

**BORVOR FINANCE PLC.**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017  
AND  
REPORT OF THE INDEPENDENT AUDITORS**

## **CORPORATE INFORMATION**

**ORGANISATION:** Borvor Finance Plc.

**REGISTERED OFFICE** No. 99, Group 4, Romchek 5 Village  
Ratanak Commune, Battambang City  
Battambang Province, Kingdom of Cambodia

**BOARD OF DIRECTORS:** Mr. Ly Chan Ty, Chairman  
Mr. Roeun Sao, Vice Chairman  
Ms. Prom Mary, Member  
Mr. Pheng Raksa, Member  
Mr. Suos Sovann, Member

**MANAGEMENT TEAM:** Mr. Meas Thon, Chief Executive Officer  
Ms. Chea Chanda, Chief Operation Officer  
Ms. Nget Ny, Chief Finance and Administrative

**PRINCIPAL BANKERS:** ACLEDA Bank Plc.  
Advance Bank of Asia Limited ("ABA")

**AUDITORS:** HRDP & ASSOCIATES CO., LTD.

## **BORVOR FINANCE PLC..**

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### Statement by the management

We do hereby state that, in our opinion, the accompanying financial statements of Borvor Finance Plc. ("the Organisation") for the year ended 31 December 2017, as set out on pages 5 to 30, are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements.

Signed on behalf of the management,



**Mr. Meas Thon**  
Chief Executive Officer

Phnom Penh, Cambodia  
Date: 30 October 2018



## **REPORT OF THE INDEPENDENT AUDITORS**

**To the Shareholders  
BORVOR FINANCE PLC.**

### ***Opinion***

We have audited the financial statements Borvor Finance Plc. ("the Organisation"), which comprise the balance sheet as at 31 December 2017, the income statement, statement of changes in fund balance and statement of cash flows for the year ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 5 to 30.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements.

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

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISA"). 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 Organisation 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.

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

Management is responsible for the preparation of the financial statements in accordance with the basis of accounting and the accounting policies described in Note 2 to the 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 Organisation'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 Organisation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organisation'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 CISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CISA, we exercise professional judgment and maintain professional 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 Organisation'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 Organisation'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 Organisation to cease to continue as a going concern.



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 and on behalf of **HRDP and Associates Co., Ltd**



Peou Dara  
*Partner*

Phnom Penh, Kingdom of Cambodia  
Date: 30 October 2018

**BORVOR FINANCE PLC.****BALANCE SHEET  
AS AT 31 DECEMBER 2017**

		2017		2016
	Note	KHR'000	US\$	KHR'000
ASSETS				
Cash on hand	5	238,397	59,053	73,319
Deposits and placements with banks	6	1,132,173	280,449	6,098,685
Loans to customers	7	33,447,543	8,285,247	28,302,500
Other assets	8	26,050	6,453	276,319
Property and equipment	9	1,484,611	367,751	164,765
Deferred tax assets	10	-	-	33,937
TOTAL ASSETS		36,328,774	8,998,953	34,949,525
LIABILITIES AND FUND BALANCE				
Liabilities				
Deposits from customers	11	8,968,864	2,221,666	9,316,635
Loan protection and life savings	12	3,825,136	947,519	3,404,782
Borrowings	13	7,136,881	1,767,867	5,955,870
Amounts due to CBMIFO members		-	-	270,294
Stability fund	14	3,139,064	777,573	1,666,047
Other liabilities	15	1,313,125	325,272	1,351,814
Deferred tax liabilities	10	74,751	18,517	-
Current income tax liabilities	10	195,045	48,314	426,163
		24,652,866	6,106,728	22,391,605
Fund balance				
Project SEAD capital	16	949,821	235,279	949,821
Share Capital	17	9,741,600	2,413,079	86,720
Retained earnings		984,487	243,867	11,521,379
		11,675,908	2,892,225	12,557,920
TOTAL LIABILITIES AND FUND BALANCE		36,328,774	8,998,953	34,949,525

