

**CHOKCHEY 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	Chokchey Finance Plc.	
Registration No.	00002952	
Registered office	No. 9-11, Street Veng Sreng Sangkat Steung Meanchey, Khan Meanchey Phnom Penh, Kingdom of Cambodia	
Shareholders	Mrs. Ouk Chakriya Mrs. Chea Pisey Mr. Va Dalot Mr. Hiv Chunneath	
Board of Directors	Mrs. Ouk Chakriya Mrs. Chea Pisey Mr. Va Dalot Mr. Lem Veasna Mr. Tol Phirith	Chairman Member Member Member Member
Senior Management	Mr. Va Dalot Mr. Si Len	Chief Executive Officer Deputy Chief Executive Officer
Principal bankers	SATHAPANA Bank Plc. Philip Bank Plc.	
Auditors	KPMG Cambodia Ltd	

# Chokchey Finance Plc.

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## Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of Chokchey Finance Plc. (“the Company”) for the period from 2 March 2016 (date of incorporation) to 31 December 2016 (“the period” or “the financial period”).

### Principal activity

The principal activity of the Company is to provide the public with sustainable micro-finance services to small and medium enterprises, and low-income families in the Kingdom of Cambodia.

### Financial results

The financial results of the Company for the period were as follows:

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Loss before income tax	(15,053)	(60,769)
Income tax expense	(1,457)	(5,882)
Net loss for the period	<u>(16,510)</u>	<u>(66,651)</u>

### Dividends

No dividend was declared or paid and the Directors do not recommend any dividend to be paid for the period under audit.

### Share capital

As at 31 December 2016, the Company’s paid up share capital is US\$1,000,000 (equivalent to KHR4,037,000 thousand).

On 28 February 2017, the existing shareholders entered into a Sale and Purchase agreement with Hanshin Engineering and Construction Co., Ltd and Plus International Co., Ltd to sell their 100% shares. The Company is in the process to obtain approval from the National Bank of Cambodia and the Ministry of Commerce.



**Chokchey Finance Plc.**

**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 allowance for doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate allowance had been made for bad and doubtful loans.

At the date of this report, the 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, 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 period which secures the liabilities of any other person; and
- (b) any contingent liability in respect of the Company that has arisen since the end of the 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 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.

**CHOKCHEY FINANCE PLC**

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**Items of an unusual nature**

The results of the operations of the Company for the 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 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 period 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 any new loan contract including restructured loan and/or finger print from 1 April 2017.

There have been no other significant events occurring after the balance sheet 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 holding office during the period and at the date of this report are:

- |                      |          |
|----------------------|----------|
| • Mrs. Ouik Chakriya | Chairman |
| • Mrs. Chea Pisey    | Member   |
| • Mr. Va Dalot       | Member   |
| • Mr. Lem Veasna     | Member   |
| • Mr. Tol Phirth     | Member   |

**Directors' interests**

The interests of the Directors of the Company are disclosed in Note 14 to the financial statements.

**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.

During the 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.

## Chokchey Finance Plc.

### Directors' responsibility in respect of the financial statements

The 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 Directors are required to:


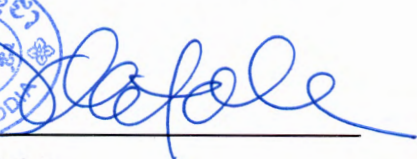
- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements or, if there have been any departures in the interest of fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- oversee the Company's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- 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; and
- control and direct the Company effectively 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 hereby approve the accompanying financial statements as set out on pages 8 to 43 which, in our opinion, present fairly, in all material respects, the financial position of Chokchey 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,



Mr. Va Dalot

Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

28 April 2017



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

### ***Opinion***

We have audited the financial statements of Chokchey Finance Plc. (“the Company”), which comprise the balance sheet as at 31 December 2016, the income statement, the statements of changes in equity and 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 8 to 43.

