

PRASETHPHEAP FINANCE PLC.

**Financial Statements
for the year ended 31 December 2018
and
Report of the Independent Auditors**

Corporate Information

Company	Prasethpheap Finance Plc.	
Registration No	00003008	
Registered office	#132, St. 193 corner 388 Sangkat Toul Svay Prey I Khan Chamkarmon, Phnom Penh	
Shareholders	Oknha Dr. Quach Mengly PFSA Plc.	
Board of Directors	Oknha Dr. Quach Mengly Mr. Long Pisey Mr. Kong Vara	Chairman Director Independent Director
Management team	Mr. Moc Nach Mr. Kuch Kunthen Ms. Buon Chansophea Mr. Khat Sokhoeun Mr. Chan Sovanmeanith Mr. Heng Tola Mr. Po Chandarith Mr. Min Vanrith Mr. Chea Soklim	Chief Executive Officer Chief Operation Officer Head of Finance Head of Internal audit (Appointed on 6 August 2018) Head of Risk and Compliance (Appointed on 12 February 2019) Human Resource and Admin Unit Manager Credit Unit Manager Accounting Unit Manager (Appointed on 1 June 2018) IT Unit Manager (Appointed on 1 June 2018)
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 year ended 31 December 2018.

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 year ended 31 December 2018 were as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	157,258	631,862	36,524	147,448
Income tax (expense)/credit	(56,847)	(228,411)	65,244	263,390
Net profit for the period	<u>100,411</u>	<u>403,451</u>	<u>101,768</u>	<u>410,838</u>

Dividends

No dividend was declared or paid and the Directors do not recommend any dividend to be paid during the financial year.

Share capital

As at 31 December 2018, the Company paid up share capital is US\$2,915,766 divided into 2,915,766 shares at par value of US\$1 per share, with the following shareholding structure:

	2018			2017		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
Oknha Dr. Quach Mengly	94.29	2,749,338	2,928,427	94.29	2,749,338	2,749,338
PFSA Plc.	5.71	166,428	166,490	5.71	166,428	166,428
	<u>100</u>	<u>2,915,766</u>	<u>2,915,766</u>	<u>100</u>	<u>2,915,766</u>	<u>2,915,766</u>

Reserves and provisions

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

Prasethpheap Finance Plc.

Bad and doubtful loans

Before the financial statements of the Company were prepared, the 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 substantial extent.

Current assets

Before the financial statements of the Company were prepared, 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 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 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.

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.

o 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.

Prasethpheap Finance Plc.

Items of an unusual nature

The results of the operations of the Company for the financial year 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 year 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

At the date of this report, except as disclosed in the financial statements, there have been no significant events occurring after the reporting date which would require adjustments or disclosures to be made in the financial statements.

The Board of Directors

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

Oknha Dr. Quach Mengly	Chairman
Mr. Long Pisey	Director
Mr. Kong Vara	Independent Director

Directors' interests

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

	2018		2017	
	% of Ownership	Number of shares of US\$1 each	% of Ownership	Number of shares of US\$1 each
Oknha Dr. Quach Mengly	94.29	2,749,338	94.29	2,749,338

Directors' benefits

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

Since the beginning of financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments 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.

Prasethpheap Finance Plc.

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

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended. 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 confirms that they have complied with the above requirements in preparing the financial statements.

Approval of the financial statements

We, the undersigned, hereby approve the accompanying financial statements as set out on pages 8 to 49 which present fairly, in all material respects, the financial position of Prasethpheap Finance Plc. as at 31 December 2018, 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 financial statements.

On behalf of the Board of Directors

Oknha Dr. Quach Mengly
Chairman

Mr. Moc Nach
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

30 April 2019



KPMG Cambodia Ltd
4th Floor, Delano Center
No. 144, Street 169, Sangkat Veal Vong
Khan 7 Makara, Phnom Penh
Kingdom of Cambodia
+855 23 216 899 | kpmg.com.kh

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

Opinion

We have audited the financial statements of Prasethpheap Finance Plc. (“the Company”), which comprise the statement of financial position as at 31 December 2018, the income statement, statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 49.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of National Bank of Cambodia relating to the preparation and presentation of financial statements.

Basis for Opinion

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 opinion.



Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the information included in the Report of the Board of Directors as set out on pages 1 to 4, 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 on the other information obtained prior to the date of this auditors' report, 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.

As part of an audit in accordance with CISA, we exercise professional judgment and maintain professional scepticism 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

Taing YoukFong
Partner

Phnom Penh, Kingdom of Cambodia

30 April 2019

Prasethpheap Finance Plc.