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



**BORVOR FINANCE PLC.****INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

		2017		2016
	Note	KHR'000	US\$	KHR'000
Interest Income	18	7,184,631	1,779,696	5,821,487
Interest expense	19	(999,555)	(247,598)	(943,618)
Net interest income		6,185,076	1,532,098	4,877,869
Other income	20	375,279	92,960	320,012
Administrative and other expenses	21	(4,400,028)	(1,089,925)	(2,911,417)
Operating income		2,160,327	535,133	2,286,464
Reversal bad and doubtful loans and advances	7	(781,358)	(193,549)	(170,441)
Profit before income tax		1,378,969	341,584	2,116,023
Income tax expense	10	(377,921)	(93,614)	(559,486)
Net profit for the year		1,001,048	247,970	1,556,537

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

# **BORVOR FINANCE PLC.**

## **STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Share capital</b>	<b>Project capital</b>	<b>SEAD capital</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>KHR'000</b>	<b>KHR'000</b>	<b>KHR'000</b>	<b>KHR'000</b>	<b>KHR'000</b>
Balance as at 1 January 2016	86,720	949,821	9,964,842	11,001,383	
Net profit for the year	-	-	1,556,537	1,556,537	
Balance as at 31 December 2016	86,720	949,821	11,521,379	12,557,920	
Balance as at 1 January 2017	86,720	949,821	11,521,379	12,557,920	
Transfer to stability fund	(86,720)	-	(2,752,173)	(2,838,893)	
Transfer to bonus	-	-	(82,487)	(82,487)	
Transfer from/(to) severance & benefit	-	-	(104,471)	(104,471)	
Retained earnings take over from CBMIFOs	-	-	925,591	925,591	
Transfer from severance & Benefit to share capital	210,700	-	-	210,700	
Transfer from retained earnings to share capital	9,524,400	-	(9,524,400)	-	
Additional share capital purchased	6,500	-	-	6,500	
Net profit for the year	-	-	1,001,048	1,001,048	
Balance as at 31 December 2017	<b>9,741,600</b>	<b>949,821</b>	<b>984,487</b>	<b>11,675,908</b>	
Balance as at 31 December 2017 (US\$ equivalents – Note 4)	<b>2,413,079</b>	<b>235,279</b>	<b>243,867</b>	<b>2,892,225</b>	

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

**BORVOR FINANCE PLC.****STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<b>2017</b>	<b>US\$</b>	<b>2016</b>
	<b>KHR'000</b>	<b>(Note 4)</b>	<b>KHR'000</b>
<b>Cash flows from operating activities</b>			
Profit before income tax	1,378,969	341,583	2,116,023
Adjustments for:			
Depreciation	84,639	20,966	42,561
Allowance for bad and doubtful loans	781,358	193,549	170,441
Foreign exchange (gain)/loss	(98,960)	(24,513)	(178,772)
	<u>2,146,006</u>	<u>531,585</u>	<u>2,150,253</u>
Changes in:			
Loans to customers	(5,833,993)	(1,445,131)	1,639,541
Other assets	250,269	61,994	77,127
Deposits from customers	(347,771)	(86,146)	1,828,760
Loan protection and life savings	420,354	104,125	589,898
Amounts due to CBMIFO members	(270,294)	(66,954)	(29,323)
Stability fund	(410,043)	(101,571)	68,911
Other liabilities	(38,689)	(9,584)	121,776
	<u>(4,084,161)</u>	<u>(1,011,682)</u>	<u>6,446,943</u>
Cash generated from operations			
Income tax paid	(500,299)	(123,928)	(489,939)
Net cash generated from operating activities	<u>(4,584,460)</u>	<u>(1,135,610)</u>	<u>5,957,004</u>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	(1,404,524)	(347,913)	(162,999)
Proceeds from disposal of property and equipment	39	10	7,613
	<u>(1,404,485)</u>	<u>(347,903)</u>	<u>(155,386)</u>
Net cash used in investing activities			
<b>Cash flows from financing activities</b>			
Additional share capital purchase	6,500	1,610	-
Borrowings	1,181,011	292,546	(1,279,394)
Net cash used in financing activities	<u>1,187,511</u>	<u>294,156</u>	<u>(1,279,394)</u>



**BORVOR FINANCE PLC.****STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Cash and cash equivalents comprise the following:

	<b>2017</b>	<b>US\$</b>	<b>2016</b>
	<b>KHR'</b>	<b>(Note 4)</b>	<b>KHR'000</b>
<b>Net increase in cash and cash equivalents</b>	(4,801,434)	(1,189,357)	4,533,224
<b>Cash and cash equivalents at beginning of the year</b>	6,172,004	1,528,859	1,649,780
<b>Cash and cash equivalents at end of the year</b>	1,370,570	339,502	6,172,004