In our opinion, 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 and the guidelines of the 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 the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 misstatements, 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 CISAs, 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

# Chokchey Finance Plc.

## Balance sheet As at 31 December 2016

	Note	As at 31 December 2016	
		US\$	KHR'000 (Note 4)
<b>ASSETS</b>			
Cash on hand	5	1,418	5,724
Deposits and placements with the National Bank of Cambodia	6	52,031	210,049
Deposits and placements with banks	7	4,609	18,607
Loans to customers	8	1,368,660	5,525,280
Other assets	9	23,520	94,950
Property and equipment	10	92,369	372,894
Intangible assets	11	21,594	87,175
<b>TOTAL ASSETS</b>		<u>1,564,201</u>	<u>6,314,679</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Other liabilities	12	3,977	16,055
Current income tax liability	18	251	1,013
Advances from shareholders	13	576,483	2,327,262
<b>TOTAL LIABILITIES</b>		<u>580,711</u>	<u>2,344,330</u>
<b>EQUITY</b>			
Share capital	14	1,000,000	4,037,000
Accumulated losses		(16,510)	(66,651)
<b>TOTAL EQUITY</b>		<u>983,490</u>	<u>3,970,349</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>1,564,201</u>	<u>6,314,679</u>

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

## Chokchey 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	15	130,092	525,181
Interest expenses		(18,034)	(72,803)
<b>Net interest income</b>		112,058	452,378
Other operating income	16	28,465	114,913
General and administrative expenses	17	(147,907)	(597,100)
Allowance for bad and doubtful loans	8	(7,669)	(30,960)
<b>Loss before income tax</b>		(15,053)	(60,769)
Income tax expense	18	(1,457)	(5,882)
<b>Net loss for the period</b>		(16,510)	(66,651)

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

## Chokchey Finance Plc.

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

	Share capital US\$	Accumulated losses US\$	Total US\$
At 2 March 2016 (date of incorporation)	-	-	-
Issuance of share capital	1,000,000	-	1,000,000
Net loss for the period	-	(16,510)	(16,510)
At 31 December 2016	<u>1,000,000</u>	<u>(16,510)</u>	<u>983,490</u>
(KHR'000 equivalents – Note 4)	<u>4,037,000</u>	<u>(66,651)</u>	<u>3,970,349</u>

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

# Chokchey 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	(1,395,266)	(5,632,689)
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	10	(100,098)	(404,096)
Acquisition of intangible assets	11	(23,061)	(93,097)
Capital guarantee deposit		(50,000)	(201,850)
Net cash used in investing activities		(173,159)	(699,043)
<b>Cash flows from financing activities</b>			
Advances received from shareholders	13	576,483	2,327,262
Proceeds from issuance of share capital	14	1,000,000	4,037,000
Net cash generated from financing activities		1,576,483	6,364,262
<b>Net increase in cash and cash equivalents</b>		<b>8,058</b>	<b>32,530</b>
<b>Cash and cash equivalents at the end of the period</b>	20	<b>8,058</b>	<b>32,530</b>

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

# **Chokchey Finance Plc.**

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

### **1. Reporting entity**

Chokchey Finance Plc. (“the Company”) is a public limited company incorporated in the Kingdom of Cambodia and registered with the Ministry of Commerce under the Registration Number 00002952 on 2 March 2016. The Company obtained its licence from the National Bank of Cambodia to operate as a micro-finance institution on 26 April 2016.

The principal activity of the Company is to provide the public with sustainable micro-finance services to small and medium enterprise and individual through its head office based in Phnom Penh, Kingdom of Cambodia.

The address of its registered office is located at No. 9-11 Street Veng Sreng, Sangkat Stung Meanchey, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2016, the Company had 24 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 have been prepared on the historical cost basis.

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

The Company transacts its business and maintains its accounting records in two currencies, Khmer Riel (“KHR”) and the United States Dollars (“US\$”). Management have 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.

# **Chokchey 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 (continued)**

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

#### **(d) Use of estimates and judgements**

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

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

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

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

The significant accounting policies adopted in the preparation of these financial statements are set out below.

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

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

#### **(b) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.



# Chokchey 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)

#### (c) Deposits and placements with the National Bank of Cambodia

Deposits and placements with the National Bank of Cambodia including statutory deposit are stated at costs.

