

CHOKCHEY FINANCE PLC.

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

Corporate Information

Institution	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	Hanshin Engineering and Construction Co., Ltd. Plus International Co., Ltd.	
Board of Directors	Mr. Moon Kyu Choi Mr. Cheon Gil Park Mr. Jung Hoon Kim	Chairman Director and Chief Executive Officer Independent Director
Senior Management	Mr. Cheon Gil Park	Chief Executive Officer
Principal bankers	PHNOM PENH COMMERCIAL BANK ACLEDA Bank Plc. Philip Bank Plc.	
Auditors	HRDP & Associates Co., 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 Institution") for the year ended 31 December 2018 ("the period" or "the financial period").

Principal activity

The principal activity of the Institution 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 Institution for the period were as follows:

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Loss before income tax	(306,878)	(1,233,035)	(259,943)
Income tax expense	(15,431)	(62,002)	(3,253)
Net loss for the period	<u>(322,309)</u>	<u>(1,295,037)</u>	<u>(263,196)</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

On 11 December 2018, the Company submitted the application to the National Bank of Cambodia for the increase in share capital from US\$1,500,000 to US\$3,500,000 which equivalent to 14,063,000 Khmer Riel. The approval from the National Bank of Cambodia was obtained on 31 January 2019.



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 actions had been taken in relation to the writing off of bad loans and the 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 Board of Directors is not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for bad and doubtful loans in the financial statements of the Company, inadequate to any material extent.

There is bad loans write-off amount of 2,483 US\$ for the year ended 2018.

Current assets

Before the financial statements of the Institution 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 Institution 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 Institution 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 Institution 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 Institution 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 Institution 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 Institution 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 Institution 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



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 Institution as at 31 December 2018, and its financial performance and its cash flows for the year ended 31 December 2018. 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 Institution's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- assess the Institution'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 or to cease operations, or has no realistic alternative but to do so; and
- control and direct the Institution 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 51 which, in our opinion, present fairly, in all material respects, the financial position of Chokchey Finance Plc. as at 31 December 2018, and its financial performance and its cash flows for the year ended 31 December 2018 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. Cheon Gil Park
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

23 April 2019

Report of the independent auditors

To the shareholders Chokchey Finance Plc.

Opinion

We have audited the financial statements of Chokchey Finance Plc. ("the Institution"), which comprise the balance sheet as at 31 December 2018, the income statement, the statements of changes in equity and cash flows for the year ended 31 December 2018, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 51.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institution as at 31 December 2018, and its financial performance and its cash flows for the year ended 31 December 2018 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 Institution 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 Institution'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 Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institution'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 Institution'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 Institution'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 Institution 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 HRDP & Associates Co., Ltd.



Peou Dara
Partner

Phnom Penh, Kingdom of Cambodia

23 April 2019

Chokchey Finance Plc.

Balance sheet As at 31 December 2018

	Note	US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
ASSETS				
Cash on hand	5	45,402	182,425	2,520
Deposits and placements with the National Bank of Cambodia	6	2,075,500	8,339,359	552,256
Deposits and placements with banks	7	688,836	2,767,743	413,302
Loans to customers, net	8	13,018,726	52,309,241	2,467,753
Other assets	9	134,743	541,397	50,689
Property and equipment	10	180,557	725,478	135,949
Intangible assets	11	27,002	108,494	19,551
TOTAL ASSETS		<u>16,170,766</u>	<u>64,974,137</u>	<u>3,642,020</u>
LIABILITIES AND EQUITY				
LIABILITIES				
Other liabilities	12	272,781	1,096,033	33,283
Current income tax liability	18	-	-	-
Advances from shareholders	13	12,150,000	48,818,700	1,700,000
Long term borrowing	14	850,000	3,415,300	688,443
TOTAL LIABILITIES		<u>13,272,781</u>	<u>53,330,033</u>	<u>2,421,726</u>
EQUITY				
Share capital	15	1,500,000	6,027,000	1,000,000
Capital reserves		2,000,000	8,036,000	500,000
Accumulated losses		(279,706)	(1,123,858)	(16,510)
(Loss)/profit for the year		(322,309)	(1,295,038)	(263,196)
TOTAL EQUITY		<u>2,897,986</u>	<u>11,644,104</u>	<u>1,220,294</u>
TOTAL LIABILITIES AND EQUITY		<u>16,170,766</u>	<u>64,974,137</u>	<u>3,642,020</u>

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

Chokchey Finance Plc.