**Cash and cash equivalents comprise:**

Cash on hand (Note 5)	238,397	59,053	73,319
Deposits and placements with banks (Note 6)	1,132,173	280,449	6,098,685
	1,370,570	339,502	6,172,004

**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**NOTES TO THE FINANCIAL STATEMENTS**

**1. BACKGROUND AND PRINCIPAL ACTIVITIES**

Borvor Finance Plc. ("the Organisation") was formerly known as Small Economic Activity Development ("SEAD" or "the Project"), a project operated under the umbrella of CARE International in Cambodia. The Project's saving programme is a component of CARE Cambodia community saving programme in Battambang province. The Organisation obtained its renewed 3 years license from the National Bank of Cambodia ("NBC") to operate as Rural Credit Operator on 17 November 2017.

The Project was designed in 1998 with the aim to promote economic security of low income households through mobilisation of savings of the members. The Project is implemented through community-based micro-finance organisations by establishment of saving banks at community level.

On 5 September 2002, SEAD was registered as a non-political association under the name of Cambodian Savings and Credit Federation ("CSCF"). Subsequently on 1 October 2002, the CSCF requested to the Ministry of Interior to change its name to Cambodian Community Savings Federation.

On 6 December 2002, the Organisation obtained approval from the Ministry of Interior through its letter No.1248 SCN. In June 2007, the Organisation registered with the National Bank of Cambodia ("NBC") to operate as a rural credit operator with a term of three years. On 5 June 2010, the Organisation obtained a second renewed registration with a term of another three years ended on 8 June 2013. On 7 February 2013, the Organisation requested to NBC for an extension of the registration and obtained the renewal licence for another three years which is due to be ended on 14 October 2016. On 27 April 2016, the Organisation requested to NBC for another extension of the licence for another three years. On 13 June 2017, the Organisation requested to NBC to change its name from Cambodian Community Savings Federation to Borvor Finance Plc as per NBC requirement.

The Organisation is engaged in providing micro-financing services through 3 branches located in Battambang, Banteay Meanchey and Bavel. The registered office of the Organisation is located at No. 99, Group 4, Phum Romchek 5, Sangkat Ratanak, Krong Battambang, Battambang Province, Kingdom of Cambodia.

**2. BASIS OF OPERATION**

**(a) Statement of compliance**

The financial statements, which are expressed in KHR, have been prepared in accordance with a modified cash basis of accounting. This is a basis of accounting that is designed to meet the requirements of the Organisation; it is not designed to produce financial statements that are compatible with Cambodian International Financial Reporting Standards.

These financial statements were approved by the Organisation's management and authorised for issue on 30 October 2018.

**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**2. BASIS OF OPERATION (Continued)**

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis in accordance with the accounting policies set out below.

**(c) Going concern assumption**

The Organisation's financial statements have been prepared on a going concern basis. On 12 June 2017 and 13 June 2017, the Organisation requested to the Ministry of Commerce and NBC, Respectively, to change its name from Cambodian Community Savings Federation to Borvor Finance Plc as per NBC requirement. It is approved on 17 November 2017.

**(d) Functional and presentation currency**

The Organisation transacts its business and maintains its accounting records in three currencies, Khmer Riel ("KHR"), United States Dollars ("US\$") and Thai Baht ("THB"). Management has determined the KHR to be the functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Organisation as the majority of the loan and saving transactions are in KHR.

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

**(e) Use of estimates and judgements**

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Basis of aggregation**

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



**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**3. SIGNIFICANT 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 maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

**(c) Deposits and placements with banks**

Deposits and placements with banks are stated at cost.

**(d) Loans to customers**

All loans to customers are stated in the balance sheet at the amount of principal, less any amounts written off, and allowance for bad and doubtful loans and advances.

**(e) Allowance for bad and doubtful loans to customers**

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:

<b>Classification</b>	<b>Number of days past due</b>	<b>Allowance</b>
Short-term loans (less than one year):		
Sub-standard	30 - 59 days	10%
Doubtful	60 - 89 days	30%
Loss	90 days or more	100%
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 allowance is calculated as a percentage of the loans outstanding at the time the loan is classified, and is charged as expense.

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms.

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

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.