The statutory deposit is maintained with the NBC 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.

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

Deposits and placements with banks are stated at cost.

#### (e) Loans to customers

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

#### (f) Allowance for bad and doubtful loans

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

Classification	Number of days past due	Allowance
<b>Short-term loans (less than one year):</b>		
Sub-standard	≥ 30 days – 59 days	10%
Doubtful	≥ 60 days – 89 days	30%
Loss	90 days or more	100%
<b>Long-term loans (more than one year):</b>		
Sub-standard	≥ 30 days – 179 days	10%
Doubtful	≥ 180 days – 359 days	30%
Loss	360 days or more	100%

The allowance is 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.

# Chokchey 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)

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

Loans are written off to the income statement when the loans are provisioned in full and remain unpaid after maturity date or when the proven certainty of being uncollectable loans is proven. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for bad and doubtful loans.

Recoveries on loans previously written off are disclosed as other operating income in the income statement. Reversal of previous allowance is presented in allowance expense in the income statement.

#### (g) 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.

#### (h) 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 declining balance method, except for leasehold improvements which are depreciated on a straight-line method, over the useful lives of the individual assets at the following rates:

Leasehold improvements	5%
Furniture and fixtures and office equipment	25%
Computer equipment	50%
Motor vehicles	20%

(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.

# Chokchey 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)

#### (h) Property and equipment (continued)

- (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 it is disposed of or written off.

#### (i) Intangible assets

Intangible assets consist of computer software license and 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 on a straight-line method at the rate of 10% per annum. 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.

#### (j) 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(f).

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

All impairment losses are recognised in the income statement.

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

# Chokchey 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) Impairment (continued)

##### (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.

#### (k) Provisions

Provisions are recognised if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, 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.

#### (l) Income and expense recognition

Interest income on loans is recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest income on loans is recognised by reference to rest periods, which are either monthly or daily.

Loan fee income is recognised as income when the loan is disbursed to customers.

Expenses are recognised on an accruals basis.

# Chokchey 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)

#### (m) Operating leases

Leases where 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 becomes due.

#### (n) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

#### (o) 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.

# Chokchey 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 United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars ("US\$"). The translations of US\$ amounts into Khmer Riel ("KHR") are included solely for the compliance with the guidelines of the NBC relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1: KHR4,037 published by the NBC on 31 December 2016. 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.

### 5. Cash on hand

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
US Dollars	1,418	5,724

### 6. Deposits and placements with the National Bank of Cambodia

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Statutory deposit on capital guarantee (i)	50,000	201,850
Current accounts (ii)	2,031	8,199
	<u>52,031</u>	<u>210,049</u>

- (i) The capital guarantee deposit is maintained with the NBC in compliance with the 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. This deposit is refundable when the Company voluntarily liquidates.

This statutory deposit earns interest at the rate of 0.22% per annum.

- (ii) Current accounts earn no interest.

# Chokchey Finance Plc.

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

### 7. Deposits and placements with banks

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Current accounts	4,487	18,114
Saving accounts	122	493
	<u>4,609</u>	<u>18,607</u>

Deposits and placements with banks are analysed as follows:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
(a) By currency:		
US Dollars	<u>4,609</u>	<u>18,607</u>
(b) By type:		
Current accounts		
Philip Bank Plc.	3,987	16,095
SATHAPANA Bank Plc.	500	2,018
	<u>4,487</u>	<u>18,113</u>
Saving accounts		
SATHAPANA Bank Plc	122	494
	<u>4,609</u>	<u>18,607</u>
(c) By maturity:		
Within 1 month	<u>4,609</u>	<u>18,607</u>
(d) By interest rate (per annum):		
Current accounts		0.00%
Saving accounts		1.00%

# Chokchey 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

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Loans to customers	1,376,329	5,556,240
Allowance for bad and doubtful loans	(7,669)	(30,960)
	<u>1,368,660</u>	<u>5,525,280</u>

Movements of allowances for bad and doubtful loans were as follows:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
At 2 March 2016 (date of incorporation)	-	-
Allowance for the period	7,669	30,960
At 31 December	<u>7,669</u>	<u>30,960</u>