Balance sheet as at 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand		38,604	155,111	37,365	150,843
Deposits and placements with NBC	5	147,004	590,662	146,215	590,270
Deposits and placements with banks	6	43,774	175,884	144,380	582,862
Loans to customers - net	7	4,094,658	16,452,336	3,907,858	15,776,023
Other assets	8	178,043	715,377	152,848	617,047
Property and equipment	9	117,348	471,504	153,494	619,655
Intangible assets	10	1,678	6,742	3,668	14,808
Deferred tax asset - net	11	18,397	73,919	6,916	27,920
TOTAL ASSETS		4,639,506	18,641,535	4,552,744	18,379,428
LIABILITIES AND EQUITY					
Liabilities					
Dividend payable	12	-	-	54,452	219,823
Other payables	13	71,390	286,845	28,459	114,889
Current income tax liabilities	11	59,277	238,175	8,099	32,696
Borrowings	14	1,074,086	4,315,678	1,127,392	4,551,282
Total liabilities		1,204,753	4,840,698	1,218,402	4,918,690
Equity					
Share capital	15	2,915,766	11,715,547	2,915,766	11,770,947
Share premium		63,078	253,447	63,078	254,646
Other capital	16	190,000	763,420	190,000	767,030
Reserves	3(s)	12,876	51,736	6,901	27,859
Retained earnings		253,033	1,016,687	158,597	640,256
Total equity		3,434,753	13,800,837	3,334,342	13,460,738
TOTAL LIABILITIES AND EQUITY		4,639,506	18,641,535	4,552,744	18,379,428

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

Prasethpheap Finance Plc.

Income statement for the year ended to 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	17	749,722	3,012,383	757,290	3,057,180
Interest expense		(110,096)	(442,366)	(104,545)	(422,048)
Net interest income		639,626	2,570,017	652,745	2,635,132
Fee and commission income		168,958	678,873	44,814	180,914
Fee and commission expense		(3,566)	(14,328)	(15,408)	(62,202)
Net fee and commission income		165,392	664,545	29,406	118,712
Other operating income		14,718	59,137	7,156	28,889
Operating profit		819,736	3,293,699	689,307	2,782,733
Allowance for bad and doubtful loans to customers	7	(7,272)	(29,219)	(33,115)	(133,685)
Regulatory provision for balance with other banks	6	(442)	(1,776)	-	-
General and administrative expenses	18	(654,764)	(2,630,842)	(619,668)	(2,501,600)
Profit before income tax		157,258	631,862	36,524	147,448
Income tax (expense)/ credit	11	(56,847)	(228,411)	65,244	263,390
Net profit for the year		100,411	403,451	101,768	410,838

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

Prasethpheap Finance Plc.

Statement of changes in equity for the year ended 31 December 2018

	Share capital US\$	Share premium US\$	Other capital US\$	Reserves US\$	Retained earnings US\$	Total US\$
At 1 January 2018	2,915,766	63,078	190,000	6,901	158,597	3,334,342
Transfers	-	-	-	5,975	-	5,975
Net profit for the year	-	-	-	-	94,436	94,436
At 31 December 2018	<u>2,915,766</u>	<u>63,078</u>	<u>190,000</u>	<u>12,876</u>	<u>253,033</u>	<u>3,434,753</u>
(KHR'000 equivalents) (Note 4)	<u>11,715,548</u>	<u>253,447</u>	<u>763,420</u>	<u>51,736</u>	<u>1,016,687</u>	<u>13,800,837</u>

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

Prasethpheap Finance Plc.

Statement of changes in equity (continued) for the year ended 31 December 2018

	Share capital US\$	Share premium US\$	Other capital US\$	Reserves US\$	Retained earnings US\$	Total US\$
At 1 January 2017	1,000,000	63,078	2,105,766	5,909	112,273	3,287,026
Transfers	1,915,766	-	(1,915,766)	992	(992)	-
Dividends distributions (Note 12)	-	-	-	-	(54,452)	(54,452)
Net profit for the year	-	-	-	-	101,768	101,768
At 31 December 2017	<u>2,915,766</u>	<u>63,078</u>	<u>190,000</u>	<u>6,901</u>	<u>158,597</u>	<u>3,334,342</u>
(KHR'000 equivalents) (Note 4)	<u>11,770,947</u>	<u>254,646</u>	<u>767,030</u>	<u>27,859</u>	<u>640,256</u>	<u>13,460,738</u>

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

Prasethpheap Finance Plc.

Statement of cash flows for the year ended to 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash used in operating activities	19	15,868	63,757	(1,056,020)	(4,263,153)
Cash flows from investing activities					
Purchases of property and equipment		(6,688)	(26,872)	(168,201)	(679,027)
Statutory deposit with NBC		-	-	(95,788)	(386,696)
Deposits and placement with banks		-	-	300,000	1,211,100
Net cash (used in)/ generated from investing activities		(6,688)	(26,872)	36,011	145,377
Cash flows from financing activities					
Proceeds from borrowings		2,060,000	8,277,080	2,098,147	8,470,219
Repayment of borrowings		(2,113,306)	(8,491,263)	(1,403,704)	(5,666,753)
Dividend paid		(54,452)	(218,788)	-	-
Net cash (used in)/generated from financing activities		(107,758)	(432,971)	694,443	2,803,466
Net decrease in cash and cash equivalents		(98,578)	(396,086)	(325,566)	(1,314,310)
Cash and cash equivalent at the beginning of the year		182,172	735,429	507,738	2,049,739
Currency Translation Difference		-	(3,461)	-	-
Cash and cash equivalents at the end of the year	20	83,594	335,881	182,172	735,429

Prasethpheap Finance Plc.

