

► Annual Report 2007



Maxima

“Working Together for the Development of Rural Households”

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Our Vision

Maxima's vision is to bring together people and businesses with the common goal of alleviating poverty by providing both economic and social opportunities to the rural poor.

Our Mission

Our mission is to offer microfinance services to low-income individuals, groups, and small & medium enterprises (SMEs), with an emphasis on lending to poor, rural women in addition to promoting savings.



Objectives

The main objectives of Maxima are to:

- 1) Assist rural people in gaining access to capital and helping towards the development of rural household economies.
- 2) Provide the highest quality of client service and financial products
- 3) Expand in breadth and scope in order to reach the maximum number of clients
- 4) Devote itself to developing its systems and processes to ensure a transparent, sustainable, and profitable organization
- 5) Remain committed to supporting its staff by way of offering loans for higher education and sponsoring continued training
- 6) Grow business and increase shareholders' wealth while striving towards achieving social and economic progress.





Message from the Chairman

2007 has proved to be yet another successful year for Maxima. Our Company has made great strides in nearly every aspect of our business and is incredibly excited to continue our progress in the year to come.

MAXIMA has transformed itself from what once was a small group struggling from lack of funding to one of the most successful micro credit operators in Cambodia. Having built upon the collective experiences of management and shareholders, MAXIMA has built an institution which includes unparalleled client service and a commitment to the development of rural household economies.

MAXIMA's exceptional reputation relies on the enthusiasm and dedication of the Board of Directors, Executive Team, and staff. I would like to recognize the Executive Team, all of whom have impressive business experience, provide incredible leadership, and bring an outstanding combination of skills in both management and finance to our organization. Secondly, I would like to commend Maxima's staff for committing itself to the best quality of client service. Our staff is composed of outstanding individuals who have built a strong rapport with MAXIMA clients by not only working to understand and serve our clients' financial needs but also helping them to achieve their goals and improve their lives. Lastly, I would like to thank our stakeholders. They are the support system of our Company and similarly the driving force behind rural economic development.

Like every year before, in 2007 our business made meaningful contributions to the development of the rural household and has enhanced the quality of life for our clients.

Maxima has made strides to not only improve the products offered to our existing clients but to expand in order to reach a greater number of people. During the year, Maxima expanded operations to include 127 villages within ten districts in Kandal province and the suburbs of Phnom Penh.

Such expansion did not lessen the quality of service or harm our financial performance. In fact, in 2007 our Company recorded a 22% increase in the size of our loan portfolio while increasing revenues by 25.6% over last year's revenues. After tax net profit also increased by a whopping 44% due to our increased operating efficiency and expanding loan portfolio.

2007 has been an exciting year of partnerships as well. Mid-2007 marked the beginning of Maxima's partnership with Kiva. Kiva, an organization based in the United States, offers Maxima access to interest-free capital. This partnership has not only drastically increased the ability to raise capital, but has also offered Maxima increased visibility outside of Cambodia.

Maxima has also recommitted itself to continued growth. The Company has revised its business plan for 2008 to 2012 to include specific targets for expanding its loan portfolio and growing business activities. Included in this business plan is Maxima's intention to open three branches in Kandal province in the next five years.

Maxima has also acted upon suggestions to increase its transparency and operating efficiency per the suggestion of an external ratings agency. Maxima has begun to search for additional members of the Board of Directors in order to create an independent Board of Directors and thus improve its governance. This is a priority for the upcoming year.

On behalf of MAXIMA Management, I would like to take this opportunity to express my sincere thanks to those who have contributed to MAXIMA's growth. Thank you for helping us to achieve great success and for your continued support.

We look forward to establishing a long and fruitful relationship with you.



Dr. UONG Kimseng
Chairman/ CEO

History

MAXIMA MIKROHERANHVATHO CO., LTD was founded in March 2000 by a group of friends both skilled and experienced in financial services. They began their micro credit operations in Koh Dach commune, Kandal province. In December of 2001, MAXIMA registered with the Ministry of Interior as MAXIMA: Organization for Household Economic Development as an NGO and also worked to expand its credit activities to many communes and districts within the Kandal province. Less than a year later in May 2002, MAXIMA registered with the National Bank of Cambodia as a microfinance institution (MFI) for rural credit operator. As a registered MFI, MAXIMA has attracted a number of key investors. In August 2005, MAXIMA obtained a full license as an MFI from the National Bank of Cambodia with the official name MAXIMA MIKROHERANHVATHO CO., LTD. Over the years we have partnered with various organizations such as Rural Development Bank (RDB) in Cambodia, Appui au Développement Autonome (ADA) in Luxembourg, Consorzio ETIMOS in Italy, and Kiva in the USA. In June 2008 the National Bank of Cambodia granted MAXIMA a permanent license to operate as an MFI in Cambodia thus making it the 13th permanent MFI operating in Cambodia.