Loans to customers are analysed as follows:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
(a) By maturity:		
Within 1 month	3,102	12,523
> 1 to 3 months	3,708	14,969
> 3 to 12 months	40,953	165,327
Over 12 months	1,328,566	5,363,421
	<u>1,376,329</u>	<u>5,556,240</u>
(b) By currency:		
US Dollars	1,376,329	5,556,240
(c) By economic sector:		
Trade and commerce	1,376,329	5,556,240



# Chokchey 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 (continued)

Loans to customers are analysed as follows: (continued)

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
(d) By residency status:		
Residents	1,376,329	5,556,240
(e) By relationship:		
External customers	1,369,018	5,526,725
Staff loan	7,311	29,515
	1,376,329	5,556,240
(f) By performance:		
Standard loans		
Secured	1,304,268	5,265,331
Unsecured	34,900	140,891
Substandard loans		
Secured	30,717	124,005
Unsecured	959	3,871
Doubtful loans		
Secured	-	-
Unsecured	1,444	5,829
Loss loans		
Secured	-	-
Unsecured	4,041	16,313
	1,376,329	5,556,240
(g) By type of loans:		
Micro and personal loans	43,010	173,631
Small loan	148,378	599,002
Medium loan	912,048	3,681,938
Large loan	272,893	1,101,669
	1,376,329	5,556,240

# Chokchey 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 (continued)

Loans to customers are analysed as follows: (continued)

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
(h) By location:		
Phnom Penh	1,043,889	4,214,180
Kandal province	332,440	1,342,060
	<u>1,376,329</u>	<u>5,556,240</u>

(i) By interest rate (per annum):

	As at 31 December 2016
Micro and personal loan	2% - 36%
Small loan	18% - 36%
Medium loan	18% - 36%
Large loan	18%

### 9. Other assets

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Interest receivable	17,545	70,829
Interest in suspense	(2,425)	(9,790)
	<u>15,120</u>	<u>61,039</u>
Net interest receivable	15,120	61,039
Deposits	8,400	33,911
	<u>23,520</u>	<u>94,950</u>

## Chokchey 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

	Leasehold improvements US\$	Furniture and fixture and office equipment US\$	Computer equipment US\$	US\$	Total KHR'000 (Note 4)
<b>Cost</b>					
At 2 March 2016 (date of incorporation)	-	-	-	-	-
Additions	86,419	9,394	4,285	100,098	404,096
At 31 December 2016	86,419	9,394	4,285	100,098	404,096
<b>Less: Accumulated depreciation</b>					
At 2 March 2016 (date of incorporation)	-	-	-	-	-
Depreciation for the period	5,178	1,606	945	7,729	31,202
At 31 December 2016	5,178	1,606	945	7,729	31,202
<b>Carrying amounts</b>					
At 31 December 2016	81,241	7,788	3,340	92,369	372,894

# Chokchey 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

License	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
<b>Cost</b>		
At 2 March 2016 (date of incorporation)	-	-
Additions	23,061	93,097
At 31 December	<u>23,061</u>	<u>93,097</u>
<b>Less: accumulated amortisation</b>		
At 2 March 2016 (date of incorporation)	-	-
Amortisation for the period	1,467	5,922
At 31 December	<u>1,467</u>	<u>5,922</u>
<b>Carrying amounts</b>		
At 31 December	<u><u>21,594</u></u>	<u><u>87,175</u></u>

### 12. Other liabilities

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Salaries and other benefits	799	3,226
Other tax payables	1,402	5,660
Other payables	1,776	7,169
	<u>3,977</u>	<u>16,055</u>

### 13. Advances from shareholders

These represent the advances from shareholders which are unsecured and repayable on demand. The interest is repayable is on a monthly basis at an interest rate of 0.84% per month.

