data and rectifying the recording system, but has not been able to finalise the data prior to the approval of the financial statements.

### 18. General and administrative expenses

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Personnel	187,807	758,177
Professional fee	79,803	322,165
Rental	14,933	60,285
Travel expense	14,864	60,006
Depreciation and amortisation	12,025	48,545
Communication	5,721	23,096
Insurance and security	5,662	22,857
Utilities expenses	4,822	19,466
License and membership	3,258	13,153
Promotion and advertisement	2,865	11,566
Office supplies and printing	2,783	11,235
Repairs and maintenance	2,080	8,397
Others	9,268	37,414
	<u>345,891</u>	<u>1,396,362</u>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 19. Net cash used in operating activities

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
<b>Cash flows from operating activities</b>		
Profit before income tax	147,060	593,682
Adjustments for:		
Allowance for bad and Doubtful loans	16,489	66,566
Depreciation and amortisation	12,025	48,545
Interest income	(554,395)	(2,238,093)
	<u>(378,821)</u>	<u>(1,529,300)</u>
Changes in:		
Loans to customers	(2,885,147)	(11,647,338)
Other assets	(63,659)	(256,991)
Current income tax liability	86,049	347,380
Other liabilities	12,983	52,412
	<u>(3,228,595)</u>	<u>(13,033,837)</u>
Interest income received	528,107	2,131,968
Income tax paid	(2,631)	(10,621)
	<u>(2,703,119)</u>	<u>(10,912,490)</u>
<b>Net cash used in operating activities</b>	<u>(2,703,119)</u>	<u>(10,912,490)</u>

### 20. Cash and cash equivalents

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Cash on hand	13,286	53,636
Deposits and placements with NBC	44	178
Deposits and placements with other banks	494,408	1,995,925
	<u>507,738</u>	<u>2,049,739</u>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 21. Related party transactions and balances

#### (a) Related party transactions

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
With the Company which shareholder has interest in :		
Loan to MJQ Education	2,500,000	10,092,500
Repayment of loan from MJQ Education	3,200,000	12,918,400
Interest income from loan to MJQ Education	28,826	116,371
	<u>                    </u>	<u>                    </u>
With the Company's Board of Directors:		
Loan to a director	5,800	23,415
Repayment from directors	29,732	120,028
Interest income from loan to directors	6,947	28,045
Repayment of borrowing from a director	5,000	20,185
Interest expense of borrowing from a director	45	182
	<u>                    </u>	<u>                    </u>
Directors and key management personnel compensation	39,609	159,902
	<u>                    </u>	<u>                    </u>

#### (b) Related party balances

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Loan to related parties	43,586	175,957
	<u>                    </u>	<u>                    </u>

Loan to related parties are secured, bear interest rate at 14.40% per annum and payable in 2018 to 2025.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 22. Commitments and contingencies

#### (a) Commitments

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

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Within 1 year	42,665	172,239
2 to 5 years	147,328	594,763
Over 5 years	150,769	608,654
	<u>340,762</u>	<u>1,375,656</u>

#### (b) Tax 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 materially 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 different interpretations and the effects could be significant.

### 23. Financial risk management

The guidelines and policies adopted by the Company to manage the risks that arise in the conduct of their business activities are as follows:

#### (a) Credit risk

Credit risk is the financial loss to the Company if a borrower or counterparty fails to meet its contractual obligations, and arises principally from the loans to customers.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 23. Financial risk management (continued)

#### (a) Credit risk (continued)

##### (i) *Management of credit risk (continued)*

The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with the NBC Guidelines.

##### (ii) *Risk limit control and mitigation policies*

The Company operates and provides loans to group, individuals or enterprises 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 loans and 3% for group loans of the Company's net worth under the conditions of Prakas No. B7-07-163 of the NBC.

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to customers, which is a common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types to secure for loans to customers are:

- Mortgages over residential properties (land, building and other properties); and
- Charges over business assets such as land and buildings.