MAXIMA Timeline

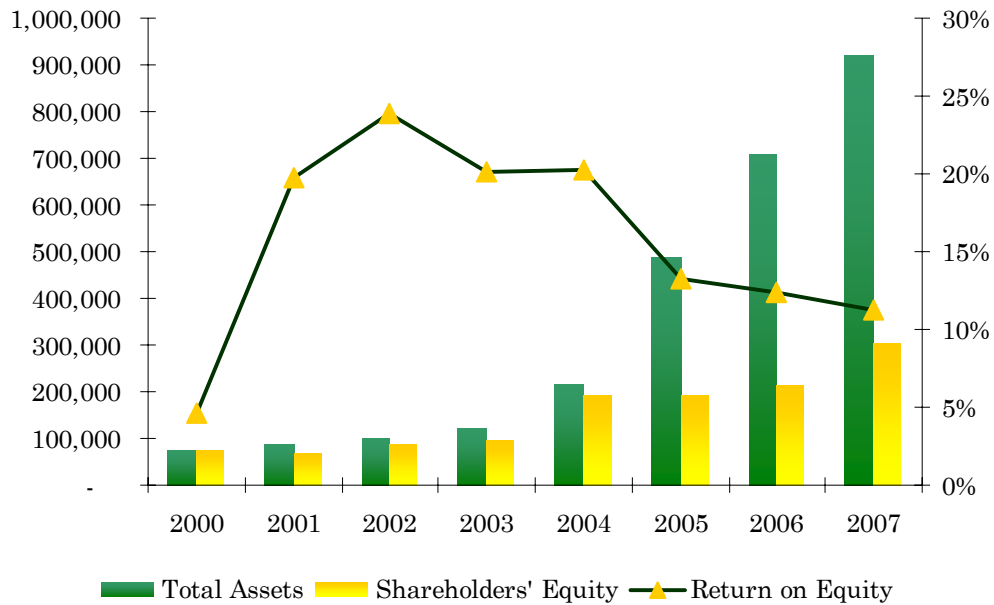
- 2000** MAXIMA was founded in March 2000.
- 2001** MAXIMA registered in the Ministry of Interior as an NGO with the official name MAXIMA Organization for Household Economic Development.
- 2002** MAXIMA registered with the National Bank of Cambodia as an MFI for rural credit.
- 2005** MAXIMA obtained a full license as an MFI from the National Bank of Cambodia with the official name MAXIMA MIKROHERANHVATHO CO., LTD. During the year, MAXIMA began to borrow funds from domestic and international financial institutions such as RDB–Cambodia, ADA–Luxemburg and ETIMOS–Italy.
- 2006** MAXIMA Board increased MAXIMA benefits by adding a Staff Provident Fund and Health & Injury Insurance.
- 2007** MAXIMA partners with Kiva, an organization based in the USA.
- 2008** In June of 2008, the National Bank of Cambodia granted MAXIMA a permanent license to operate as an MFI.



Achievements to Date

Financial Performance Criteria	2003	2004	2005	2006	2007
No. of Staff	8	12	21	23	24
No. of Active Borrowers	499	891	1,225	1,566	1,567
Women borrowers percentages	70%	80%	83%	86%	82%
No. of Savers	-	-	9	29	28
Total Assets	119,604	217,731	486,190	712,537	920,213
Total Loan (Net of Provisions)	100,909	211,688	388,990	660,577	805,722
<i>Rural Individual Loans (%)</i>	93%	92%	71%	71%	29.7%
<i>Rural Group Loans (%)</i>	6%	2%	2%	2%	3.8%
<i>Small & Medium Rural Loans (%)</i>	1%	7%	27%	27%	66.5%
PAR30days	-	-	-	0.30%	0.26%
Total Liabilities	23,401	24,607	296,190	495,901	615,176
Share Capital	76,948	174,100	183,630	185,000	270,000
Shareholders' Equity	96,203	193,124	190,000	216,637	305,037
Total Income	46,687	62,475	97,533	183,483	233,098
Net Profit Before Tax	17,578	29,180	26,286	31,686	36,125
Net Profit After Tax	17,578	29,175	25,511	25,266	29,366
No. of Shares Issued	6,060	17,150	18,363	18,500	27,000
Earning Per Share (EPS) - US\$			1.39	1.37	1.09
Dividend Per Share (DPS) - US\$			1.28	1.37	0.52
Return on Equity (ROE)	20.1%	20.2%	13.7%	15.6%	11.3%
Return on Assets (ROA)	15.9%	17.3%	7.2%	4.2%	3.6%
Operational Self-Sufficiency (OSS)	162.3%	193.9%	137.8%	122.6%	118.3%

Total Assets, Shareholders' Equity, & Return on Equity

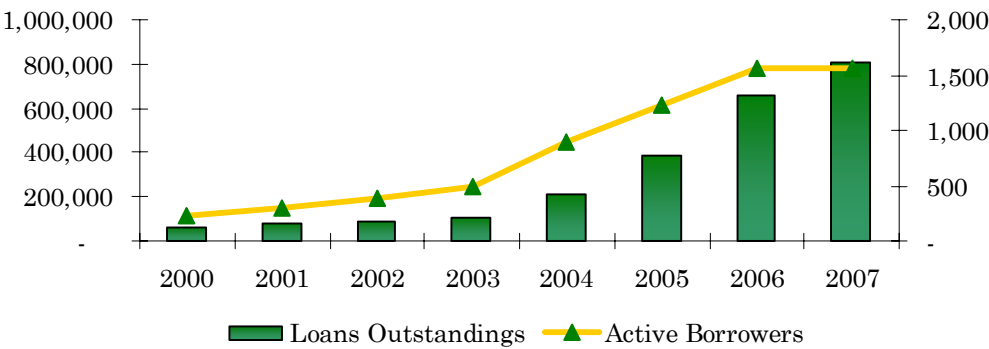


In the 2007 fiscal year, MAXIMA exhibited strong performance in operating activities while growing both its loan portfolio and revenues. Ending 2007, the Company reported an increase in its loan portfolio by 67% from \$660,577 in 2006 to \$806,167. Revenues also experienced a 25.6% increase over the previous year to \$233,098. Total assets made a jump of 30% nearly reaching \$1 million at \$920,213. After tax net profits also increased by an impressive 44% exhibiting our outstanding financial performance. Administrative expenses and operating costs however remain high given the increasing costs of gasoline and other necessities. The return on equity decreased to 11.3% and the return on total assets also experienced a slight decline from 4.2% in 2006 to 3.6% in 2007. The decrease in return on equity over the past couple years is reflective of the increasing competition and decrease in interest rates charged. The decrease in margins, however, is being offset by the significant increase in the size of our loan portfolio.