Statement of cash flows (continued) for the year ended to 31 December 2018

Significant non-cash transactions

During the year, there were the following significant non-cash transactions:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Increase in share capital as a result of transfer from other capital	-	-	1,915,766	7,733,947
Increase in reserves as a result of transfer from retained earnings	5,975	24,007	992	4,004
Dividends declared but not yet paid	-	-	54,452	219,823
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

Prasethpheap Finance Plc.

Notes to the financial statements for the year ended to 31 December 2018

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 four branches which is one branch located in Phnom Penh and the other three located in provinces.

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 Company change the registered office to the location at #132, Street 193, Cornor of Street 388, Sangkat Tuol Svay Prey I, Khan Chamkarmorn, Phnom Penh, Cambodia.

As at 31 December 2018, the Company had 62 employees (2016: 67 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 30 April 2019.

(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 year ended to 31 December 2018

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 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, loans to customers and other receivables, deposits, borrowings and other payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(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.

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

3. Significant accounting policies (continued)

(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.

(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 that are identified as non-performing is made as follows:

Prior to 1 January 2018

Classification	Number of days past due	Allowance
Short-term loans (less than one year):		
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 year ended to 31 December 2018

3. Significant accounting policies (continued)

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

Prior to 1 January 2018 (continued)

Classification	Number of days past due	Allowance
Long-term loans (more than one year):		
Standard	0 – 29 days	0%
Sub-standard	90 – 179 days	10%
Doubtful	180 – 359 days	30%
Loss	360 days or more	100%

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.

From 1 January 2018

The NBC issued Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Provision on Impairment, which require all banks and financial institutions ("Institution") to measure the impairment and provide sufficient allowance for bad and doubtful loans based on the new credit risk grading and provision as follows:

Classification	Number of days past due	Allowance
Short-term loans (less than one year):		
Standard	0 – 14 days	1%
Special mention	15– 29 days	3%
Sub-standard	30 – 59 days	20%
Doubtful	60 – 89 days	50%
Loss	90 days or more	100%
Long-term loans (more than one year):		
Standard	0 – 29 days	1%
Special mention	30– 89 days	3%
Sub-standard	90 – 179 days	20%
Doubtful	180 – 359 days	50%
Loss	360 days or more	100%

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

3. Significant accounting policies (continued)

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

From 1 January 2018 (continued)

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.

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in increase in allowance for bad and doubtful loans for the year ended 31 December 2018 of US\$ 7,273. → *No bold* (x)

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.

Recoveries on loans previously written off and reversal of previous allowance are disclosed as other income and net movement in the allowance for bad and doubtful loans in the income statement respectively.

(h) Other credit related commitments

In the normal course of business, the Company enters into other credit related commitments including loan commitments. The accounting policy and regulatory provision followed the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor in Note 3(g) above.

Provision for off balance sheet commitments are presented as a liability.

(i) 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.

(j) Other assets

Other assets are carried at cost less allowance for impairment loss if any. 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 year ended to 31 December 2018

3. Significant accounting policies (continued)

(k) 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 fittings	25%
Office equipment	25%
Computer 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.

(l) 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.

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Notes to the financial statements (continued) for the year ended to 31 December 2018

3. Significant accounting policies (continued)

(m) 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.

(n) Other payables

Other payables are stated at their cost.

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

3. Significant accounting policies (continued)

(o) Pension fund

The Company provides pension fund to all eligible employees equalling 6% of the employee's base salary. Fund will be paid to employees upon retirement age of 60. If the employee is terminated, the pension fund will be paid only the portion deducted from his/her salary.

(p) Borrowings

Borrowings are stated at the amount of the principal outstanding.

(q) 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.

(r) Dividends

Dividends declared and approved by the Company's shareholders before the end of reporting date are recognised as a liability and accounted for as a deduction from the retained earnings in the financial statements.

Dividends declared and approved by the Company's shareholders after the reporting date are not recognised as a liability but disclosed as the subsequent events note in the financial statements.

(s) Reserves

(i) 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.

(ii) Reserve for social mission development

Based on the Memorandum and Articles of Association, the Company shall transfer from retained earnings based on the rate of 1% of the current year net profit (after tax and after deduct 5% for legal reserve) to reserve for social development.

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

3. Significant accounting policies (continued)

(t) 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.

(u) 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.

(v) 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.

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

3. Significant accounting policies (continued)

(w) 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.