# Chokchey Finance Plc.

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

### 14. Share capital

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Registered, issued and fully paid		
100,000 ordinary shares of US\$10 each	1,000,000	4,037,000

The details of shareholding are as follows:

	As at 31 December 2016		
	% of Ownership	Number of shares	Amount US\$
Mrs. Ouk Chakriya.	32%	32,000	320,000
Mrs. Chea Pisey	30%	30,000	300,000
Mr. Va Dalot	30%	30,000	300,000
Mr. Hiv Chunneath	8%	8,000	80,000
	100%	100,000	1,000,000

According to Prakas B7-016-117 issued by the NBC on 22 March 2016 on the “minimum registered capital of banking and financial institution”, the licensed microfinance institution, shall have minimum registered capital of KHR6 billion (equivalent to US\$1.5 million). The Company is 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. On 26 April 2017, the Company obtained approval from the NBC to delay the increase in the share capital.

On 28 February 2017, the existing shareholders entered into a Sale and Purchase agreement with Hanshin Engineering and Construction Co., Ltd and Plus International Co., Ltd to sell their 100% shares. The Company is in the process to obtain approval from the National Bank of Cambodia and the Ministry of Commerce.

# Chokchey Finance Plc.

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

### 15. Interest income

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Interest income from		
Loans to customers	129,214	521,636
Deposits with banks	878	3,545
	<hr/>	<hr/>
	130,092	525,181
	<hr/> <hr/>	<hr/> <hr/>

### 16. Other operating income

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Loan administrative fees	24,659	99,548
Penalty income	3,683	14,868
Other income	123	497
	<hr/>	<hr/>
	28,465	114,913
	<hr/> <hr/>	<hr/> <hr/>

# Chokchey Finance Plc.

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

### 17. General and administrative expenses

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Personnel costs	91,251	368,380
Rental expenses	14,200	57,325
License and professional fees	12,107	48,876
Depreciation and amortisation	9,196	37,124
Travelling and vehicle expenses	4,460	18,005
Utilities	3,957	15,974
Entertainment expenses	2,726	11,005
Office supplies and equipment	2,676	10,803
Communication expenses	2,146	8,663
Printing and copy expenses	781	3,153
Repairs and maintenance	35	142
Others	4,372	17,650
	<u>147,907</u>	<u>597,100</u>

### 18. Income tax

#### (a) Current income tax liability

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
At 2 March 2016 (date of incorporation)	-	-
Current income tax expense	1,457	5,882
Income tax paid	(1,206)	(4,869)
At 31 December	<u>251</u>	<u>1,013</u>

# Chokchey Finance Plc.

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

### 18. 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)
Income tax expense	1,457	5,882

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

	Period from 2 March 2016 (date of incorporation) to 31 December 2016		
	US\$	KHR'000 (Note 4)	%
Loss before income tax	(15,053)	(60,769)	
Income tax using statutory rate at 20%	(3,011)	(12,155)	(20)
Non-deductible expenses	762	3,076	5
Unrecognised tax losses	2,249	9,079	15
	-	-	
Minimum tax	1,457	5,882	
Income tax expense	1,457	5,882	

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



# Chokchey Finance Plc.

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

### 18. Income tax (continued)

#### (c) Unrecognised deferred tax assets

Tax losses can be carried forward to offset against the taxable profits of subsequent years for up to five years from the period in which they were incurred.

Deferred tax assets on tax losses have not been recognised because it is not probable that future taxable profit will be available against which the losses can be utilised before they expire.

### 19. Net cash used in operating activities

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Loss before income tax	(15,053)	(60,769)
Adjustments for:		
Depreciation and amortisation	9,196	37,124
Allowance for bad and doubtful loans	7,669	30,960
	<u>1,812</u>	<u>7,315</u>
Changes in:		
Loans to customers	(1,376,329)	(5,556,240)
Other assets	(23,520)	(94,950)
Other liabilities	3,977	16,055
	<u>(1,394,060)</u>	<u>(5,627,820)</u>
Cash used in operations	(1,394,060)	(5,627,820)
Income tax paid	(1,206)	(4,869)
	<u>(1,395,266)</u>	<u>(5,632,689)</u>

# Chokchey Finance Plc.

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

### 20. Cash and cash equivalents

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Cash on hand	1,418	5,724
Deposits and placements with National Bank of Cambodia	2,031	8,199
Deposits and placements with banks, less than three months maturity	4,609	18,607
	<u>8,058</u>	<u>32,530</u>

### 21. Operating lease commitments

The Company has lease commitments for the lease of its office as follows:

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Within 1 year	16,800	67,822
Between 2 to 5 years	67,200	271,286
More than 5 years	72,427	292,388
	<u>156,427</u>	<u>631,496</u>

### 22. Taxation contingencies

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have different interpretations and the effects since the incorporation of the Company could be significant.