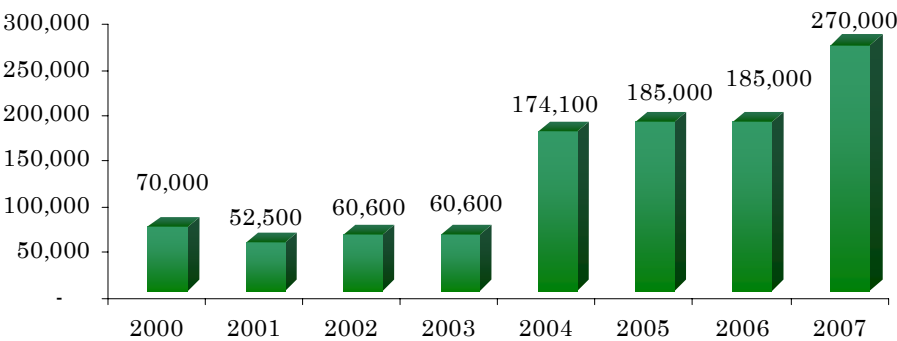


2007 also marked a significant shift in our loan portfolio. Our loan portfolio has increased 67% in 2007 despite the number of clients remaining relatively the same. This increase in the loan portfolio is due to the fact that the average loan size increased significantly as a result of the increase in small and medium enterprise loans. We are very excited at the fact that our clients are expanding their businesses and thus taking out larger loans.

Loan Portfolio & Number of Active Borrowers



Total Registered Capital

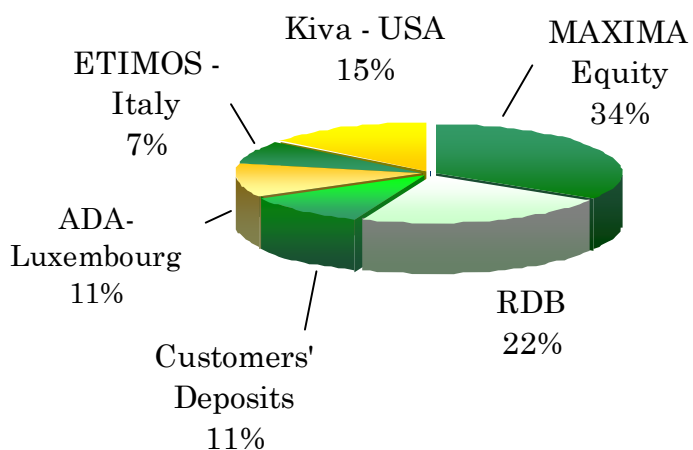


In order to ensure long term sustainability and growth, Maxima’s Board has been committed to increasing its registered capital and has been doing so whenever possible. By year end 2007, the Company has committed \$270,000 to this endeavor marking a significant increase from last year’s registered capital of \$185,000.

Ownership & Funding

In the 2007 fiscal year, MAXIMA's operations were funded by a mix of equity (34%) and debt. MAXIMA received loans from various foreign and domestic partners in the amount of \$200,000 from Rural Development Bank (RDB) in Cambodia, \$100,000 from Appui au Développement Autonome (ADA) in Luxembourg, \$65,969 from Consorzio ETIMOS in Italy, and \$130,950 from Kiva in the USA. The remaining capital came in the form of \$99,495 of customer deposits and \$305,037 of MAXIMA equity. MAXIMA's current shareholders include the 5 founders, MAXIMA employees, and various private persons.

Sources of Funds as of December 31, 2007



MAXIMA is also actively working to expand its capital base by way of both debt and equity. MAXIMA's expansion plans include the opening of multiple branches in the coming years and we are actively seeking partners and shareholders to be part of the MAXIMA family.



Products & Services

MAXIMA's current loan products include loans to individuals, groups and small-medium businesses (SMEs). In addition to the aforementioned loan products, in early 2008, we will introduce the balloon loan to our current portfolio of services and will be adding additional products in the near future depending upon customer needs. Loans are limited by income per household member, the value of the businesses fixed assets, and the number of business employees. The details of the policies and above mentioned products are as follows.



Rural Individual Loans (Interest 3%/month)

- The loan term can be 12 or 20 months with loan sizes ranging from \$50 to \$950,
- Monthly installments of interest and principal with three months grace period and a 12 month loan period,
- Client should be a permanent resident of the area in which MAXIMA operates,
- Age between 18 – 60 years,
- Agreement to borrow between borrower and family members
- Have profitable business or actual plan for new business, which demonstrates ability to repay the loan,
- Have physical collateral or other related certificate or document

Balloon Loans (Interest 3%/month)

- All terms of individual loans apply unless otherwise stated,
- The loan term can be 12 months with loan sizes ranging from \$50 to \$500,
- Monthly interest payment and principal will be paid at the end of the loan period

Rural Small-Medium Loans (Interest 2-2.5%/month)

- All terms of individual loans apply unless otherwise stated,
- The loan term can be either 12 or 20 months with loan sizes ranging from \$1,000 to \$25,000,
- Loans in the amount of \$2,000 or more in the Phnom Penh area (only) are charged 2% interest

Rural Group Loans (Interest 3%/month)

- All terms of individual loans apply unless otherwise stated,
- Group members: 2-10 members with a selected group leader
- One borrower per household (but there must be an agreement to borrow between borrower and family members)
- Group members must take joint liability for repayment of loan,
- One of the group members must have physical collateral or other related certificate or document,
- No physical collateral will be needed if every member of the group borrows less than US\$100



Loan Categories

Agriculture:

- Production: (flowers, vegetables, food crops, seeds, fertilizer)
- Livestock (animal husbandry, feed)
- Fisheries (fishing tools, boats)

Trade/Commerce:

- Vendors, Purchase of produce contracts
- Processing, making doors/ windows, production of Khmer noodles and other foods

