

Condensed interim financial statements

Phnom Penh Water Supply Authority
For the three-month period ended 31 March 2016

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Report on the review of condensed interim financial statements

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To the Shareholders of Phnom Penh Water Supply Authority

We have reviewed the accompanying condensed interim financial statements of Phnom Penh Water Supply Authority (“PPWSA”) which comprise the condensed interim statement of financial position as at 31 March 2016, and the related condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and the notes to the condensed interim financial statements. Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with Cambodian International Accounting Standard 34 *Interim Financial Reporting*, and for such internal control as Management determines is necessary to enable the preparation of the condensed interim financial statements that are free from material misstatement, whether due to fraud or error. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Cambodian International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Certified Public Accountants and Auditors

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements of PPWSA are not presented fairly, in all material respects, in accordance with Cambodian International Accounting Standard 34 *Interim Financial Reporting*.



GRANT THORNTON (CAMBODIA) LIMITED
Certified Public Accountants
Registered Auditors

Phnom Penh, Kingdom of Cambodia
13 June 2016

Certified Public Accountants and Auditors

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Condensed interim statement of financial position

	Notes	Unaudited 31 March 2016 KHR'000	Audited (Restated) 31 December 2015 KHR'000
Assets			
Non-current			
Property, plant and equipment	5	949,982,027	936,711,937
Intangible assets	6	2,069,715	2,263,493
Loan to Pursat Water Supply		345,871	379,074
Non-current assets		952,397,613	939,354,504
Current			
Inventories		52,572,457	53,718,237
Trade and other receivables		32,919,710	34,315,104
Loan to Pursat Water Supply		111,823	110,445
Loan to employees		5,608,787	5,608,787
Short-term investments	7	189,544,624	194,457,564
Other tax receivables		4,073,518	5,312,052
Cash and bank balances		13,878,858	12,555,435
Current assets		298,709,777	306,077,624
Total assets		1,251,107,390	1,245,432,128
Equity and liabilities			
Equity			
Share capital		541,227,282	541,227,282
Reserves	8	229,471,413	185,791,772
Retained earnings		7,580,884	56,949,128
Total equity		778,279,579	783,968,182
Liabilities			
Non-current			
Borrowings	9	261,449,254	256,360,862
Retirement benefit obligations	10	30,587,015	29,852,391
Deferred government and other grants	11	29,620,953	30,210,946
Deferred tax liabilities		33,500,933	33,974,749
Refundable water deposits		41,004,599	39,925,380
Performance guarantee		7,447,453	6,329,871
Non-current liabilities		403,610,207	396,654,199
Current			
Trade and other payables	12	29,479,747	27,308,000
Borrowings	9	26,468,362	28,540,601
Dividends payable	13	13,269,495	-
Current tax liabilities		-	8,961,146
Current liabilities		69,217,604	64,809,747
Total liabilities		472,827,811	461,463,946
Total equity and liabilities		1,251,107,390	1,245,432,128

Condensed interim statements of profit or loss and other comprehensive income

	Notes	Unaudited	
		Three-month period ended 31 March 2016 KHR'000	31 March 2015 KHR'000
Revenue			
Sales		43,187,930	38,487,940
Construction service fee		3,335,848	4,565,227
Finance income	14	3,256,642	20,767,419
Other income		2,719,506	2,579,984
Total revenue		52,499,926	66,400,570
Expenses			
Depreciation and amortization		8,895,022	8,437,419
Electricity costs		8,144,066	7,269,687
Salaries, wages and related expense		8,635,472	7,257,461
Raw materials for water treatment		1,902,103	1,273,325
Raw materials for household water connections		2,353,972	1,967,450
Repairs and maintenance		1,537,323	1,179,402
Construction service expense		2,201,450	3,690,641
Finance costs	14	6,427,819	2,716,232
Other operating expenses		869,607	725,981
Foreign exchange loss		1,998,716	4,742,988
Total expenses		42,965,550	39,260,586
Profit before income tax		9,534,376	27,139,984
Income tax expense	15	(1,953,487)	(5,471,243)
Profit for the period		7,580,889	21,668,741
Other comprehensive income-			
Actuarial gain on retirement benefit obligation		-	19,567
Total comprehensive income for the period		7,580,889	21,688,308

Earnings per share (expressed in KHR) attributable to shareholders of PPWSA during the period are as follows:

Basic earnings per share	16	87.16	249.36
Diluted earnings per share	16	87.16	249.36

Condensed interim statement of changes in equity

	Notes	Share capital KHR'000	Reserves KHR'000	Retained earnings KHR'000	Total KHR'000
Balance as at 1 January 2016 (unaudited)		541,227,282	185,791,772	56,949,131	783,968,185
Profit for the period		-	-	7,580,889	7,580,889
Total comprehensive income for the period		-	-	7,580,889	7,580,889
<i>Transactions with owners</i>					
Transfer to reserves	8	-	43,679,641	(43,679,641)	-
Dividends declared	13	-	-	(13,269,495)	(13,269,495)
Balance as at 31 March 2016		541,227,282	229,471,413	7,580,884	778,279,579
Balance as at 1 January 2015 (unaudited)		541,227,282	149,193,437	45,747,909	736,168,628
Profit for the period		-	-	21,668,741	21,668,741
Actuarial gain on retirement benefit obligation		-	-	19,567	19,567
Total comprehensive income for the period		-	-	21,688,308	21,688,308
<i>Transactions with owners</i>					
Transfer to reserves		-	36,598,334	(36,598,334)	-
Dividends		-	-	(9,149,577)	(9,149,577)
Balance as at 31 March 2015		541,227,282	185,791,771	21,688,306	748,707,359

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed interim statement of cash flows