Income statement for the year ended 31 December 2018

	Note	For the year ended 31 December 2018		For the year ended 31 December 2017
		US\$	KHR'000 (Note 4)	US\$
Interest income	16	1,154,862	4,640,236	269,070
Interest expenses		(438,999)	(1,763,898)	(91,669)
Net interest income		<u>715,863</u>	<u>2,876,338</u>	<u>177,401</u>
Other operating income	17	388,118	1,559,458	56,385
General and administrative expenses	18	(1,294,295)	(5,200,477)	(443,320)
Allowance for bad and doubtful loans	8	(116,564)	(468,354)	(50,409)
Loss before income tax		<u>(306,878)</u>	<u>(1,233,035)</u>	<u>(259,943)</u>
Income tax expense	19	(15,431)	(62,002)	(3,253)
Net loss for the period		<u>(322,309)</u>	<u>(1,295,037)</u>	<u>(263,196)</u>

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

Chokchey Finance Plc.

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

	Note	Share capital US\$	Accumulated losses US\$	Total US\$
Balance as at 01 January 2017		1,000,000	(16,510)	983,490
Additional during the period		500,000	-	500,000
Net loss for the period		-	(263,196)	(263,196)
At 31 December 2017		<u>1,500,000</u>	<u>(279,706)</u>	<u>1,220,294</u>
(KHR'000 equivalent)		<u>6,055,500</u>	<u>(1,129,173)</u>	<u>4,926,327</u>
Balance as at 01 January 2018		1,500,000	(279,706)	1,220,294
Additional during the period		2,000,000	-	2,000,000
Net loss for the period		-	(322,309)	(322,309)
Balance as at 31 December 2018		<u>3,500,000</u>	<u>(602,015)</u>	<u>2,897,985</u>
(KHR'000 equivalent)		<u>14,063,000</u>	<u>(2,418,896)</u>	<u>11,644,104</u>

The accompanying notes form an integral part of these financial statements

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Statement of cash flows for the year ended 31 December 2018

	Note	US\$	For the year ended 31 December 2018 KHR'000 (Note 4)	For the year ended 31 December 2017 US\$
Cash flows from operating activities				
Loss before income tax		(306,878)	(1,233,035)	(259,943)
Adjustment for:				
Depreciation and amortization		44,984	180,746	19,684
Allowance for bad and doubtful loans	8	114,126	458,558	42,527
		<u>(147,768)</u>	<u>(593,731)</u>	<u>(197,732)</u>
Change in:				
Loans to customer		(10,665,099)	(42,852,368)	(1,141,620)
Other assets		(84,054)	(337,730)	(27,169)
Other liabilities		239,498	962,303	29,307
Cash used in operation		<u>(10,509,655)</u>	<u>(42,227,795)</u>	<u>(1,139,482)</u>
Income tax paid		<u>(15,431)</u>	<u>(62,002)</u>	<u>(3,504)</u>
Net cash used in operating activities	20	<u>(10,672,854)</u>	<u>(42,883,528)</u>	<u>(1,340,718)</u>
Cash flows from investing activities				
Purchase of property and equipment	10	(86,693)	(348,332)	(61,219)
Purchases of intangible assets	11	(10,350)	(41,586)	-
Capital guarantee deposit		<u>(25,000)</u>	<u>(100,450)</u>	<u>-</u>
Net cash used in investing activities		<u>(122,043)</u>	<u>(490,368)</u>	<u>(61,219)</u>
Cash flows from financing activities				
Advances from shareholders	13	10,450,000	41,988,100	1,123,517
Long term borrowing	14	161,557	649,136	688,443
Proceeds from issuance of share capital	15	-	-	-
Capital injection during the period	15	<u>2,000,000</u>	<u>8,036,000</u>	<u>500,000</u>

Chokchey Finance Plc.

Statement of cash flows for the year ended 31 December 2018

Net cash generated from financing activities	<u>12,611,557</u>	<u>50,673,236</u>	<u>2,311,960</u>
Net increase in cash and cash equivalents	1,816,660	7,299,340	910,020
Cash and cash equivalents at the beginning of the period	918,078	3,688,837	8,058
Cash and cash equivalents at the end of the period	21 <u><u>2,734,738</u></u>	<u><u>10,988,177</u></u>	<u><u>918,078</u></u>

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

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

1. Reporting entity

Chokchey Finance Plc. (“the Institution”) 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 Institution 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 Institution 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 2018, the Institution had 142 employees while 2017 had 79 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 Institution were authorised for issue by the Board of Directors on 23 April 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Institution 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 Institution’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Institution.

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

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 Institution'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.