##### (iii) Exposure to credit risk:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Loans to customers		
Neither past due nor impaired	2,803,841	11,319,106
Past due but not impaired	36,385	146,886
Individually impaired	143,613	579,766
	<hr/>	<hr/>
	2,983,839	12,045,758
	<hr/>	<hr/>



# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 23. Financial risk management (continued)

#### (a) Credit risk (continued)

##### Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers. In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loan to customers with payment overdue more than 29 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(g).

##### 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.

##### Neither past due nor impaired

Neither past due nor impaired loans to customers are good quality loans to customers for which there is no experience of default and management views that likelihood of default is relatively low.

#### (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 entails 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.

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 23. Financial risk management (continued)

#### (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.

##### (i) *Foreign currency exchange risk*

The Company's revenue is principally earned in US\$. The Company's expenditure is principally paid in US\$. Monetary assets and liability are significantly dominated in US\$. The Company does not therefore have significant exposure to foreign currency risk.

##### (ii) *Interest rate risk*

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

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

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

## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 23. Financial risk management (continued)

##### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

31 December 2016	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\$
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	13,286	13,286
Deposits and placements with the NBC (*)	-	-	-	-	-	44	44
Deposits and placements with other banks	-	-	-	-	-	794,408	794,408
Loans to customers							
- Performing	976	12,520	180,607	2,631,605	14,518	-	2,840,226
- Non performing	-	-	-	-	-	143,613	143,613
- Allowance	-	-	-	-	-	(115,181)	(115,181)
Other assets (**)	-	-	-	-	-	27,035	27,035
	<u>976</u>	<u>12,520</u>	<u>180,607</u>	<u>2,631,605</u>	<u>14,518</u>	<u>863,205</u>	<u>3,703,431</u>
<b>Financial liabilities</b>							
Borrowings	-	-	10,000	422,949	-	-	432,949
Other payables (**)	-	-	-	-	-	12,497	12,497
	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>422,949</u>	<u>-</u>	<u>12,497</u>	<u>445,446</u>
<b>Maturity gap</b>	<u>976</u>	<u>12,520</u>	<u>170,607</u>	<u>2,208,656</u>	<u>14,518</u>	<u>850,708</u>	<u>3,257,985</u>
<b>Maturity gap (KHR'000 – Note 4)</b>	<u>3,940</u>	<u>50,543</u>	<u>688,740</u>	<u>8,916,344</u>	<u>58,609</u>	<u>3,434,308</u>	<u>13,152,485</u>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 23. Financial risk management (continued)

#### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

(\*) Exclude statutory deposits. (\*\*) exclude non-financial assets and liabilities.

##### *Fair value sensitivity analysis for fixed rate instruments*

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

##### *Cash flow sensitivity analysis for variable-rate instruments*

The Company does not have variable-rate instruments. Therefore, cash flow sensitivity analysis is not prepared.

## Prasethpheap Finance Plc.

### Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

#### 23. Financial risk management (continued)

##### (d) Liquidity risk

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

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

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

<b>31 December 2016</b>	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
<b>Liabilities</b>							
Borrowings	-	-	10,000	422,949	-	-	432,949
Other liabilities	12,497	-	-	-	-	-	12,497
	<u>12,497</u>	<u>-</u>	<u>10,000</u>	<u>422,949</u>	<u>-</u>	<u>-</u>	<u>445,446</u>

# Prasethpheap Finance Plc.

## Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016

### 23. Financial risk management (continued)

#### (e) Capital management

##### (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 period.

##### (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.

### 24. Fair value of financial assets and liabilities

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. Fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the balance sheet are a reasonable estimation of their fair values.

### 25. Comparative figures

Comparative figures are not presented since this is the first set of the financial statement since the incorporation date of the Company.

## **Prasethpheap Finance Plc.**

### **Notes to the financial statements (continued) for the period from 2 March 2016 (date of incorporation) to 31 December 2016**

#### **26. Events since the reporting date**

On 13 March 2017, the NBC issued Prakas No. B7-017-109 to cap the interest rate to a maximum of 18% per annum for any maturity of loan. This Prakas is effective for new loan contract including restructured loan and/or refinancing loans with signature and/or finger-printed from 1 April 2017.