**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Other assets**

Other assets are carried at estimated realisable value.

**(g) 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, they are accounted for as separate items of property and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets at the following rates:

Motor vehicles	50%
Office equipment	20%
IT and computer equipment	50%
Land is not depreciated	

- (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 Organisation. All other subsequent expenditure is recognised as an expense in the year 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 property and equipment are retained in the financial statements until disposed of or written off.

**(h) Impairment of assets**

**(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 and advances which has a separate accounting policy stated in Note 3(e).

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(h) Impairment of assets (Continued)**

**(i) Financial assets (continued)**

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 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.

If an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset or group of assets in prior periods. A reversal of an impairment loss is recognised immediately in income statement.

**(i) Deposits from customers**

Deposits from customers are stated at placement value.

**(j) Loan protection and life savings**

Loan protection and life savings ("LPLS") are collected from Community-Based Micro-Finance Organisations ("CBMIFO") on a monthly basis at rate 0.1% of the savings balance in the current month plus previous month outstanding loan balance to support LPLS programme.

The LPLS is stated at the placement value.



**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) Borrowings**

Borrowings are stated at the amount of the principal outstanding.

**(l) Amounts due to CBMIFO members**

Amounts due to CBMIFO members are stated at placement value.

**(m) Stability fund**

Stability fund is collected from 5 main sources as below:

- i. First fund transferred from Loan protection and life savings which is complying base on the committee approval;
- ii. 5% from total LPLS premium service yearly;
- iii. 5% from each CMIFOs' yearly net profit and loss (not exceed KHR 10 million);
- iv. The Organisation contribution base on the yearly net profit and loss and the committee approval amount; and
- v. Remaining fund "deducted all liability" from each CBMIFOs which is bankruptcy.

**(n) Provisions**

Provisions are recognised in the balance sheet when the Organisation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(o) Income and expense recognition**

Interest income is recognised on cash basis.

Expenses are recognised on an accrual basis.

**(p) Interest expense**

Interest expense on deposits and borrowings is recognised on an accrual basis.

**(q) 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.

**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(r) Income tax**

Income tax on the income statement for the year comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to items recognised directly to fund balance, in which case it is recognised in fund balance.

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

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

**(s) Related parties**

Parties are considered to be related if the Organisation 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 vice-versa, or where the Organisation and the 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.

Related parties also include individuals who hold, directly or indirectly, a minimum of 10% of the capital of the Organisation or voting rights therefore, or who participates in the administration, direction, management, or the design and implementation of the internal controls of the Organisation.

**4. TRANSLATION OF KHMER RIEL INTO UNITED STATES DOLLARS**

The financial statements are stated in Khmer Riel ("KHR"). The translations of KHR amounts into United States Dollars ("US\$") are included solely for presentation purposes and have been made using the prescribed official exchange rate of KHR4,037 to US\$1 published by the NBC on 31 December 2017 (31 December 2016: KHR4,037: US\$1). These convenience translations should not be construed as representations that the Khmer Riel amounts have been, could have been, or could in the future be, converted into United States Dollars at this or any other rate of exchange.

**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**5. CASH ON HAND**

		<b>2017</b>	<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Khmer Riel	182,532	45,215	47,377
Thai Baht	55,865	13,838	25,942
	<u>238,397</u>	<u>59,053</u>	<u>73,319</u>

**6. DEPOSITS AND PLACEMENT WITH BANKS**

		<b>2017</b>	<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Head office – Battambang	809,223	200,452	530,824
Branches			
Battambang	124,437	30,824	2,574,724
Banteay Meanchey	146,940	36,398	667,382
Bavel	51,573	12,775	2,325,755
	<u>1,132,173</u>	<u>280,449</u>	<u>6,098,685</u>

		<b>2017</b>	<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
(a) By maturity:			
Within 1 month	1,132,173	280,449	6,098,685
1 to 2 months	-	-	-
	<u>1,132,173</u>	<u>280,449</u>	<u>6,098,685</u>

		<b>2017</b>	<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
(b) By type:			
Saving accounts			
ACLEDA Bank Plc.	353,843	87,650	6,060,071
Advanced Bank of Asia Limited	774,283	191,797	34,707
	<u>1,128,126</u>	<u>279,447</u>	<u>6,094,778</u>
Fixed deposit accounts			
Advanced Bank of Asia Limited	4,047	1,002	3,907
	<u>1,132,173</u>	<u>280,449</u>	<u>6,098,685</u>