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

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

The Institution records the mandatory credit classification and provisioning as required by Prakas B7-02-186 Pro Kor dated 13 September 2002. The Prakas requires microfinance institutions to classify their loan portfolio into the following four classes and ensure that the minimum mandatory level of specific provisioning is provided:

Prior to 1 December 2017:

Classification	Number of days past due	Allowance
Short-term loans (less than one year):		
Sub-standard	30 - 59 days	10%
Doubtful	60 - 89 days	30%
Loss	90 days or more	100%

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

3. Significant accounting policies (continued)

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

Long-term loans (more than one year):		
Sub-standard	30 - 179 days	10%
Doubtful	180 - 359 days	30%
Loss	360 days or more	100%

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified and is charged as expense in the income statement.

Loans are written off when they are considered uncollectible. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss.

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

From 1 December 2017:

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 or equal one year):		
Normal/standard	<15 days	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%

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

3. Significant accounting policies (continued)

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

Long-term loans (more than one year):

Normal/standard	<30 days	1%
Special mention	30 days – 89 days	3%
Substandard	90 days – 179 days	20%
Doubtful	180 days – 359 days	50%
Loss	≥ 360 days	100%

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in an increase in allowance for bad and doubtful loans for the year ended 31 December 2018 of US\$143,849

In determining the above allowance, any collateral value other than cash deposits which has been pledged is disregarded except that, in the case of a loan classified as “loss”, all collateral may be utilised, at market values approved by the NBC.

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by the 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.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when in the judgement of the management there is no prospect of recovery.

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

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

3. Significant accounting policies (continued)

(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 Institution. 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 it is disposed of or written off.

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

3. Significant accounting policies (continued)

(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.

(ii) *Non-financial assets*

The carrying amounts of the Institution'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").

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

3. Significant accounting policies (continued)

(ii) *Non-financial assets (continued)*

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 Institution 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.

(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.

Chokchey Finance Plc.

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

3. Significant accounting policies (continued)

(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 Institution 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 Institution 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 Institution or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Institution.

Chokchey Finance Plc.

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

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: KHR4,018 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.

5. Cash on hand

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
US Dollar	45,402	182,425	2,520
	<u>45,402</u>	<u>182,425</u>	<u>2,520</u>

6. Deposits and placements with the National Bank of Cambodia

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Capital guarantee deposit (i)	75,000	301,350	50,000
Current accounts	2,000,500	8,038,009	502,256
	<u>2,075,500</u>	<u>8,339,359</u>	<u>552,256</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 Institution's registered share capital. This deposit is refundable when the Institution voluntarily liquidates.

On February 2018, the Institution deposited additional capital guarantee of US\$25,000. This statutory deposit earns interest at the rate of 0.22% per annum. Current accounts earn no interest.

Chokchey Finance Plc.

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

7. Deposits and placements with banks

	As at 31 December 2018 US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
Current accounts	601,590	2,417,190	411,469
Saving accounts	87,246	350,553	1,833
	<u>688,836</u>	<u>2,767,743</u>	<u>413,302</u>

Deposits and placements with banks are analysed as follows:

	As at 31 December 2018 US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
(a) By currency:			
US Dollars	<u>688,836</u>	<u>2,767,743</u>	<u>413,302</u>

	As at 31 December 2018 US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
(b) By type:			
<i>Current accounts</i>			
Philip Bank Plc.	707	2,839	97,989
SHATAPANA Bank Plc.	-	-	500
Phnom Penh Commercial Bank	344,448	1,383,994	312,980
ACLEDA Bank Plc.	47,576	191,159	-
KB Kookmin Bank	208,860	839,198	-
	<u>601,590</u>	<u>2,417,190</u>	<u>411,469</u>

Chokchey Finance Plc.

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

<i>Saving accounts</i>			
SHATAPANA Bank Plc.	-	-	767
Phnom Penh Commercial Bank	1,678	6,743	1,066
ACLEDA Bank Plc.	85,568	343,810	-
	<u>87,246</u>	<u>350,553</u>	<u>413,302</u>
(c) By maturity:			
Within 1 month	688,836	2,767,743	413,302
	<u>688,836</u>	<u>2,767,743</u>	<u>413,302</u>
(d) By interest rate (per annum):			
Current accounts		0.00%	0.00%
Saving accounts		0.40%	0.40%

8. Loans to customers

	As at 31 December 2018 US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
Loans to customers	13,183,047	52,969,483	2,517,948
Allowance for bad and doubtful loans:			
Specific	(33,211)	(132,956)	(24,803)
General	(131,110)	(527,286)	(25,392)
	<u>13,018,726</u>	<u>52,309,241</u>	<u>2,467,753</u>

The movements in allowance for bad and doubtful loans were as follows:

Chokchey Finance Plc.