# Chokchey Finance Plc.

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

### 23. Related party balances and transactions

#### (a) Balances with related parties

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Advances from		
Mr. Va Dalot	184,475	744,726
Mrs. Ouk Chakriya	172,945	698,179
Mrs. Chea Pisey	172,945	698,179
Mr. Hiv Chunneath	46,118	186,178
	<u>576,483</u>	<u>2,327,262</u>

Refer to terms and conditions disclosed in Note 13.

#### (b) Key management compensation

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Salaries and benefits	<u>26,861</u>	<u>108,438</u>

#### (c) Transactions with shareholders

	Period from 2 March 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)
Interest expense:		
Mr. Va Dalot	5,771	23,298
Mrs. Ouk Chakriya	5,410	21,840
Mrs. Chea Pisey	5,410	21,840
Mr. Hiv Chunneath	1,443	5,825
	<u>18,034</u>	<u>72,803</u>

# Chokchey Finance Plc.

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

### 24. 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 potential loss of revenue and principal losses in the form of specific allowances as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, credit approval processes and procedures implemented to mitigate credit risks and to ensure compliance with the NBC guidelines.

The Company holds collateral against loans to customers in the form of mortgage interests over the (landed) property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of lending, and generally are not updated unless there is any significant event affecting the area and/or the status of the property.

#### (i) *Credit risk measurement*

The Company assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flow. The credit committee is responsible for approving loans to customers.

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

The Company manages limits and controls the concentration of credit risk whenever it is identified.

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 common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types secured for loans to customers are:

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

# Chokchey Finance Plc.

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

### 24. Financial risk management (continued)

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

##### (iii) *Impairment and allowance policies*

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning. Refer to Note 3(f) for detail.

##### (iv) *Exposure to credit risk*

	As at 31 December 2016	
	US\$	KHR'000 (Note 4)
Deposits and placements with NBC	2,031	8,199
Deposits and placements with banks	4,609	18,607
Loans to customers:		
Neither past due nor impaired	1,331,207	5,374,083
Past due but not impaired	8,835	35,667
Individually impaired	37,161	150,018
	<u>1,383,843</u>	<u>5,586,574</u>

##### ***Deposits and placement with NBC and banks***

Deposits and placement are made with the NBC and commercial banks in Cambodia. Management views that likelihood of default is relatively low.

##### ***Loan and advance to customers***

##### *Neither past due nor impaired*

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

##### *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.

# Chokchey Finance Plc.

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

### 24. Financial risk management (continued)

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

##### (iv) *Exposure to credit risk (continued)*

###### *Loan and advance to customers (continued)*

In compliance with NBC guidelines, an allowance for doubtful loans to customers is made for loans 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(f).

###### *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 29 days for both short-term loans and long-term loans, unless other information is available to indicate otherwise.

###### *Loans with rescheduled loans*

Loans with renegotiated terms are loans that have been rescheduled in accordance with an agreement setting forth a new repayment schedule on a periodic basis occasioned by weaknesses in the borrower's financial condition and/or inability to repay the loan as originally agreed. Loans to be rescheduled are analysed on the basis of the business prospects and repayment capacity of the borrower according to new cash flow projections supported by updated business perspectives and overall market conditions being based on realistic and prudent assumptions.

Customers can request for loan reschedule only once per loan and shall repay the principal at least 20% of the whole loan balance. In addition, this reschedule can be done if the customers have made repayment for 4 months or above from the disbursement date; otherwise, penalties may applied.