		<b>2017</b>	<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
(c) By currency:			
Khmer Riel	35,905	8,894	5,033,744
US Dollars	910,619	225,568	65,768
Thai Baht	185,649	45,987	999,173
	<u>1,132,173</u>	<u>280,449</u>	<u>6,098,685</u>

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**6. BALANCES WITH OTHER BANKS (Continued)**

	<b>2017</b>	<b>2016</b>
(d) By interest rate (per annum):		
CLEDA Bank Plc.	0.05% – 1.25%	0.05% – 1.25%
Advanced Bank of Asia Limited	0.75% – 3.00%	0.75% - 3.00%

**7. LOANS TO CUSTOMERS**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Loans to CBMIFOs	2,243,877	555,828	19,200,785
Loans to SMEs	32,199,133	7,976,005	9,408,232
	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>
Allowance for bad and doubtful loans	(995,467)	(246,586)	(306,517)
	<u>33,447,543</u>	<u>8,285,247</u>	<u>28,302,500</u>

The movement in the allowance for bad and doubtful loans is as follows:

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
At 1 January	306,517	75,927	135,187
Provision during the year	1,312,877	325,211	439,118
Reversal during the year	(76,956)	(19,063)	(268,677)
Written off during the year	(565,137)	(139,989)	-
Translation different	18,166	4,500	889
	<u>995,467</u>	<u>246,586</u>	<u>306,517</u>

The loans to customers are analyzed as follows:

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
(a) By maturity:			
Within 1 month	1,635,202	405,054	1,785,108
2 to 3 months	1,267,673	314,014	3,291,955
4 to 6 months	2,341,903	580,110	4,088,988
7 to 12 months	3,430,366	849,731	7,029,668
1 to 3 years	21,378,670	5,295,682	12,078,965
Over 3 years	4,389,196	1,087,242	334,333
	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>

**BORVOR FINANCE PLC.**  
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**7. LOANS TO CUSTOMERS (Continued)**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
(b) By location:			
Battambang	24,935,570	6,176,757	14,218,571
Banteay Meanchey	9,507,440	2,355,076	6,362,224
Bavel	-	-	8,028,222
	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>
(c) By industry:			
Agriculture	20,797,710	5,151,774	15,308,192
Services	1,854,960	459,490	1,879,761
Construction	1,946,320	482,120	258,809
Trade	5,011,680	1,241,436	11,162,255
Others	4,832,340	1,197,013	-
	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>
(d) By currency:			
Khmer Riel	19,083,310	4,727,102	21,465,237
US Dollar	5,374,120	1,331,216	754,766
Thai Baht	9,985,580	2,473,515	6,389,014
	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>
(e) By residency status:			
Residents	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>
(f) By relationship:			
Non-related parties	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>
(g) By performance:			
Standard loans			
Secured	32,393,410	8,024,129	28,055,585
Sub-standard loans			
Secured	980,520	242,883	166,593
Doubtful loans			
Secured	245,230	60,746	130,222
Loss loans			
Secured	823,850	204,075	256,617
	<u>34,443,010</u>	<u>8,531,833</u>	<u>28,609,017</u>

**BORVOR FINANCE PLC.**  
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**7. LOANS TO CUSTOMERS (Continued)**

	<b>2017</b>	<b>2016</b>
(h) By interest rate (per annum):		
Loans to CBMIFOs	15.60% - 18.00%	15.60% - 24.00%
Loans to SMEs	15.60% - 18.00%	18.00% - 36.00%

**8. OTHER ASSETS**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Stock of office supplies	-	-	244,142
Prepaid expenses	17,960	4,449	24,622
Others	8,090	2,004	7,555
	<u>26,050</u>	<u>6,453</u>	<u>276,319</u>