(x) New financial reporting frameworks

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance (“the National Accounting Council”) announced the adoption of Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards published by the International Financial Reporting Standards Board (“IASB”), including the related interpretations and amendments. Public accountable entities are required to prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

Circular 058 MEF. NAC dated 24 March 2016 issued by the National Accounting Council of the Ministry of Economy and Finance allowed banks and financial institutions to further delay adoption of CIFRS until period beginning on or after 1 January 2019.

The Company has not early adopted the new standards in preparing these financial statements.

As at the authorisation date of these financial statements, the Company is evaluating the potential impact of the implementation of these new and amendment accounting standards to its financial statements.

4. Translation of US\$ into KHR

The financial statements are stated in United States Dollar (“US\$”). The translations of United States Dollar amounts into Khmer Riel (“KHR”) are included solely for the compliance with the guideline issued by the NBC regarding the preparation and presentation of financial statement and have been made using the prescribed official exchange rate of US\$ 1: KHR4,018 (2017 US\$1: KHR4,037) published by the NBC on 31 December 2018.

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

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

5. Deposits and placements with NBC

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Capital guarantee	(i)	145,788	585,776	145,788	588,546
Current accounts	(ii)	1,216	4,886	427	1,724
		<u>147,004</u>	<u>590,662</u>	<u>146,215</u>	<u>590,270</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 0.36% per annum.

- (ii) Current account earns no interest.

6. Deposits and placements with banks

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	931	3,741	235	949
Savings accounts	43,285	173,919	144,145	581,913
	<u>44,216</u>	<u>177,660</u>	<u>144,380</u>	<u>582,862</u>
Regulatory provision	(442)	(1,776)	-	-
	<u>43,774</u>	<u>175,884</u>	<u>144,380</u>	<u>582,862</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

6. Deposits and placements with banks (continued)

Deposits and placements with banks are analysed as follows:

(a) By maturity:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 month	44,216	177,660	144,380	582,862

(b) By interest rate (per annum):

	2018	2017
Fixed deposits	3%	3%
Current accounts	0.00%	0.00%
Savings accounts	0.015% - 0.25%	0.015% - 0.25%

7. Loans to customers – net

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Individual loans	4,179,906	16,794,863	3,984,957	16,087,271
Group loans	1,901	7,638	2,778	11,215
Gross loans	4,181,807	16,802,501	3,987,735	16,098,486
Allowance for bad and doubtful loans:				
General	(40,956)	(164,562)	(39,074)	(157,742)
Specific	(46,193)	(185,603)	(40,803)	(164,721)
	(87,149)	(350,165)	(79,877)	(322,463)
Loans to customers - net	4,094,658	16,452,336	3,907,858	15,776,023

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

7. Loans to customers – net (continued)

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

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	79,877	322,463	115,181	464,986
Allowance during the year	7,272	29,219	33,115	133,685
Loans written off	-	-	(68,189)	(275,279)
Currency translation difference	-	(1,517)	(230)	(929)
At 31 December	<u>87,149</u>	<u>350,165</u>	<u>79,877</u>	<u>322,463</u>

Gross loans to customers are analysed as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	-	-	10,563	42,643
1 to 3 months	-	-	19,230	77,632
3 to 12 months	66,170	265,872	226,178	913,080
Over 12 months	4,115,637	16,536,629	3,731,764	15,065,131
	<u>4,181,807</u>	<u>16,802,501</u>	<u>3,987,735</u>	<u>16,098,486</u>
(b) By currency:				
Khmer riel	281,648	1,131,662	173,898	702,026
US dollars	3,900,159	15,670,839	3,813,837	15,396,460
	<u>4,181,807</u>	<u>16,802,501</u>	<u>3,987,735</u>	<u>16,098,486</u>
(c) By economic sector:				
Household/family	1,966,711	7,902,245	1,964,675	7,931,393
Agriculture	244,000	980,392	249,866	1,008,709
Transportation	78,987	317,370	111,490	450,085
Trade and commerce	688,555	2,766,614	835,105	3,371,319
Service	18,333	73,662	22,517	90,901
Construction	1,067,474	4,289,111	717,561	2,896,794
Staff loans	117,747	473,107	86,521	349,285
	<u>4,181,807</u>	<u>16,802,501</u>	<u>3,987,735</u>	<u>16,098,486</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

7. Loans to customers – net (continued)

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

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(d) By residency status:				
Residents	<u>4,181,807</u>	<u>16,802,501</u>	<u>3,987,735</u>	<u>16,098,486</u>
(e) By relationship				
Related parties (Note 21 (b))	117,747	473,108	39,534	159,599
External customers	<u>4,064,060</u>	<u>16,329,393</u>	<u>3,948,201</u>	<u>15,938,887</u>
	<u>4,181,807</u>	<u>16,802,501</u>	<u>3,987,735</u>	<u>16,098,486</u>
(f) Loan by performance				
Standard loans				
- Secured	3,841,042	15,433,308	2,859,265	11,542,854
- Unsecured	254,574	1,022,878	1,048,172	4,231,470
Special mention				
- Secured	11,569	46,484	-	-
- Unsecured	11,072	44,487	-	-
Sub-standard loans				
- Secured	8,007	32,172	11,955	48,262
- Unsecured	10,926	43,901	24,543	99,080
Doubtful loans				
- Secured	5,780	23,224	-	-
- Unsecured	-	-	9,495	38,331
Loss loans				
- Secured	32,207	129,408	-	-
- Unsecured	6,630	26,639	34,305	138,489
	<u>4,181,807</u>	<u>16,802,501</u>	<u>3,987,735</u>	<u>16,098,486</u>
(g) By interest rates (per annum):				
		2018		2017
Group loans		32.4% - 33.6%		32.4% - 33.6%
Individual loans		16.2% - 24%		14.4% - 33.6%