Services:

- Laundry, hair cut, motor repair, water supply network, public telephone service, battery charging, among others

Transportation:

- Motor taxi, motor trailer & car taxi

Household/ family:

- Handicrafts, house repairs, education, consumption loans

Miscellaneous

Challenges for the Upcoming Year

Autonomous Micro-credit Operations

MAXIMA has been involved in microfinance operations since June 2000 and began lending with seed capital of \$5,000. As of 2007 year-end, MAXIMA has not yet received financial grants or technical assistance and continues to conduct its microfinance activities relying on the financing of founders, friends and relatives. Aside from these equity contributions, MAXIMA depends on external borrowing from the following sources: Rural Development Bank (RDB), Appui au Développement Autonome (ADA) Consorzio ETIMOS and Kiva. In the upcoming year, MAXIMA will strive to partner with organizations with microfinance experience in order to gain a better understanding of microfinance best practices, systems, and processes. In addition, MAXIMA will aim to expand its investor base beyond its admittedly limited base of founders, relatives, and friends.



Reduction of Interest Rate

In 2004 MAXIMA dealt with a significant reduction of interest from 4% per month to 3% due to competition. Since 2005, the interest rate has continued to decline to between 2.5% and 3%. In the financial year 2007, MAXIMA reduced its interest for small and medium enterprise loans to between 2% and 2.5%. The decline in interest rates has led to a significant decrease in net profit due to high operating costs but has been off-balanced by an increasing loan portfolio and operating efficiency.

Human Resources

While MAXIMA's executive management team is equipped with an array of business skills including management and finance, the middle management staff needs to enhance their technical abilities. MAXIMA will make a concerted effort to improve middle management performance and expand their skill set by way of microfinance training courses and seminars.

Management Information Systems (MIS)

MAXIMA is currently using Microsoft Access to control the master loan portfolio. The methods currently used to prepare monthly and annual financial reports were developed by management and utilize the QuickBook program. This is sufficient for current operations however, with plans to expand over the next few years, these programs may be inadequate for effectively managing loans and financial reports. MAXIMA is currently looking for new software in order to create a more standard and effective system.

Access to external funds

MAXIMA has been very fortunate in receiving loans from RDB, ADA, Etimos, and Kiva and has also done a great job of managing received capital. Additional funding from external sources however is absolutely necessary in light of MAXIMA's expansion plan. The need for additional funding is compounded by the fact that a new microfinance law disallows smaller MFIs from collecting client savings, thus impairing MAXIMA's ability to mobilize such savings. As MAXIMA aims to increase the amount of registered capital the Company is seeking new shareholders and other sources of funding.



Board of Directors



Dr. UONG KIM SENG, Chairman was born in 1972. He joined the Board of MAXIMA at its inception in 2000. He is currently serving as Chairman/ General Director of MAXIMA. Prior to his work in the private sector, Dr. KIMSENG served as a Government official from 1995-2002. In February 2006, he was appointed Advisor to the Phnom Penh Chamber of Commerce, a position which he still holds.

He earned his Doctor of Business Administration (DBA) from Preston University, USA in 2005. In 2001 Dr. Kimseng was granted a scholarship from the Australian Government to pursue his Master's degree at Victoria University of Technology, Australia and obtained Master of Business in 2003. In 1995, he graduated from the Faculty of Business in Cambodia and obtained Bachelor of Business Administration.



Mr. AN BUNHAK, Vice-Chairman was born in 1973. He joined the Board of MAXIMA at its inception in 2000. He is currently serving as Vice-Chairman/ Deputy General Director of MAXIMA. Prior to working at MAXIMA, Mr. BUNHAK served as Chief of Accounting and Finance at Pacific Commercial Bank (1995-2000).

Mr. BUNHAK is currently a Doctor of Business Administration (DBA) candidate at Preston University. He obtained a Master of Banking and Finance at Ateneo De Zambanga University, Philippines in 2003. In 1995, Mr. BUNHAK graduated from the Faculty of Business, Cambodia and obtained Bachelor of Business Administration in 1995.



Mr. PA PONNAK RITHY, Board Member was born in 1960. He joined the Board of MAXIMA in 2000. He is currently serving as Chief Operating Officer of MAXIMA. From 1980 to 1995, Mr. RITHY served as the Deputy Chief of Credit Officer at the National Bank of Cambodia in Kampot province. From 1995-1998, he was Chief of Accounting at Pacific Commercial Bank. From 1998 to 2000 worked as an Accounting and Administration Assistant in LWS, Kampong

Speu province.

He completed his degree in Accounting/Finance and Banking in Cambodia and received Bachelor of Business Administration in 1986.



Ms. SRENG SIVE CHHENG, Board Member was born in 1977. She joined the Board of MAXIMA at its inception in 2000. Ms. SIVE CHHENG is the Vice Chief Operating Officer and is also currently serving as Director of Accounting and Finance of MAXIMA. From 1995 to 2000 she worked as Chief of Remittance at Pacific Commercial Bank.

Ms. SIVE CHHENG is currently a candidate of Master of Business Administration (MBA) at The University of Cambodia, Phnom Penh. She obtained Bachelor of Business Administration with a specialization in Management at the National Institute of Management, Cambodia in 2001.



Mr. CHET CHAN PRASOEUR, Board Member was born in 1973. He joined the Board of MAXIMA in 2001

Mr. PRASOEUR is currently pursuing his Master's degree in Business and Law at Build Bright University. He is also completing English courses at the Banana Center in Cambodia. He graduated from the Faculty of Business, Cambodia and obtained a Bachelor of Business Administration in 1995.



Mr. PA PONNAK KIRY was born in 1982. He joined the Board of MAXIMA in August 2007 (He was elected by MAXIMA staff and is sitting on the Board as their representative). Mr. Kiry is currently serving as Human Resource Manager.