**BORVOR FINANCE PLC.**  
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**9. PROPERTY AND EQUIPMENT**

	Building	Land	Motor vehicles	Office equipment	IT and computer equipment	Total	
	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	US\$
<b>Cost</b>							
<b>Balance as at 01.01.2017</b>	-	118,857	133,286	114,347	86,405	452,895	112,186
Additions	639,854	660,628	67,268	27,539	9,235	1,404,524	347,913
Disposals	-	-	(10)	(1,079)	(1,675)	(2,764)	(685)
<b>Balance as at 31.12.2017</b>	<u>639,854</u>	<u>779,485</u>	<u>200,544</u>	<u>140,807</u>	<u>93,965</u>	<u>1,854,655</u>	<u>459,414</u>
<b>Accumulated depreciation</b>							
<b>Balance as at 01.01.2017</b>	-	-	119,834	82,799	85,497	288,130	71,372
Charge for the year	22,797	-	33,983	23,409	4,450	84,639	20,966
Disposals	-	-	-	(1,060)	(1,665)	(2,725)	(675)
<b>Balance as at 31.12.2017</b>	<u>22,797</u>	<u>-</u>	<u>153,817</u>	<u>105,148</u>	<u>88,282</u>	<u>370,044</u>	<u>91,663</u>
<b>Carrying amounts</b>							
<b>Balance as at 31.12.2017</b>	<u>617,057</u>	<u>779,485</u>	<u>46,727</u>	<u>35,659</u>	<u>5,683</u>	<u>1,484,611</u>	<u>367,751</u>

**BORVOR FINANCE PLC.**  
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**9. PROPERTY AND EQUIPMENT (Continued)**

	Land	Motor vehicles	Office equipment	IT and computer equipment	Total
	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000
<b>Cost</b>					
<b>Balance as at 01.01.2016</b>	-	135,893	101,735	86,184	323,812
Additions	118,857	17,414	16,439	10,289	162,999
Disposals	-	(20,021)	(3,827)	(10,068)	(33,916)
<b>Balance as at 31.12.2016</b>	<u>118,857</u>	<u>133,286</u>	<u>114,347</u>	<u>86,405</u>	<u>452,895</u>
<b>Accumulated depreciation</b>					
<b>Balance as at 01.01.2016</b>	-	124,154	65,509	82,209	271,872
Charge for the year	-	15,537	19,005	8,019	42,561
Disposals	-	(19,857)	(1,715)	(4,731)	(26,303)
<b>Balance as at 31.12.2016</b>	<u>-</u>	<u>119,834</u>	<u>82,799</u>	<u>85,497</u>	<u>288,130</u>
<b>Carrying amounts</b>					
<b>Balance as at 31.12.2016</b>	<u>118,857</u>	<u>13,452</u>	<u>31,548</u>	<u>908</u>	<u>164,765</u>

**BORVOR FINANCE PLC.**  
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**10. INCOME TAX**

**(a) Applicable tax rates**

In accordance with Cambodian law, the Organisation has an obligation to pay corporate income tax of either the profit tax at the rate 20% of taxable profits or the minimum tax at 1% of annual turnover, whichever is higher.

**(b) Current income tax liabilities**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
At 1 January	426,163	105,563	437,586
Charged to income statement	269,181	66,679	478,516
Income tax paid	(500,299)	(123,928)	(489,939)
Currency translation difference	-	-	-
At 31 December	<u>195,045</u>	<u>48,314</u>	<u>426,163</u>

**(c) Deferred tax (liabilities)/assets**

Movement of deferred tax (liabilities)/assets, net is as follows:

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
At 1 January	33,937	8,405	114,907
Charged to income statement	(108,740)	(26,935)	(80,970)
Currency translation difference	52	13	-
At 31 December	<u>(74,751)</u>	<u>(18,517)</u>	<u>33,937</u>

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

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Unrealised exchange (gain)/loss	(89,483)	(22,166)	(9,536)
Depreciation	6,581	1,630	6,091
Provision severance pay and LPLS expenses	8,151	2,019	37,382
At 31 December	<u>(74,751)</u>	<u>(18,517)</u>	<u>33,937</u>

**BORVOR FINANCE PLC.**  
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**10. INCOME TAX (Continued)**

**(d) Income tax expense**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Current income tax	269,181	66,679	478,516
Deferred tax expense - Reversal of temporary differences	108,740	26,935	80,970
	<u>377,921</u>	<u>93,614</u>	<u>559,486</u>

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

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Profit before income tax	1,378,969	341,584	2,116,023
Income tax using statutory rate at 20%	275,794	68,317	423,205
Effect of non-deductible expenses	33,062	8,190	33,442
Effect of temporary difference	69,065	17,107	102,839
Income tax expense	<u>377,921</u>	<u>93,614</u>	<u>559,486</u>