###### *Write-off policy*

In compliance with NBC Guidelines, the Company shall remove a loan/advance or a portion of a loan from its balance sheet when the Company loses control of the contractual rights over the loan or when all or part of a loan is deemed uncollectible; or there is no realistic prospect of recovery.

# Chokchey Finance Plc.

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

### 24. Financial risk management (continued)

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

##### (iv) *Exposure to credit risk (continued)*

###### *Loan and advance to customers (continued)*

###### *Collateral*

The Company holds collateral against loans and advances in the form of mortgage interests over property and/or guarantees. The value of collateral is based on the valuation performed internally by the Company.

###### *Concentration of risks of financial assets with credit risk exposure*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

#### (b) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

The operational risk management entail the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its micro-finance business.

#### (c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

# Chokchey Finance Plc.

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

### 24. Financial risk management (continued)

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

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

###### **Concentration of currency risk**

The Company's income is principally earned in US\$. The Company's expenditure is principally paid 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 table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at the carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.



# Chokchey Finance Plc.

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

### 24. Financial risk management (continued)

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

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

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\$	Weighted average interest %
<b>Financial assets</b>								
Cash on hand	-	-	-	-	-	1,418	1,418	
Deposits and placements with NBC	-	-	-	-	-	2,031	2,031	
Deposits and placements with banks	4,609	-	-	-	-	-	4,609	
Loans to customers								
- Performing	678	3,207	38,395	1,193,888	103,000	-	1,339,168	18 - 36
- Non-performing	2,424	502	2,558	31,677	-	-	37,161	
- Allowance	-	-	-	-	-	(7,669)	(7,669)	
Other assets								
Accrual interest receivable	15,120	-	-	-	-	-	15,120	
Deposits	-	-	-	-	-	8,400	8,400	
	<u>22,831</u>	<u>3,709</u>	<u>40,953</u>	<u>1,225,565</u>	<u>103,000</u>	<u>4,180</u>	<u>1,400,238</u>	

## Chokchey Finance Plc.

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

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

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

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

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\$	Interest rates %
<b>Financial liabilities</b>								
Other liabilities								
Salaries and other benefits	799	-	-	-	-	-	799	
Other payables	1,776	-	-	-	-	-	1,776	
Advances from shareholders	-	-	576,483	-	-	-	576,483	10.08
	<u>2,575</u>	<u>-</u>	<u>576,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>579,058</u>	
Maturity gap – US\$	<u>20,256</u>	<u>3,709</u>	<u>(535,530)</u>	<u>1,225,565</u>	<u>103,000</u>	<u>4,180</u>	<u>821,180</u>	
Maturity gap (KHR'000 – Note 4)	<u>81,773</u>	<u>14,973</u>	<u>(2,161,935)</u>	<u>4,947,606</u>	<u>415,811</u>	<u>16,876</u>	<u>3,315,104</u>	

# Chokchey Finance Plc.

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

### 24. 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 liabilities at fair value through profit or loss, and the Company does not have derivatives as at the period end. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### (d) Liquidity risk

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

In addition to full compliance of all liquidity requirements, the management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans to customers and advances from shareholders 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 liabilities of the Company into relevant maturity groupings, including instalment due and interest.

## Chokchey Finance Plc.

### Notes to the financial statements (continued)

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

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

##### (d) Liquidity risk (continued)

2016	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>Financial liabilities</b>							
Other liabilities							
Salaries and other benefits	799	-	-	-	-	-	799
Other payables	1,776	-	-	-	-	-	1,776
Advances from shareholders	-	-	576,483	-	-	-	576,483
31 December 2016 – US\$	2,575	-	576,483	-	-	-	579,058
31 December 2016 – (KHR'000 - Note 4)	10,395	-	2,327,262	-	-	-	2,337,657

# Chokchey Finance Plc.

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

### 24. 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.

### 25. Fair values 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.

### 26. Corresponding figures

There are no corresponding figures as this is the first set of the financial statements prepared by the Company since the date of incorporation.

## **Chokchey Finance Plc.**

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

#### **27. Subsequent event**

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 any new loan contract including restructured loan and/or refinancing loans with signature and/or figure-printed from 1 April 2017.