Mr. Kiry holds a Master of Finance and Accounting from the Build Bright University (2006) in Cambodia and a Bachelor of Business Administration in the field of Management from the National Institute of Management in Cambodia (2003).

Executive Management



Dr. UONG KIM SENG
General Director



Mr. AN BUNHAK
Deputy General Director



Mr. PA PONNAK RITHY
Chief Operating Officer



Ms. SRENG SIVE CHHENG
Vice Chief Operating Officer



Mr. PA PONNAK KIRY
Human Resource Manager

Report of the Board of Directors

We, the directors of Maxima Mikroheranhvatho Co., Ltd. (the “Company”) do hereby state that in our opinion:

- i) The results of the operations of the Company for the financial year ended 31 December 2007 have not been materially affected by any item, transaction, and event of any material and unusual nature nor has any such item, transaction and event occurred in the interval between the end of the financial year and the date of this report other than as disclosed in the financial statements, and
- ii) The accompanying financial statements of the Company have been drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2007 and of the results of its operations and cash flows for the year ended on that date, in accordance with the guidelines of the National Bank of Cambodia and Cambodian Accounting Standards.

On behalf of the Board of Directors




Mr. Uong Kimseng
Chairman



Mr. An Bunhak
Vice Chairman



Report of the Independent Auditors

We have audited the accompanying balance sheet of Maxima Mikroheranhvatho Co., Ltd., (the “Company”) as at 31 December 2007, and the related statements of income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian Standards on Auditing and the requirements of the National Bank of Cambodia (“NBC”). Those principles require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depends on the auditors’ judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2007 and of the results of its operations and its cash flows for the year then ended, in accordance with the NBC's guidelines and Cambodian Accounting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 11 to the financial statements which indicated that there is no provision for tax liabilities to take into account the effect of expenses included in the statement of income which may not be allowed as deduction by the Tax Department for tax purposes. The accompanying financial statements are prepared for jurisdiction of Cambodia and the guidelines issued by the National Bank of Cambodia. It is not intended to present the financial position and results to operation and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdiction other than Cambodia.



Balance Sheet

As at 31 December 2007

		2007		2006
	Note	USD	KHR '000	USD
Assets				
Cash in hand		4,559	18,250	22,757
Balances with banks inside Cambodia	4	59,745	239,159	11,124
Balances with central bank		140	560	2
Statutory deposits with central bank	5	20,550	82,262	3,500
Loans and advances to customers	6	805,722	3,225,306	657,885
Deposit in registered stock shares of Consorzio Etimos		654	2,615	654
Property and equipment	7	20,783	83,196	9,065
Other assets	8	8,060	32,264	4,534
Total Assets		920,213	3,683,612	709,540
Liabilities & Shareholders' Funds				
Current Liabilities				
Desposits from non-bank customers	9	99,495	398,278	103,840
Loans from local bank	10	200,000	800,600	230,000
Provision for income tax	11	4,428	17,725	5,002
Other liabilities	12	14,334	57,379	10,049
Total Current Liabilities		318,257	1,273,982	348,891
Long-Term Borrowings	13	296,919	1,188,567	148,834
Total Liabilities		615,176	2,462,549	497,725
Shareholders' Funds				
Share capital	14	270,000	1,080,810	70,000
Subordinated debt		-	-	115,000
Retained earnings		29,384	117,624	22,425
Capital reserve		5,653	22,629	4,390
Total Shareholders' Funds		305,037	1,221,063	211,815
Total Liabilities & Shareholders' Funds		920,213	3,683,612	709,540



Income Statement

For the year ended 31 December 2007

	Note	2007		2006
		USD	KHR '000	USD
Interest income	15	226,279	905,795	183,704
Interest expense	16	(44,526)	(178,238)	(38,818)
Net interest income		181,753	727,557	144,886
Non-interest income	17	6,819	27,296	1,843
Operating income		188,572	754,853	146,729
Payroll and other staff costs		(64,226)	(257,097)	(50,205)
Depreciation of property and equipment		(5,608)	(22,449)	(5,975)
Other operating expenses	18	(78,868)	(315,709)	(60,556)
Operating profit before provision for impairment		39,870	159,598	29,993
Provision for impairment losses		(3,745)	(14,991)	(2,693)
Profit before income tax		36,125	144,607	27,300
Income tax expense		(6,759)	(27,056)	(6,855)
Shareholders' Funds		29,366	117,551	20,445



Statement of Shareholder's Equity

For the year ended 31 December 2007 (USD)

	Share Capital	Subordinated Debt	Capital Reserve	Retained Earnings	Total
Balance at January 2006	70,000	117,916	-	2,084	190,000
Subordinated debt proceeds	-	1,370	-	-	1,370
Transfer to capital reserve	-	(4,286)	4,286	-	-
Transfer of retained earnings to reserve	-	-	104	(104)	-
Net Profit for the year	-	-	-	20,445	20,445
Balance as of 31 December 2006	70,000	115,000	4,390	22,425	211,815
Balance at January 2007	70,000	115,000	4,390	22,425	211,815
Subordinated debt proceeds	-	63,856	-	-	63,856
Capitalization of retained earnings	21,144	-	-	(21,144)	-
Transfer to share capital	178,856	(178,856)	-	-	-
Transfer of retained earnings to reserve	-	-	1,263	(1,263)	-
Net Profit for the year	-	-	-	29,366	29,366
Balance as of 31 December 2007	270,000	-	5,653	29,384	305,037