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

**11. DEPOSIT FROM CUSTOMERS**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Deposits from CBMIFOs:			
Compulsory savings	489,564	121,269	5,584,686
Demand savings	-	-	1,476,989
	<u>489,564</u>	<u>121,269</u>	<u>7,061,675</u>
Deposits from SMEs:			
Compulsory savings	6,389,259	1,582,675	1,410,640
Promissory notes	1,512,578	374,679	531,017
Dormant accounts	519,138	128,595	177,036
Voluntary savings	58,325	14,448	136,267
	<u>8,479,300</u>	<u>2,100,397</u>	<u>2,254,960</u>
	<u>8,968,864</u>	<u>2,221,666</u>	<u>9,316,635</u>

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**11. DEPOSIT FROM CUSTOMERS (Continued)**

Deposits from customers are analysed as follows:

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
(a) By maturity:			
Within 1 month	-	-	1,784,581
2 to 3 months	-	-	7,240
4 to 6 months	285,600	70,746	127,753
7 to 12 months	1,157,521	286,728	777,762
More than 12 months	7,525,743	1,864,192	6,619,229
	<u>8,968,864</u>	<u>2,221,666</u>	<u>9,316,635</u>
(b) By currency:			
Khmer Riel	6,179,652	1,530,754	7,613,592
Thai Baht	2,499,661	619,188	1,537,845
US Dollars	289,551	71,724	165,198
	<u>8,968,864</u>	<u>2,221,666</u>	<u>9,316,635</u>
(c) By location:			
Battambang	6,997,214	1,733,271	4,845,261
Banteay Meanchey	1,971,650	488,395	1,447,793
Bavel	-	-	3,023,581
	<u>8,968,864</u>	<u>2,221,666</u>	<u>9,316,635</u>
(d) By interest rate (per annum):			
Deposit from CBMIFOs:			
Compulsory savings	9.00%		9.00%
Demand savings	1.50%		1.50%
Deposits from SMEs:			
Promissory notes	5.00% - 10.50%		5.00% - 10.50%
Compulsory savings	8.00%		8.00%
Voluntary savings	3.00%		3.00%

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**12. LOAN PROTECTION AND LIFE SAVINGS**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Head office – Battambang	69,529	17,223	63,891
Branches			
Battambang	1,973,249	488,790	1,812,166
Banteay Meanchey	876,283	217,063	711,787
Bavel	906,075	224,443	816,938
	<u>3,825,136</u>	<u>947,519</u>	<u>3,404,782</u>

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
By currency:			
Khmer Riel	2,948,853	730,457	2,692,996
Thai Baht	876,283	217,062	711,786
	<u>3,825,136</u>	<u>947,519</u>	<u>3,404,782</u>

Movement of loan protection and life savings are as follows:

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Balance at beginning of the year	3,404,782	843,394	2,814,884
Addition during the year	561,277	139,033	884,857
Repayment during the year	(205,602)	(50,929)	(299,477)
Transferred to stability fund	(4,002)	(991)	(1,155)
Translation difference	68,681	17,012	5,673
	<u>3,825,136</u>	<u>947,519</u>	<u>3,404,782</u>

**13. BORROWINGS**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Stichting Rabo Bank			
Foundation	3,969,711	983,332	2,893,180
CARE International UK			
Micro funds	2,549,509	631,535	2,457,140
Individual	617,661	153,000	605,550
	<u>7,136,881</u>	<u>1,767,867</u>	<u>5,955,870</u>



**BORVOR FINANCE PLC.**  
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**13. BORROWINGS (Continued)**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
(a) By maturity			
Within 1 month	-	-	269,133
Within 2 to 3 months	-	-	121,110
3 to 12 months	1,224,551	303,332	1,076,533
1 to 5 years	5,912,330	1,464,535	4,489,094
	<u>7,136,881</u>	<u>1,767,867</u>	<u>5,955,870</u>
(b) By currency			
US Dollars	<u>7,136,881</u>	<u>1,767,867</u>	<u>5,955,870</u>
	<b>2017</b>		<b>2016</b>
(c) By interest rate (per annum)			
US Dollars	<u>6.00% – 12.00%</u>	<u>6.00% - 12.00%</u>	

**14. STABILITY FUND**

Stability fund is programmed to protect risk through the establishment of strong internal control and its community stability fund to ensure that its operation are operating effectively. This programme has been created and effective on 1 September 2015, in which the source of fund was transferred from loan protection and life savings amounting to KHR 3,139 million or equivalent to US\$777,573 as at 31 December 2017 (in 2016: KHR 1,666 million or equivalent to US\$412,694).