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

8. Other assets

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivables	47,092	189,216	46,066	185,968
Rental deposits	130,707	525,181	94,600	381,900
Others	244	980	12,182	49,179
	<u>178,043</u>	<u>715,377</u>	<u>152,848</u>	<u>617,047</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

9. Property and equipment

2018	Leasehold Improvements US\$	Furniture and fittings US\$	Office equipment US\$	Computer equipment US\$	Total US\$	KHR'000 (Note 4)
Cost						
At 1 January 2018	132,693	6,274	41,450	31,437	211,854	855,254
Additions	296	-	1,920	4,472	6,688	26,872
Written-off	-	(1,295)	(1,120)	(1,046)	(3,461)	(13,906)
Currency difference	-	-	-	-	-	(4,025)
At 31 December 2018	<u>132,989</u>	<u>4,979</u>	<u>42,250</u>	<u>34,863</u>	<u>215,081</u>	<u>864,195</u>
Accumulated depreciation						
At 1 January 2018	18,846	4,934	18,125	16,455	58,360	235,599
Depreciation for the year	26,546	762	8,340	7,041	42,689	171,524
Written-off	-	(1,249)	(1,118)	(949)	(3,316)	(13,324)
At 31 December 2018	<u>45,392</u>	<u>4,447</u>	<u>25,347</u>	<u>22,547</u>	<u>97,733</u>	<u>392,691</u>
Carrying amounts						
At 31 December 2018	<u><u>87,597</u></u>	<u><u>532</u></u>	<u><u>16,903</u></u>	<u><u>12,316</u></u>	<u><u>117,348</u></u>	<u><u>471,504</u></u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

9. Property and equipment (continued)

2017	Leasehold Improvements US\$	Furniture and fittings US\$	Office equipment US\$	Computer equipment US\$	Total US\$	KHR'000 (Note 4)
Cost						
At 1 January 2017	11,414	6,274	17,393	18,343	53,424	215,673
Additions	131,050	-	24,057	13,094	168,201	679,027
Written-off	(9,771)	-	-	-	(9,771)	(39,446)
At 31 December 2017	<u>132,693</u>	<u>6,274</u>	<u>41,450</u>	<u>31,437</u>	<u>211,854</u>	<u>855,254</u>
Accumulated depreciation						
At 1 January 2017	6,772	3,489	10,253	9,719	30,233	122,050
Depreciation for the year	19,755	1,445	7,872	6,736	35,808	144,557
Written-off	(7,681)	-	-	-	(7,681)	(31,008)
At 31 December 2017	<u>18,846</u>	<u>4,934</u>	<u>18,125</u>	<u>16,455</u>	<u>58,360</u>	<u>235,599</u>
Carrying amounts						
At 31 December 2017	<u><u>113,847</u></u>	<u><u>1,340</u></u>	<u><u>23,325</u></u>	<u><u>14,982</u></u>	<u><u>153,494</u></u>	<u><u>619,655</u></u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

10. Intangible assets

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cost				
As at 1 January/31 December	10,250	41,185	10,250	41,379
Accumulated amortisation				
As at 1 January	6,582	26,447	4,530	18,287
Amortisation for the year	1,990	7,996	2,052	8,284
At 31 December	8,572	34,443	6,582	26,571
Carrying amounts				
At 31 December	1,678	6,742	3,668	14,808

11. Income tax

(a) Current income tax liability

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of the year	8,099	32,696	112,830	455,495
Current income tax expense/(credit)	68,328	274,542	(58,862)	(237,626)
Income tax paid	(17,150)	(68,909)	(45,869)	(185,173)
Currency different	-	(154)	-	-
At end of the year	59,277	238,175	8,099	32,696

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

11. 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.