Statement of Cash Flows

For the year ended 31 December 2007

	2007		2006
	USD	KHR '000	USD
Cash flows from operating activities			
Profit before income tax	36,125	144,607	27,300
<i>Adjustments for:</i>			
Depreciation of property and equipment	5,608	22,449	5,975
Property and equipment write-off	-	-	1,161
Operating profit before changes in working capital	41,733	167,056	34,436
Increase (Decrease) due to changes in working capital			
Loans and advances	(147,837)	(591,792)	(268,895)
Statutory deposits with NBC	(17,050)	(68,251)	0
Desposit in registered stock shares of Consorzio Etimos	-	-	(654)
Other assets	(3,526)	(14,115)	1,716
Deposits from non-bank customers	(4,345)	(17,393)	57,650
Loans from local bank	(30,000)	(120,090)	30,000
Other liabilities	4,285	17,153	10,049
Cash used in operating activities	(156,740)	(627,432)	(130,696)
Income tax paid	(7,334)	(29,357)	(6,855)
Net cash used in operating activities	(164,074)	(656,789)	(137,551)
Cash flows from investing activities			
Purchase of Property and Equipment	(17,326)	(69,356)	(3,721)
Net cash used in investing activities	(17,326)	(69,356)	(3,721)
Cash flows from financing activities			
Repayments of long-term borrowings	(64,501)	(258,198)	(1,167)
Proceeds from long-term borrowings	212,587	850,986	100,000
Subordinated debt proceeds	63,856	255,616	1,370
Net cash generated from financing activities	211,942	848,404	100,203
Net changes in cash and cash equivalents	30,542	122,259	(41,068)
Cash and cash equivalents at beginning of year	33,902	135,710	74,970
Cash and cash equivalents at end of year	64,444	257,969	33,902
<i>Represened by:</i>			
Cash in hand	4,559	18,250	22,757
Balances with banks within Cambodia	59,745	239,159	11,124
Blances with central bank	140	560	21
	64,444	257,969	33,902

Notes to the Financial Statements

1. General

Maxima Mikroheranvatho Co., Ltd. (the “Company”), - formerly known as Maxima Organization for Household Economic Development (the “Institution”) -, was incorporated with the Ministry of Commerce on 27 July 2005 and obtained its license from the National Bank of Cambodia (“NBC”) to operate as a micro finance institution on 9 August 2005.

The Company’s vision is to bring together people and businesses to build a better community through providing adequate loans and better financial services to low income clients in individuals, group and small and medium enterprises (SMEs), in particular women-headed households and mobilizing savings among its clients.

Under the micro finance license, the Company is authorized to grant credit and saving services to poor and low-income households and small enterprises operating in the Kingdom of Cambodia.

The head office is located in Phnom Penh at No.39, Street 374, Sangkat Toul Svay Prey I, Khan Chamkarmon and as at 31 December 2007, the Company employed 24 employees.

2. Basis of preparation

The financial statements of the Company are prepared under the historical cost convention in accordance with the guidelines issued by the NBC, Cambodian Accounting Standards and practice within the micro-finance industry. Those principles require that financial instruments be carried at cost less provision for impairment. This practice differs from the International Financial Reporting Standards which require that loans and receivables be carried at amortised cost using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

The presentation of financial statements in conformity with Cambodian Accounting Standards requires the Management to make the best estimates and reasonable assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on the

information available as of the date of the financial statements. Actual results, therefore, could differ from those estimates.

The accompanying financial statements are prepared for jurisdiction of Cambodia and are not intended to present the financial position and results of operations and cash flows in accordance with generally accepted accounting principles and practice in other countries and those who are not informed about Cambodia’s procedures and practices.

The national currency of Cambodia is the Khmer Riel (“KHR”). However, as the Company transacts essentially in US Dollar (“USD”) and maintains its books of accounts primarily in USD, the Management has determined the USD to be the Company’s measurement and functional currency as it reflects the economic substance of the underlying events and circumstances of the Company. In compliance with the requirements of the NBC, all assets, liabilities, profit and loss statement items in foreign currencies at the end of the year are converted into thousand Khmer Riel (“KHR’000”) using the official exchange rate announced by the NBC at the balance sheet date, of 1 USD = 4,003 KHR (31 December 2006: KHR 4,057). Such conversions should not be construed as representations that the KHR amounts have been, could be, or could in the future be, converted into USD at this or any other rate of exchange.

3. Significant accounting policies

3.1 Transactions in foreign currencies

Assets and liabilities expressed in currencies other than USD are translated into USD at the rate of exchange quoted by the NBC at the date of the balance sheet. Income and expenses arising in foreign currencies are converted at the rate of exchange prevailing on the transaction dates. Exchange differences arising from conversion are reported on a net basis in the statement of income.



3.2 Cash on hand and balances with banks

Cash on hand and balances with banks comprise of cash and bank balances which are subject to an insignificant risk of change in value.

3.3 Statutory deposits with central bank

Statutory deposits represent mandatory reserve deposits and cash maintained with the NBC in compliance with the Law on Banking and Financial Institutions ("LBFI") and are not available to finance the Company day-to-day operations and hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

3.4 Loans and advances to customers

Loans originated by the Company by providing money directly to the borrowers are categorized as loans and advances and are carried at cost, less provisions for impairment.

3.5 Provisions for loan impairment

Provisions for loan impairment is based on the latest NBC guidelines and is made with regard to specific risks on loans individually reviewed and classified as substandard, doubtful or loss regardless of the assets (except cash) lodged as collateral. NBC guidelines require the following loan classification and level of provisioning:

Classification	Overdue	Rate of Provision
Substandard	-More than thirty days	10%
Doubtful	-60 days and more (term of up to one year) -180 days or more (term of more than one year)	30%
Loss	-90 days and more (term of up to one year) -360 days or more (term of more than one year)	100%

Exceptions to the above provision rates may be considered but this is conditional on the actual market value of the collateral having been deemed acceptable by the NBC on a case-by-case basis.

3.6 Interest income

Interests earned on loans and bank savings deposits are recognized on a cash basis.