**15. OTHER LIABILITIES**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Severance benefits payable	289,320	71,667	1,037,718
Accrued expenses	111,312	27,573	128,094
Withholding tax payable	44,080	10,919	56,749
Salary tax payable	6,342	1,571	37,241
Interest payable on borrowings	50,854	12,597	35,885
Annual leave payable	-	-	23,134
Interest payables on savings	-	-	26,969
Unearned income	20,602	5,103	4,442
Others	790,615	195,842	1,582
	<u>1,313,125</u>	<u>325,272</u>	<u>1,351,814</u>

**BORVOR FINANCE PLC.**  
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**16. PROJECT SEAD CAPITAL**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Project SEAD capital under Credit Union Foundation Australia ("CUFA") funds	-	-	-
Project SEAD capital under AusAID funds	83,365	20,650	83,365
	<u>866,456</u>	<u>214,629</u>	<u>866,456</u>
	<u>949,821</u>	<u>235,279</u>	<u>949,821</u>

**17. Share Capital**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
A 1 January	86,720	21,481	86,720
Transfer to stability fund	(86,720)	(21,481)	-
Transferred during the period	9,735,100	2,411,469	-
Additional share capital purchased	6,500	1,610	-
	<u>9,741,600</u>	<u>2,413,079</u>	<u>86,720</u>
At 31 December			

**18. INTEREST INCOME**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Loans and advances to customers	7,153,072	1,771,879	5,807,387
Deposits and placements with banks	31,559	7,817	14,100
	<u>7,184,631</u>	<u>1,779,696</u>	<u>5,821,487</u>

**19. INTEREST EXPENSE**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Deposit from customers	726,357	179,925	592,448
Borrowings	273,198	67,673	351,170
	<u>999,555</u>	<u>247,598</u>	<u>943,618</u>

**BORVOR FINANCE PLC.**  
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**20. OTHER INCOME**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Service fees income	45,637	11,305	211,341
Penalties	85,625	21,210	28,555
Loan Fee	185,200	45,876	-
Member Entrance Fee	1,810	448	-
Other income	57,007	14,121	80,116
	<u>375,279</u>	<u>92,960</u>	<u>320,012</u>

**21. ADMINISTRATIVE AND OTHER EXPENSES**

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Staff salaries & wages	2,633,058	652,231	1,686,373
Severance & benefits	474,299	117,488	460,627
LPLS expense	411,906	102,033	116,297
Publication	244,392	60,538	135,471
Rental	196,017	48,555	188,719
Professional fees	160,917	39,861	72,561
Medical expenses	135,923	33,669	75,134
Litigation fees	103,266	25,580	-
Office supplies	89,256	22,109	40,638
Depreciation	84,639	20,966	42,561
Utilities	49,254	12,200	34,260
Training & Workshops	43,597	10,799	97,711
Fuel & gasoline	42,571	10,545	17,823
Travel & DSA	40,995	10,155	61,248
Promotion fees	30,244	7,492	13,866
Repairs and maintenance	25,509	6,319	14,105
Withholding tax	22,827	5,654	50,912
Communication	21,160	5,242	11,149
Bank charges	18,808	4,659	10,503
Insurance	16,223	4,019	-
Other expenses	8,340	2,066	32,583
Affiliation fees	7,267	1,800	-
Social Service fees	4,398	1,089	-
License fees	2,402	595	-
Bank tax	1,266	314	-
Annual leave expense	(21,089)	(5,224)	-
Gain on Exchange rate	(447,417)	(110,829)	(251,124)
	<u>4,400,028</u>	<u>1,089,925</u>	<u>2,911,417</u>

**BORVOR FINANCE PLC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**22. LEASE COMMITMENTS**

The Organisation has operating lease commitments in respect of its office rental as follows

	<b>2017</b>		<b>2016</b>
	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
Within 1 year	196,017	48,555	163,586
Between 2 to 5 years	341,720	84,647	228,682
	<u>537,737</u>	<u>133,202</u>	<u>392,268</u>

**23. TAXATION CONTINGENCIES**

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. 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. These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.