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

8. Loans to customers (continued)

	31 December 2018 US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
01 January 2018	50,196	201,686	7,669
Allowance for the period	116,564	468,354	50,409
Written-off during the period	<u>(2,438)</u>	<u>(9,796)</u>	<u>(7,883)</u>
At the end of the period/year	<u>164,321</u>	<u>660,244</u>	<u>50,195</u>

Loans to customers are analysed as follows:

	31 December 2018 US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
(a) By maturity:			
Within 1 month	1,144	4,597	1,995
> 1 to 3 months	800	3,214	2,735
> 3 to 12 months	1,801,199	7,240,432	13,943
Over 12 months	11,379,104	45,721,240	2,499,275
	<u>13,183,047</u>	<u>52,969,483</u>	<u>2,517,948</u>
(b) By currency:			
US Dollars	<u>13,183,047</u>	<u>52,969,483</u>	<u>2,517,948</u>
(c) By economic sector:			
Other Categories	46,186	185,574	-
Household/Family	9,713,477	39,028,750	-
Construction	2,540,543	10,207,900	-
Trade and Commerce service	754,313	3,030,830	2,517,948
Transportation	2,013	8,090	-
Agriculture	45,000	180,810	-
	81,516	327,530	-
	<u>13,183,047</u>	<u>52,969,483</u>	<u>2,517,948</u>
(d) By residency status:			
Resident	<u>13,183,047</u>	<u>52,969,483</u>	<u>2,517,948</u>

Chokchey Finance Plc.

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

(e)	By relationship:			
	External customers	13,183,047	52,969,483	2,497,935
	Staff loans	-	-	20,013
		<u>13,183,047</u>	<u>52,969,483</u>	<u>2,517,948</u>
(f)	By performance:			
	Standard loans			
	Secured	11,121,131	44,684,704	2,294,202
	Unsecured	1,989,700	7,994,615	59,602
	Special mention loans			
	Secured	4,094	16,449	-
	Unsecured	-	-	-
	Substandard loans			
	Secured	5,732	23,029	139,470
	Unsecured	960	3,858	177
	Doubtful loans			
	Secured	59,487	239,019	22,460
	Unsecured	-	-	167
	Loss loans			
	Secured	1,944	7,810	-
	Unsecured	-	-	1,870
		<u>13,183,047</u>	<u>52,969,483</u>	<u>2,517,948</u>
(g)	By type of loans:			
	Micro Loan and Personal Loan	-	-	147,260
	Small Loan	-	-	961,400
	Medium Loan	-	-	1,078,949
	Large Loan	-	-	330,339
	Salary Loan	1,773,429	7,125,636	-
	Speed Loan	764,169	3,070,431	-
	Agriculture Loan	18,058	72,556	-
	SME Loan	694,334	2,789,835	-
	General Loan	9,933,057	39,911,025	-
		<u>13,183,047</u>	<u>52,969,483</u>	<u>2,517,948</u>

Chokchey Finance Plc.

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

8. Loans to customers (continued)

(h) By province:			
Banteay Meanchey	27,987	112,454	-
Kampong Cham	746,850	3,000,844	26,000
Kampong Chhnang	1,198	4,813	-
Kampong Speu	3,731,772	14,994,258	496,257
Kampong Thom	10,277	41,295	1,929
Kampot	13,460	54,081	-
Kandal	2,809,784	11,289,712	674,820
Koh Kong	465	1,867	-
Kracheh	1,441	5,792	-
Otdar Meanchey	233	936	-
Phnom Penh	5,446,486	21,883,980	1,254,166
Preah Sihanouk	4,411	17,722	-
Prey Veng	18,579	74,652	-
Pursat	501	2,013	-
Svay Rieng	10,932	43,924	60,014
Takeo	323,964	1,301,687	4,762
Tboung Khmum	34,708	139,455	-
	13,183,047	52,969,483	2,517,948

(i) By interest rate (per annum):

Micro Loan and Personal Loan	13.2% to 36%
Small Loan	13.2% to 36%
Medium Loan	13.2% to 20.4%
Large Loan	13.2% to 14.4%

9. Other assets

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Interest receivable	107,123	430,420	30,224
Interest in suspense	-	-	(9,166)
Net interest receivable	107,123	430,420	21,058
Advances and Prepayments	29,249	117,514	28,467
Other receivable	(1,627)	(6,537)	1,164
	134,743	541,397	50,689

Chokchey Finance Plc.