3.7 Interest and fee expenses

Interest expense on deposits from borrowers is recognized on a cash basis. Interest expense on borrowed fund is recognized on an accrual basis.

3.8 Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets at the following rates per annum:

	Jan to Jun 07	Jul to Dec 07
Leasehold Improvements	20%	50%
Office equipment, furniture and fixtures	20%	25%
Computer & IT equipment	50%	50%
Motor vehicles	25%	25%

Maintenance and repairs that do not extend the useful lives of assets are expended in the year in which they are incurred.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

3.9 Other provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

3.10 Income tax

Income tax is calculated on the basis of taxable profit, which is calculated by adjusting the financial result for certain expense items (such as costs of representation, over/under depreciation, etc.) in accordance with Cambodian regulations. Taxes other than on income are recorded within operating expenses. Provision is made, where material, for deferred taxation in respect of timing difference arising from the recognition of items of income and expenditure in the financial statements on bases different from that used for taxation purposes.

3.11 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Under the LBFI, the definition of related parties includes parties who hold, directly or indirectly, at least 10 percent of the capital or voting rights and includes any individual who participates in the administration, direction, management or internal control of the Company.

4. Balances with banks inside Cambodia

	2007		2006
	USD	KHR '000	USD
Current account at RDB		141	564
Savings account at Canadia Bank Plc (*)	59,604	238,595	10,348
	59,745	239,159	11,124

(*) Savings account at Canadia Bank Plc earns interests at 0.75% per annum.

5. Statutory deposits with central bank

	2007		2006
	USD	KHR '000	USD
Statutory deposit on capital (*)		141	564
Customers' deposits, non-interest bearing	59,604	238,595	10,348
	59,745	239,159	11,124

(*) This represents a five percent interest-bearing statutory deposit on capital to comply with NBC's *Prakas* No.B 7-00-06 dated 11 January 2000 amended by *Prakas* No. B 7-06-209 dated 13 September 2006. This statutory deposit is interest bearing at ½ of the six-month period refinancing rate set by the NBC for statutory deposit maintained in Khmer Riel and 3/8 of the six-month period SIBOR rate for statutory deposit maintained in US Dollar.

6. Loans and advances to customers

	2007		2006
	USD	KHR '000	USD
Loans to customers		141	564
Provisions for doubtful debts – Specific (*)	59,604	238,595	10,348
	59,745	239,159	11,124

(*) Movements in provisions for impairment losses are as follows:

	2007		2006
	USD	KHR '000	USD
At beginning of the year	2,692	10,776	-
Provisions during the year	3,745	14,991	2,692
Write-offs during the year	(5,992)	(23,986)	-
At end of year	445	1,781	2,692

7. Property and equipment

(in USD)	Leashold Improvements	Office Equipment & Furniture	Motor Vehicles	Computer & IT Equipment	Total
Cost					
At January 1, 2007	681	13,658	7,839	-	22,178
Additions	1,475	7,865	4,590	3,396	17,326
Adjustments	-	(2,548)	-	2,548	-
Disposals	(681)	(7,627)	-	-	(8,308)
At December 31, 2007	1,475	11,348	12,429	5,944	31,196
Accumulated Depreciation					
At January 1, 2007	556	9,061	3,496	-	13,113
Additions	262	2,855	2,104	387	5,608
Adjustments	-	(915)	-	915	-
Disposals	(681)	(7,627)	-	-	(8,303)
At December 31, 2007	137	3,374	5,600	1,302	10,418
Net Book Value at Dec. 31 2007	1,338	7,974	6,829	4,642	20,778
Depreciation Charge for 2006	53	3,216	2,231	475	5,975
Net Book Value at Dec. 31 2006	125	4,597	4,343	-	9,065

8. Other assets

	2007		2006
	USD	KHR '000	USD
Amount due from Appui au Développement A	-	-	2,394
Prepayment on house rental	6,600	26,420	-
Advances to staff	1,460	5,844	2,140
	8,060	32,264	4,534

9. Deposits from non-bank customers

	2007		2006
	USD	KHR '000	USD
Fixed Deposits	-	-	103,840
Saving Deposits	99,495	398,278	-
	99,495	398,278	103,840

The deposits bear interests at 8.40% per annum for both deposits with maturity of less than one year and more than one year.

10. Loans from local bank

	2007		2006
	USD	KHR '000	USD
At beginning of year	230,000	920,690	200,000
Movements during the year			
Proceeds from borrowing	200,000	800,600	250,000
Repayments	(230,000)	(920,690)	(220,000)
At end of year	200,000	800,600	230,000

This represents the outstanding balances of four short-term loans contracted from Rural Development Bank, which will mature within one year. Interests charged on these loans are ranging from 9 to 11% per annum.

11. Provision for income tax

	2007		2006
	USD	KHR '000	USD
Balance at beginning of year	5,002	20,023	-
Charge during the year	6,759	27,056	6,855
Taxation paid during the year	(7,333)	(29,354)	(1,853)
Balance at end of year	4,428	17,725	5,002

Tax reconciliation

There is no tax reconciliation by the Company to take into account the effect of expenses included in the statement of income which may not be allowed by the Tax Department as deduction for tax purposes. No provisions have been made in the financial statements for this additional tax liability.



12. Other liabilities

	2007		2006
	USD	KHR '000	USD
Accrued professional fees	1,500	6,005	2,750
Interests payable on long term borrowings	512	2,050	1,223
Accounts payable	766	3,066	1,586
Insurance for staff	2,736	10,952	1,330
Provident fund	8,820	35,306	3,160
	<u>14,334</u>	<u>57,379</u>	<u>10,049</u>

13. Long-term borrowings

	2007		2006
	USD	KHR '000	USD
Borrowings from Appui au Développement Autonome	100,000	400,300	50,000
Borrowings from Consorzio ETIMOS	65,969	264,074	98,833
Borrowings from KIVA	<u>130,950</u>	<u>524,193</u>	<u>-</u>
	<u>296,919</u>	<u>1,188,567</u>	<u>148,833</u>

The loan obtained from Appui au Développement Autonome (“ADA”) - a not-for-profit organisation based in Luxemburg - was contracted on 23 December 2005 for a total amount of USD 100,000; drawn in two equal installments of USD 50,000 in 2006 and 2007. The loan is to be repaid by quarterly installments, commencing on 22 March 2006 and ending on 22 December 2009, with a grace period on capital for the first and second installments.