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax expense/(credit)	68,328	274,542	(58,862)	(237,626)
Deferred tax assets	(11,481)	(46,131)	(6,382)	(25,764)
	<u>56,847</u>	<u>228,411</u>	<u>(65,244)</u>	<u>(263,390)</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:

	%	2018		%	2017	
		US\$	KHR'000 (Note 4)		US\$	KHR'000 (Note 4)
Profit before income tax		157,258	631,862		36,524	147,448
Income tax	20.00%	31,452	126,374	20.00%	7,305	29,490
Non-deductible expenses	0.83%	1,304	5,240	-7.62%	3,606	14,557
Over provision in prior year		-	-	-	(74,866)	(302,234)
Over provision during the year	15.32%	24,091	96,797	-	-	-
Others	-	-	-	7.25%	(1,289)	(5,203)
Current income tax expense/(credit)	36.15%	<u>56,847</u>	<u>228,411</u>	19.64%	<u>(65,244)</u>	<u>(263,390)</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 year ended to 31 December 2018

11. Income tax (continued)

(c) Deferred tax asset, net

Deferred tax assets are attributable to the following:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Depreciation and amortisation	1,933	7,767	(1,079)	(4,356)
Allowance for bad and doubtful loans	7,147	28,717	1,749	7,061
Unearned income	88	354	462	1,865
Unrealised exchange loss	593	2,383	1,546	6,241
Provision for pension funds	3,143	12,629	2,808	11,336
Interest limitation	(1,423)	(5,719)	896	3,617
	<u>11,481</u>	<u>46,131</u>	<u>6,382</u>	<u>25,764</u>

Movements of deferred tax assets during the year are as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	6,916	27,788	534	2,156
Charged to income statement	11,481	46,131	6,382	25,764
At 31 December	<u>18,397</u>	<u>73,919</u>	<u>6,916</u>	<u>27,920</u>

12. Dividends

The dividend distribution in prior year was paid to respective shareholder during the year. The Board of Directors do not recommend any dividend during the year.

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

13. Other payables

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Pension fund payables (*)	29,755	119,556	14,040	56,679
Accrued expenses	10,932	43,924	4,428	17,876
Interest payable	9,741	39,139	4,326	17,464
Other tax liabilities	3,704	14,883	2,426	9,794
Others	17,258	69,343	3,239	13,076
	<u>71,390</u>	<u>286,845</u>	<u>28,459</u>	<u>114,889</u>

(*) The movements in the provision for pension fund are as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January 2018	14,040	56,413	-	-
Transferred from staff pension fund account	-	-	9,541	38,517
Addition during the year	25,100	100,852	6,332	25,562
Payment during the year	(9,385)	(37,709)	(1,833)	(7,400)
	<u>29,755</u>	<u>119,556</u>	<u>14,040</u>	<u>56,679</u>

14. Borrowings

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Related parties:				
Oknha Dr. Quach Mengly	160,000	642,880	400,000	1,614,800
Mengly J. Quach Education	700,000	2,812,600	200,000	807,400
	<u>860,000</u>	<u>3,455,480</u>	<u>600,000</u>	<u>2,422,200</u>

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Notes to the financial statements (continued) for the year ended to 31 December 2018

14. Borrowings (continued)

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Non-related parties:				
Rural Development Bank	64,086	257,498	167,245	675,168
Individual	150,000	602,700	360,147	1,453,914
	<u>214,086</u>	<u>860,198</u>	<u>527,392</u>	<u>2,129,082</u>
	<u>1,074,086</u>	<u>4,315,678</u>	<u>1,127,392</u>	<u>4,551,282</u>

Borrowings are analysed as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
1 to 3 months	-	-	164,954	665,919
4 to 12 months	500,000	2,009,000	795,193	3,210,195
1 to 3 years	574,086	2,306,678	167,245	675,168
	<u>1,074,086</u>	<u>4,315,678</u>	<u>1,127,392</u>	<u>4,551,282</u>
(b) By currency:				
Khmer riel	-	-	11,147	45,000
US dollars	1,074,086	4,315,678	1,116,245	4,506,282
	<u>1,074,086</u>	<u>4,315,678</u>	<u>1,127,392</u>	<u>4,551,282</u>
(c) By relationship:				
Related parties	860,000	3,455,480	600,000	2,422,200
External borrowers	214,086	860,198	527,392	2,129,082
	<u>1,074,086</u>	<u>4,315,678</u>	<u>1,127,392</u>	<u>4,551,282</u>
(d) By interest rate (per annum):				
Khmer riel	-	-	11.76%-15.53%	
US dollars	8% - 11.76%		6%-14.12%	

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

15. Share capital

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
2,915,766 shares of US\$1 each (equivalent to KHR11,770,947):				
Registered, issued and fully paid	2,915,766	11,770,947	2,915,766	11,770,947

The shareholding structure of the Company is as follows:

	2018			2017		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
Oknha Dr. Quach Mengly	94.29	2,749,338	2,749,338	94.29	2,749,338	2,749,338
PFSA Plc.	5.71	166,428	166,428	5.71	166,428	166,428
	100	2,915,766	2,915,766	100	2,915,766	2,915,766

16. Other capital

This represents the transferred capital contribution from PFO which had not been sought approval to legalise the share capital from NBC and the MoC.