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

10. Property and equipment

As at 31 December 2018	Leasehold improvement US\$	Furniture and fixtures US\$	Office equipment US\$	Computer equipment US\$	Total US\$	KHR'000 (Note 4)
Cost						
As at 01 January 2018	111,075	22,968	11,894	15,383	161,319	648,180
Additions	21,071	14,229	18,356	33,038	86,693	348,332
Reclassification	-	-	-	-	-	-
As at 31 December 2018	<u>132,145</u>	<u>37,196</u>	<u>30,250</u>	<u>48,420</u>	<u>248,011</u>	<u>996,508</u>
Less: Accumulated depreciation						
As at 01 January 2018	(14,622)	(3,489)	(2,697)	(4,562)	(25,370)	(101,937)
Depreciation for the period	(16,182)	(7,088)	(7,598)	(11,216)	(42,085)	(169,098)
Reclassification	-	-	-	-	-	-
As at 31 December 2018	<u>(30,804)</u>	<u>(10,577)</u>	<u>(10,296)</u>	<u>(15,778)</u>	<u>(67,454)</u>	<u>(271,030)</u>
Carrying amounts						
As at 31 December 2018	<u>101,341</u>	<u>26,619</u>	<u>19,954</u>	<u>32,643</u>	<u>180,557</u>	<u>725,478</u>

Chokchey Finance Plc.

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

10. Property and equipment (continued)

As at 31 December 2017	Leasehold improvement US\$	Furniture and fixtures US\$	Office equipment US\$	Computer equipment US\$	Total US\$
Cost					
As at 01 January 2017	86,419	-	9,394	4,285	100,098
Additions	24,655	16,417	9,050	11,097	61,219
Reclassification	-	6,550	(6,550)	-	-
As at 31 December 2017	<u>111,074</u>	<u>22,967</u>	<u>11,894</u>	<u>15,382</u>	<u>161,317</u>
Less: Accumulated depreciation					
As at 01 January 2017	5,178	-	1,606	945	7,729
Depreciation for the period	9,444	2,239	2,339	3,617	17,639
Reclassification	-	1,249	(1,249)	-	-
As at 31 December 2017	<u>14,622</u>	<u>3,488</u>	<u>2,696</u>	<u>4,562</u>	<u>25,368</u>
Carrying amounts					
As at 31 December 2017	<u><u>96,452</u></u>	<u><u>19,479</u></u>	<u><u>9,198</u></u>	<u><u>10,820</u></u>	<u><u>135,949</u></u>

Chokchey Finance Plc.

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

11. Intangible assets

License	US\$	As at 31 December 2018 KHR'000 (Note 4)
Cost		
As at 01 January 2018	23,061	92,659
Additions	<u>10,350</u>	<u>41,586</u>
As at 31 December 2018	<u>33,411</u>	<u>134,245</u>
Less: accumulated amortisation		
As at 01 January 2018	(3,511)	(14,105)
Amortisation for the period	<u>(2,899)</u>	<u>(11,648)</u>
As at 31 December 2018	<u>(6,410)</u>	<u>(25,754)</u>
Carrying amounts		
As at 31 December 2018	<u>27,001</u>	<u>159,999</u>
License		
	US\$	As at 31 December 2017 KHR'000 (Note 4)
Cost		
As at 01 January 2017	23,061	93,098
Additions	<u>-</u>	<u>-</u>
As at 31 December 2017	<u>23,061</u>	<u>93,098</u>
Less: accumulated amortisation		
As at 01 January 2017	1,467	5,922
Amortisation for the period	<u>2,043</u>	<u>8,249</u>
As at 31 December 2017	<u>3,510</u>	<u>14,171</u>
Carrying amounts		
As at 31 December 2017	<u>19,551</u>	<u>78,927</u>

Chokchey Finance Plc.

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

12. Other liabilities

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Accrual interest to shareholders	7,693	30,910	13,292
Salaries and other benefits	7,000	28,126	74
Other tax payables	19,566	78,616	6,614
Other payables	238,522	958,381	13,303
	272,781	1,096,033	33,283

13. Advances from shareholders

These represent the advances from shareholders. This amount is unsecured and repayable within 36 months. The interest repayable is on a quarterly basis to Hanshin Engineering and Contraction Co., Ltd at an interest rate of 6% per year.

14. Long term borrowing

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Advance from shareholders	850,000	3,415,300	688,443
	850,000	3,415,300	688,443
Interest expense	51,000	204,918	68,836

15. Share capital

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
150,000 shares of US\$10 each			
Registered, issued and fully paid up	1,500,000	6,027,000	1,000,000
Capital injection during the period	2,000,000	8,036,000	500,000
	3,500,000	14,063,000	1,500,000

Chokchey Finance Plc.