Two loans of USD 50,000 each were obtained from Consorzio ETIMOS, a financial institution incorporated in Italy. These loans were contracted on 2 May 2006 and 31 October 2006, respectively and are to be repaid in eight quarterly installments commencing on 2 August 2006 for the first borrowing and in five semi-annually installments commencing on 2 May 2007 for the second borrowing.

The loan obtained from Kiva Microfunds (“KIVA”) – a non-profit public benefit corporation with a social mission to serve the world’s poor based in California, USA - was contracted on 10 May 2007 through the KIVA Website whereas Maxima (the “Local Lender”) can obtain capital in the form of recoverable grants from individuals and entities (“Kiva clients”) who also access the Website.

These borrowings are charged interests at the following rates per annum:

	2007		2006
	% per annum	% per annum	
Appui au Développement Autonome (ADA)	8.00-9.00		9.00
Consorzio ETIMOS	9.50-10.20		9.50-10.20

	2007		2006
	USD	KHR '000	USD
Movements on borrowings from Etimos			
At beginning of year	98,833	395,628	-
Movements during the year			
Proceeds from borrowing	15	60	100,000
Repayments	<u>(32,879)</u>	<u>(131,614)</u>	<u>(1,167)</u>
At end of year	<u>65,969</u>	<u>264,074</u>	<u>98,833</u>

	2007		2006
	USD	KHR '000	USD
Movements on borrowings from Kiva			
At beginning of year	-	-	-
Movements during the year			
Proceeds from borrowing	162,572	650,777	-
Repayments	<u>(31,622)</u>	<u>(126,583)</u>	<u>-</u>
At end of year	<u>130,950</u>	<u>524,194</u>	<u>-</u>

14. Share Capital

	2007		2006
	USD	KHR '000	USD
Ordinary shares of 40,000 Khmer riel each			
Balance at beginning of year	70,000	280,210	70,000
Capital increase during the year	<u>200,000</u>	<u>800,600</u>	<u>-</u>
At end of year	<u>270,000</u>	<u>1,080,810</u>	<u>70,000</u>

Details of the shareholding are as follows:

	2007		2006
	USD	KHR '000	USD
Mr. Uong Kimseng	60,000	240,180	14,000
Mr. An Bunhak	70,000	280,210	14,000
Ms. Sreng Sive Chheng	65,000	260,195	14,000
Mr. Pa Ponnak Rithy	24,000	96,072	14,000
Mr. Chet Chanprasoeur	31,000	124,093	14,000
Mr. Pa Ponnak Kiri	10,000	40,030	-
Mr. Buy Sivantha	<u>10,000</u>	<u>40,030</u>	<u>-</u>
At end of year	<u>270,000</u>	<u>1,080,810</u>	<u>70,000</u>

15. Interest Income

Interest income is earned from the following sources:

	2007		2006
	USD	KHR '000	USD
Deposits & Placements with Banks	545	2,182	124
Loans and Advances	<u>225,734</u>	<u>903,613</u>	<u>183,580</u>
	<u>226,279</u>	<u>905,795</u>	<u>183,704</u>

16. Interest Expense

	2007		2006
	USD	KHR '000	USD
Interest expense on deposits from customers	11,017	44,101	7,975
Interest expense on borrowing fund	<u>33,509</u>	<u>134,137</u>	<u>30,843</u>
	<u>44,526</u>	<u>178,238</u>	<u>38,818</u>

17. Non-Interest Income

	USD	2007 KHR '000	2006 USD
Finance charge income		1,761	7,049
Others		5,058	20,247
		<u>6,819</u>	<u>27,296</u>
			1,843

18. Other Operating Expenses

	USD	2007 KHR '000	2006 USD
Advertising		122	488
Company's provident fund contribution expenses		2,840	11,369
Professional development		4,325	17,313
Rental		3,950	15,812
Audit fee		3,000	12,009
Licence fee		245	981
Telephone and postage fees		3,544	14,187
Internet fee		2,435	9,747
Fee and service expense		11,598	46,427
Water		289	1,157
Electricity		2,019	8,082
Security		3,057	12,237
Insurance		1,420	5,684
Operating expenses		1,279	5,120
Stationery and office supplies		4,398	17,605
Travel		356	1,425
Office expense		3,627	14,519
Meals, per-diems, & incidental travels		1,699	6,801
Meal and entertainment		2,214	8,863
Vehicle gasoline		18,390	73,615
Vehicle repair & maintenance		882	3,530
Payroll tax expense		-	-
Other tax		2,593	10,380
Donation & gift expense		4,176	16,717
Other expenses		410	1,641
		<u>78,868</u>	<u>315,709</u>
			60,556

19. Tax Interpretation

The Cambodian Tax Department has two separate offices that are authorised to conduct tax audits of entities undertaking activities and doing business in Cambodia. The application of tax laws and regulations on many types of transactions is susceptible to varying interpretations when reviewed by these two tax offices. The Company's judgment of its business activities may not coincide with the interpretation of the same activities by those tax offices.

If a particular treatment was to be challenged by those tax offices, the Company may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the Tax Department for three years with a possible extension of up to ten years.



20. Comparative Figures

Certain comparative figures have been reclassified or restated whenever necessary to accord with the current year presentation.



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