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Oknha Dr. Quach Mengly	179,151	719,829	179,151	723,233
PFSA Plc.	10,849	43,591	10,849	43,797
	190,000	763,420	190,000	767,030

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

17. Interest income

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	748,704	3,008,293	751,212	3,032,643
Deposit with banks	230	923	5,651	22,813
Capital guarantee	788	3,167	427	1,724
	<u>749,722</u>	<u>3,012,383</u>	<u>757,290</u>	<u>3,057,180</u>

18. General and administrative expenses

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Personnel	396,506	1,593,161	362,923	1,465,120
Rental	81,333	326,796	88,611	357,723
Depreciation and amortisation	44,679	179,520	37,860	152,841
Travel expense	29,697	119,323	31,082	125,478
Tax expenses	16,049	64,485	9,046	36,519
Pension fund	15,857	63,713	1,833	7,400
Utilities expenses	12,103	48,630	10,008	40,402
License and membership	11,879	47,730	15,119	61,035
Communication	8,296	33,334	6,630	26,765
Penalties and fines	5,459	21,934	10,590	42,752
Insurance and security	5,390	21,657	5,722	23,100
Office supplies and printing	3,677	14,775	8,056	32,522
Repairs and maintenance	3,573	14,356	2,744	11,078
Professional fee	3,442	13,830	15,971	64,475
Promotion and advertisement	1,044	4,195	2,661	10,742
Property and equipment written-off	145	582	2,090	8,437
Others	15,635	62,821	8,722	35,211
	<u>654,764</u>	<u>2,630,842</u>	<u>619,668</u>	<u>2,501,600</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

19. Net cash used in operating activities

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities				
Profit before income tax	157,258	631,862	36,524	147,448
<i>Adjustments for:</i>				
Allowance for bad and doubtful loans	7,272	29,219	33,115	133,685
Depreciation and amortisation	44,679	179,520	37,860	152,841
Property and equipment written-off	145	582	2,090	8,437
Pension fund	25,100	100,852	6,332	25,562
Interest income	(749,722)	(3,012,383)	(757,290)	(3,057,180)
	<u>(515,268)</u>	<u>(2,070,348)</u>	<u>(641,369)</u>	<u>(2,589,207)</u>
Changes in:				
Loans to customers	(194,072)	(779,781)	(1,072,315)	(4,328,936)
Other assets	(24,169)	(97,111)	(43,123)	(174,087)
Other payables	27,216	109,354	10,977	44,314
	<u>(706,293)</u>	<u>(2,837,886)</u>	<u>(1,745,830)</u>	<u>(7,047,916)</u>
Interest income received	748,696	3,008,261	737,512	2,977,336
Income tax paid	(17,150)	(68,909)	(45,869)	(185,173)
Pension fund paid	(9,385)	(37,709)	(1,833)	(7,400)
	<u>722,161</u>	<u>2,901,643</u>	<u>689,810</u>	<u>2,784,763</u>
Net cash generated from/(used in) operating activities	<u>15,868</u>	<u>63,757</u>	<u>(1,056,020)</u>	<u>(4,263,153)</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

20. Cash and cash equivalents

	As at 31 December 2018		As at 31 December 2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	38,604	155,111 ✓	37,365	150,843
Deposits and placements with NBC	1,216	4,886 ✓	427	1,724
Deposits and placements with other banks	43,774	175,883 ✓	144,380	582,862
	<u>83,594</u>	<u>335,880</u> ✓	<u>182,172</u> ✓	<u>735,429</u> ✗

21. Related party transactions and balances

(a) Related party transactions

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
With shareholders have interest in :				
Loan to MJQ Education	-	-	600,000	2,422,200
Repayment of loan from MJQ Education	-	-	600,000	2,422,200
Interest income from loan to MJQ Education	-	-	61,938	250,044
Borrowing from MJQ Education	1,100,000	4,419,800	1,000,000	4,037,000
Repayment of borrowing to MJQ Education	600,000	2,410,800	800,000	3,229,600
Interest expense to MJQ Education	53,430	214,681	8,244	33,281
Borrowing from Oknha Dr. Quach Mengly	810,000	3,254,580	400,000	1,614,800
Repayment of borrowing to Oknha Dr. Quach Mengly	1,050,000	4,218,900	-	-
Interest expense to Oknha Dr. Quach Mengly	26,469	106,352	6,916	27,920
	<u>83,594</u>	<u>335,880</u>	<u>182,172</u>	<u>735,429</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

21. Related party transactions and balances (continued)

(a) Related party transactions (continued)

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
With the Company's Board of Directors:				
Loan to a director	-	-	15,000	60,555
Repayment from directors	-	-	58,586	236,512
Interest income from loan to directors	-	-	2,618	10,569
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Directors and key management personnel compensation	158,819	638,135	127,972	516,623
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Related party balances

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loan to related parties	117,747	473,108	39,534	159,599
Borrowing from related parties (Note 14)	860,000	3,455,480	600,000	2,422,200
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Loan to related parties are secured, bear interest rate at 14.40% to 21.60% per annum and repayable until 2022.