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

15. Share capital (continued)

The details of shareholding are as follows:

	% of Ownership	As at 31 December 2018	
		Number of shares	Amount US\$
Hanshin Engineering and Construction Co., Ltd.	51%	178,500	1,785,000
Plus International Co., Ltd.	49%	171,500	1,715,000
	<u>100%</u>	<u>350,000</u>	<u>3,500,000</u>

On 11 December 2018, the Institution submitted the application to the National Bank of Cambodia for the increase in share capital from US\$1,500,000 to US\$3,500,000. The approval from the National Bank of Cambodia was obtained on 31 January 2019.

16. Interest income

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Loans to customers	1,154,828	4,640,100	268,819
Deposits with banks	<u>34</u>	<u>136</u>	<u>251</u>
	<u>1,154,862</u>	<u>4,640,236</u>	<u>269,070</u>

17. Other operating income

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Loan administrative fees	384,489	1,544,877	49,052
Penalty income	3,474	13,960	7,023
Other income	<u>155</u>	<u>622</u>	<u>310</u>
	<u>388,118</u>	<u>1,559,458</u>	<u>56,385</u>

Chokchey Finance Plc.

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

18. General and administrative expenses

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Personal expenses	863,591	3,469,909	296,201
Rental expenses	137,851	553,885	43,343
Depreciation and amortization	44,984	180,746	20,442
Fee & taxation	50,756	203,938	20,249
Travelling and vehicle expenses	36,951	148,469	12,292
Marketing and advertising	8,432	33,880	9,900
Communication	15,581	62,604	7,534
Office supplies and equipment	22,075	88,697	7,120
Entertainment	23,120	92,896	6,651
Utilities	15,183	61,005	6,484
Other tax expenses	15,136	60,816	4,885
Repairs and maintenance	1,093	4,392	388
Printing and copy expenses	3,192	12,825	343
Insurance expense	13,924	55,947	-
Security expense	19,940	80,119	-
Commission expense	1,431	5,750	-
Bank Charge	6,781	27,246	-
Donation expense	5,104	20,508	-
Other expenses	9,170	36,845	7,490
	<u>1,294,295</u>	<u>5,200,477</u>	<u>443,320</u>

Chokchey Finance Plc.

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

19. Income tax

(a) Current income tax liability

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
As at 01 January 2018	-	-	251
Current income tax expense	15,431	62,002	3,253
Income tax paid	<u>(15,431)</u>	<u>(62,002)</u>	<u>(3,504)</u>
As at 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

(b) Income tax expense

In accordance with Cambodian law on taxation, the Institution 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.

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR (Note 4)	US\$
Current income tax expense	<u>15,431</u>	<u>62,002</u>	<u>3,253</u>

Chokchey Finance Plc.

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

19. Income tax (continued)

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:

		For the year ended 31 December 2018		For the year ended 31 December 2017
	%	US\$	KHR'000 (Note 4)	US\$
Loss before income tax	100	(306,878)	(1,233,036)	(259,943)
Income tax using statutory rate at 20%	(20)	61,376	246,609	(51,989)
Non-deductible expenses	67.41	206,861	831,166	51,726
Effect of tax losses not utilised	(57.46)	(176,346)	(708,558)	263
Effect of minimum tax	5.03	15,431	62,002	3,253
Income tax expense	<u>(5.03)</u>	<u>15,431</u>	<u>62,002</u>	<u>3,253</u>

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

(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. As at 31 December 2018, the Company had estimated the following unutilised tax losses amounting to US\$ 373,502 which will be expired in 2023.

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.

Chokchey Finance Plc.

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

20. Net cash used in operating activities

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Cash flows from operating activities			
Loss before income tax	(306,878)	(1,233,036)	(259,943)
Adjustments for:			
Depreciation and amortisation	44,984	180,746	19,682
Allowance for bad and doubtful loans	114,126	458,558	42,526
	<u>(147,768)</u>	<u>(593,732)</u>	<u>(197,735)</u>
Change in:			
Loans to customers	(10,665,099)	(42,852,368)	(1,141,619)
Other assets	(84,054)	(337,729)	(27,169)
Other liabilities	239,498	962,303	29,306
Cash used in operations	<u>(10,509,655)</u>	<u>(42,227,794)</u>	<u>(1,139,482)</u>
Income tax paid	(15,431)	(62,002)	(3,504)
Net cash used in operating activities	<u>(10,672,854)</u>	<u>(42,883,528)</u>	<u>(1,340,721)</u>

21. Cash and cash equivalents

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Cash on hand	45,402	182,425	2,520
Deposits and placements with National Bank of Cambodia	2,000,500	8,038,009	502,256
Deposits and placements with banks less than three months maturity	688,836	2,767,743	413,302
	<u>2,734,738</u>	<u>10,988,177</u>	<u>918,078</u>

Chokchey Finance Plc.

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

22. Operating lease commitments

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

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Within 1 year	66,295	266,373	35,746
Between 2 to 5 years	181,044	727,433	164,739
More than 5 years	147,520	592,735	147,520
	<u>394,859</u>	<u>1,586,541</u>	<u>348,005</u>

23. 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 Institution could be significant.

24. Related party balances and transactions

(a) Balances with related parties

	As at 31 December 2018		As at 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Advance from shareholders Hanshin Engineering and Construction Co., Ltd.	12,150,000	48,818,700	1,700,000
	<u>12,150,000</u>	<u>48,818,700</u>	<u>1,700,000</u>

Refer to terms and conditions disclosed in Note 13.

Chokchey Finance Plc.

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

24. Related party balances and transactions (continued)

(b) Key management compensation

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Salaries and benefits	75,000	310,350	-
	<u>75,000</u>	<u>310,350</u>	<u>-</u>

(c) Transactions with shareholders

	For the year ended 31 December 2018		For the year ended 31 December 2017
	US\$	KHR'000 (Note 4)	US\$
Interest expense from Hanshin Engineering and Construction Co., Ltd.	387,999	1,558,978	22,833
	<u>387,999</u>	<u>1,558,978</u>	<u>22,833</u>

25. Financial risk management

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

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

25. Financial risk management (continued)

(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 Institution'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 Institution 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 Institution 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 Institution manages limits and controls the concentration of credit risk whenever it is identified.

The Institution 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 Institution 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.

(iii) *Impairment and allowance policies*

The Institution is required to follow the mandatory credit classification and provisioning in

Chokchey Finance Plc.

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

accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning. Refer to Note 3(f) for detail.

25. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk

	31 December 2018 US\$	As at 31 December 2018 KHR'000 (Note 4)	As at 31 December 2017 US\$
Deposits and placements with NBC	2,000,500	8,038,009	502,256
Deposits and placements with banks	688,836	2,767,743	413,302
Loans to customers Neither past due nor impaired	13,110,831	52,679,319	2,383,631
Past due but not impaired	70,272	282,355	51,851
Individually impaired	1,944	7,810	82,466
	<u>15,872,383</u>	<u>63,775,236</u>	<u>3,433,506</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 Institution 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.

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

25. 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 30 days. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(f).

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 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 apply.

Write-off policy

In compliance with NBC Guidelines, the Institution shall remove a loan/advance or a portion of a loan from its balance sheet when the Institution 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.

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

25. Financial risk management (continued)

(a) Credit risk (continued)

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

Loan and advance to customers (continued)

Collateral

The Institution 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 Institution.

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.

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

25. Financial risk management (continued)

(c) Market risk (continued)

(i) *Foreign currency exchange risk*

Concentration of currency risk

The Institution's income is principally earned in US\$. The Institution's expenditure is principally paid in US\$. The Institution 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 Institution does not use derivative financial instruments to hedge such risk.

The table below summarises the Institution's exposure to interest rate risks. It includes the Institution's financial instruments at the carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 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\$	Weighted average interest %
Financial assets								
Cash on hand	-	-	-	-	-	45,402	45,402	
Deposits and placements with NBC	-	-	-	-	-	2,000,500	2,000,500	
Deposits and placements with banks	688,836	-	-	-	-	-	688,836	
Loans to customers								
- Performing	-	-	1,801,999	5,951,729	5,427,506	-	13,181,234	16.00
- Non performing	1,144	800	-	-	-	-	1,944	
- Allowance	-	-	-	-	-	(164,321)	(164,321)	
Other assets							-	
Accrual Interest								
Receivable	107,123	-	-	-	-	-	107,123	
Deposit	-	-	-	-	-	29,247	29,247	
Other receivable	-	-	-	-	-	(1,627)	(1,627)	
	<u>797,103</u>	<u>800</u>	<u>1,802,999</u>	<u>5,951,729</u>	<u>5,427,506</u>	<u>1,909,201</u>	<u>15,888,338</u>	

Chokchey Finance Plc.

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

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 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\$	Weighted average interest %
Financial assets								
Cash on hand	-	-	-	-	-	2,520	2,520	
Deposits and placements with NBC	-	-	-	-	-	502,256	502,256	
Deposits and placements with banks	413,302	-	-	-	-	-	413,302	
Loans to customers								
- Performing	600	1,917	13,942	1,644,808	774,215	-	2,435,482	17.15
- Non performing	1,395	819	-	55,301	24,951	-	82,466	
- Allowance	-	-	-	-	-	(50,195)	(50,195)	
Other assets							-	
Accrual Interest								
Receivable	21,058	-	-	-	-	-	21,058	
Deposit	-	-	-	-	-	28,467	28,467	
Other receivable	-	-	-	-	-	1,164	1,164	
	<u>436,355</u>	<u>2,736</u>	<u>13,942</u>	<u>1,700,109</u>	<u>799,166</u>	<u>484,212</u>	<u>3,436,520</u>	

Chokchey Finance Plc.