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

22. Commitments and contingencies

(a) Commitments

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

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 year	179,987	723,186	193,987	783,126
2 to 5 years	532,670	2,140,268	635,280	2,564,625
Over 5 years	108,000	433,944	154,832	625,057
	<u>820,657</u>	<u>3,297,398</u>	<u>984,099</u>	<u>3,972,808</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 year ended to 31 December 2018

23. Financial risk management

(a) Credit risk (continued)

(i) Management of credit risk

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:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers				
Neither past due nor impaired	4,033,314	16,205,857	3,867,911	15,614,757
Past due but not impaired	62,302	250,329	39,526	159,566
Individually impaired	86,191	346,315	80,298	324,163
	<u>4,181,807</u>	<u>16,802,501</u>	<u>3,987,735</u>	<u>16,098,486</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

23. Financial risk management (continued)

(a) Credit risk (continued)

(iii) *Exposure to 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 year ended to 31 December 2018

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 year ended to 31 December 2018

23. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2018	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\$
Financial assets							
Cash on hand	-	-	-	-	-	38,604	38,604
Deposits and placements with the NBC (*)	-	-	-	-	-	1,216	1,216
Deposits and placements with other banks	-	-	-	-	-	43,774	43,774
Loans to customers							
- Performing	595,252	1,314,172	2,186,191	-	-	-	4,095,615
- Non performing	3,589	18,130	64,473	-	-	-	86,191
- Allowance	-	-	-	-	-	(87,149)	(87,149)
Other assets (**)	-	-	-	-	-	47,336	47,336
	<u>598,841</u>	<u>1,332,302</u>	<u>2,250,664</u>	<u>-</u>	<u>-</u>	<u>43,781</u>	<u>4,225,588</u>
Financial liabilities							
Borrowings	-	-	500,000	574,086	-	-	1,074,086
Other payables (**)	-	-	-	-	-	67,686	67,686
	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>574,086</u>	<u>-</u>	<u>67,686</u>	<u>1,141,772</u>
Maturity gap	<u>598,841</u>	<u>1,332,302</u>	<u>1,750,664</u>	<u>(574,086)</u>	<u>-</u>	<u>(23,905)</u>	<u>3,083,816</u>
Maturity gap (KHR'000 – Note 4)	<u>2,406,141</u>	<u>5,353,189</u>	<u>7,034,168</u>	<u>(2,306,678)</u>	<u>-</u>	<u>(96,050)</u>	<u>12,390,773</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

23. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2017	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\$
Financial assets							
Cash on hand	-	-	-	-	-	37,365	37,365
Deposits and placements with the NBC (*)	-	-	-	-	-	427	427
Deposits and placements with other banks	-	-	-	-	-	144,380	144,380
Loans to customers							
- Performing	1,346	18,143	224,046	3,663,903	-	-	3,907,438
- Non performing	9,217	1,087	2,132	67,861	-	-	80,297
- Allowance	-	-	-	-	-	(79,877)	(79,877)
Other assets (**)	-	-	-	-	-	58,248	58,248
	<u>10,563</u>	<u>19,230</u>	<u>226,178</u>	<u>3,731,764</u>	<u>-</u>	<u>160,543</u>	<u>4,148,278</u>
Financial liabilities							
Borrowings	10,000	154,954	795,193	167,245	-	-	1,127,392
Other payables (**)	-	-	-	-	-	80,485	80,485
	<u>10,000</u>	<u>154,954</u>	<u>795,193</u>	<u>167,245</u>	<u>-</u>	<u>80,485</u>	<u>1,207,877</u>
Maturity gap	<u>563</u>	<u>(135,724)</u>	<u>(569,015)</u>	<u>3,564,519</u>	<u>-</u>	<u>80,058</u>	<u>2,940,401</u>
Maturity gap (KHR'000 – Note 4)	<u>2,273</u>	<u>(547,918)</u>	<u>(2,297,114)</u>	<u>14,389,963</u>	<u>-</u>	<u>323,194</u>	<u>11,870,399</u>

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

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

23. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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.

(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.

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

23. Financial risk management (continued)

(d) Liquidity risk (continued)

	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\$
31 December 2018							
Liabilities							
Borrowings	-	-	500,000	574,086	-	-	1,074,086
Other payable	67,686	-	-	-	-	-	67,686
	<u>67,686</u>	<u>-</u>	<u>500,000</u>	<u>574,086</u>	<u>-</u>	<u>-</u>	<u>1,141,772</u>
31 December 2017							
Liabilities							
Borrowings	10,000	154,954	795,193	167,245	-	-	1,127,392
Other payable	66,445	-	-	-	-	14,040	80,485
	<u>76,445</u>	<u>154,954</u>	<u>795,193</u>	<u>167,245</u>	<u>-</u>	<u>14,040</u>	<u>1,207,877</u>

Prasethpheap Finance Plc.

Notes to the financial statements (continued) for the year ended to 31 December 2018

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 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.

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.