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

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 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\$	Interest rate %
Financial liabilities								
Other liabilities								
Salaries and other benefits	7,000	-	-	-	-	-	7,000	
Other tax payables	265,781	-	-	-	-	-	265,781	
Advances from shareholders	-	-	-	12,150,000	-	-	12,150,000	6
Long term borrowing	-	-	-	850,000	-	-	850,000	10
	<u>272,781</u>	<u>-</u>	<u>-</u>	<u>13,000,000</u>	<u>-</u>	<u>-</u>	<u>13,272,781</u>	
Maturity gap - US\$	<u>524,322</u>	<u>800</u>	<u>1,801,999</u>	<u>(7,048,402)</u>	<u>5,427,506</u>	<u>1,909,201</u>	<u>2,615,426</u>	
Maturity gap - KHR'000	<u>2,106,726</u>	<u>3,214</u>	<u>7,240,432</u>	<u>(28,320,479)</u>	<u>21,807,719</u>	<u>7,671,168</u>	<u>10,508,780</u>	

Chokchey Finance Plc.

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

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 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\$	Interest rate %
Financial liabilities								
Other liabilities								
Salaries and other benefits	74	-	-	-	-	-	74	
Other tax payables	33,209	-	-	-	-	-	33,209	
Advances from shareholders	-	-	-	1,700,000	-	-	1,700,000	6
Long term borrowing	-	-	-	688,443	-	-	688,443	10
	<u>33,283</u>	<u>-</u>	<u>-</u>	<u>2,388,443</u>	<u>-</u>	<u>-</u>	<u>2,421,726</u>	
Maturity gap - US\$	<u>403,072</u>	<u>2,736</u>	<u>13,942</u>	<u>(688,334)</u>	<u>799,166</u>	<u>484,212</u>	<u>1,014,794</u>	
Maturity gap - KHR'000	<u>1,627,202</u>	<u>11,045</u>	<u>56,284</u>	<u>(2,778,804)</u>	<u>3,226,233</u>	<u>1,954,764</u>	<u>4,096,723</u>	

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

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) *Interest rate risk (continued)*

Fair value sensitivity analysis for fixed rate instruments

The Institution does not account for any fixed rate liabilities at fair value through profit or loss, and the Institution 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 Institution 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 Institution into relevant maturity groupings, including instalment due and interest.

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

25. Financial risk management (continued)

(d) Liquidity risk (continued)

As at 31 December 2018	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	No fixed terms	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Financial liabilities							
Other liabilities							
Salaries and other benefits	7,000	-	-	-	-	-	7,000
Other payables	265,781	-	-	-	-	-	265,781
Advances from shareholders	-	-	-	12,150,000	-	-	12,150,000
Long term borrowing	-	-	-	850,000	-	-	850,000
31 December 2018 - US\$	<u>272,781</u>	<u>-</u>	<u>-</u>	<u>13,000,000</u>	<u>-</u>	<u>-</u>	<u>13,272,781</u>
31 December 2018 – KHR'000 - Note 4)	<u>1,096,034</u>	<u>-</u>	<u>-</u>	<u>52,234,000</u>	<u>-</u>	<u>-</u>	<u>53,330,034</u>

Chokchey Finance Plc.

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

25. Financial risk management (continued)

(d) Liquidity risk (continued)

As at 31 December 2017	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	No fixed terms	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Financial liabilities							
Other liabilities							
Salaries and other benefits	74	-	-	-	-	-	74
Other payables	33,209	-	-	-	-	-	33,209
Advances from shareholders	-	-	-	1,700,000	-	-	1,700,000
Long term borrowing	-	-	-	688,443	-	-	688,443
31 December 2017 - US\$	<u>33,283</u>	<u>-</u>	<u>-</u>	<u>2,388,443</u>	<u>-</u>	<u>-</u>	<u>2,421,726</u>
 31 December 2017 – KHR'000 - Note 4)	<u>134,362</u>	<u>-</u>	<u>-</u>	<u>9,642,144</u>	<u>-</u>	<u>-</u>	<u>9,776,507</u>

Chokchey Finance Plc.

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

25. Financial risk management (continued)

(e) Capital management

(i) *Regulatory capital*

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

The Institution'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 Institution 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 Institution 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.

26. 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 Institution'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.