	Notes	Unaudited	
		Three-month period ended	
		31 March 2016	31 March 2015
		KHR'000	KHR'000
Operating activities			
Profit before income tax		9,534,376	27,139,984
Adjustments for:			
Amortisation of intangible assets	6	193,778	193,750
Amortisation of deferred government and other grants		(589,993)	(589,993)
Depreciation of property, plant and equipment	5	8,701,244	8,243,668
Finance income		(3,256,642)	(2,403,980)
Finance costs		9,243,866	2,716,232
Property, plant and equipment written off		30,289	13,595,486
Retirement benefit obligation expense	10	1,009,015	692,378
Operating profit before working capital changes		24,865,933	49,587,525
Changes in working capital:			
Change in inventories		(1,670,270)	4,289,443
Change in trade and other receivables		850,598	(5,811,002)
Change in trade and other payables		3,036,933	(14,455,012)
Change in refundable water deposits		1,079,219	910,251
Cash generated from operating activities		28,162,413	34,521,205
Income tax paid		(10,149,915)	(604,426)
Retirement benefit paid		(274,390)	(230,479)
Net cash from operating activities		17,738,108	33,686,300
Investing activities			
Purchases of property, plant and equipment	5	(21,654,249)	(16,145,160)
Interest capitalised on qualifying assets		(94,972)	-
Loan repayments from Pursat Water Supply		31,825	32,323
Short-term investments		4,912,940	(7,995,368)
Interest received		3,801,438	3,163,668
Net cash used in investing activities		(13,003,018)	(20,944,537)
Financing activities			
Proceeds from borrowings		7,865,330	5,359,516
Interest paid		(5,944,989)	(140,867)
Repayments of borrowings		(5,332,008)	(15,770,498)
Net cash used in financing activities		(3,411,667)	(10,551,849)
Net increase in cash and cash equivalents		1,323,423	2,189,914
Cash and cash equivalents, at the beginning of period		12,555,435	14,962,141
Cash and cash equivalents, at the end of period		13,878,858	17,152,055

The accompanying notes are an integral part of these condensed interim financial statements.

Notes to the condensed interim financial statements

1. Corporate information

Phnom Penh Water Supply Authority (“PPWSA”) is acknowledged as having the economic characteristics of a public enterprise by the Ministry of Commerce under registration number Co.0839 Et/2012, dated 27 March 2012. PPWSA is under the technical supervision of the Ministry of Industry and Handicraft (“MIH”) and the financial supervision of the Ministry of the Economy and Finance (“MoEF”), and has its headquarter in Phnom Penh City.

The registered office of PPWSA is Office 45, Street 106, Sangkat Srah Chork, Khan Daun Penh, Phnom Penh, the Kingdom of Cambodia.

The condensed interim financial statements are presented in Khmer Riel (“KHR”), which is also the functional currency of PPWSA.

The condensed interim financial statements for the period ended 31 March 2016 were approved by the Board of Directors on 13 June 2016.

2. Principal activities

The principal activities of PPWSA are to process and distribute water for general use by the public in the city of Phnom Penh. The objectives of PPWSA are to:

- Invest in, build, enlarge, operate, repair and maintain the means of water sanitation and distribution;
- Manage devices to increase water productions, and improve services and water quality to meet demand;
- Operate the business, services and related duties for water supply in accordance with the Board of Director’s resolutions and the laws of Cambodia;
- Cooperate with local and external development partners on technology, trade and finance in order to improve and develop the PPWSA in accordance with government policy; and
- Ensure sustainable production processes, business and finance for the public interest.

3. Basis of preparation

The condensed interim financial statements as at 31 March 2016 and for the three-month period then ended is unaudited and has been prepared in accordance with Cambodian International Accounting Standard 34 *Interim Financial Reporting*. The condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached herein. The comparative figures for the corresponding period were reviewed but not audited.

The explanatory notes provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of PPWSA since the year ended 31 December 2015.

4. Significant accounting policies

The accounting policies and methods of computation adopted are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2015.

The following are the accounting standards and amendments that have been issued but have not been early adopted by PPWSA:

	Effective Date
CIFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
CIFRS 9 <i>Financial Instruments</i> (issued by IASB in July 2014)	1 January 2018

PPWSA is in the process of assessing the impact of implementing these accounting standards and amendments, since the effects would only be observable for the future financial years.

5. Property, plant and equipment

	Unaudited 31 March 2016 KHR'000	Audited 31 December 2015 KHR'000
Carrying amounts		
Balance at beginning of period	1,238,480,486	1,143,925,094
Additions	22,001,617	100,307,171
Written-off	(30,289)	(4,476,313)
Balance end of period	1,260,451,814	1,239,755,952
Accumulated depreciation		
Balance at beginning of period	301,768,543	269,182,429
Depreciation charged	8,701,244	33,861,586
Balance end of the period	310,469,787	303,044,015
Carrying amounts, end of period	949,982,027	936,711,937

During the financial period, PPWSA made the following cash payments to purchase property, plant and equipment:

	Unaudited Three-month period ended 31 March 2016 KHR'000	31 March 2015 KHR'000
Additions	22,001,617	43,717,736
(Increase)/Decrease in payables and performance guarantee	(252,396)	(27,555,000)
Interest capitalised on qualifying assets	(94,972)	(17,576)
Cash payment for purchase of property, plant and equipment	21,654,249	16,145,160

6. Intangible assets

	Unaudited 31 March 2016 KHR'000	Audited 31 December 2015 KHR'000
Carrying amounts		
Balance at beginning of period	5,079,348	5,666,586
Additions	-	191,993
Balance end of period	5,079,348	5,858,579
Accumulated amortisation		
Balance at beginning of period	2,815,855	2,808,969
Amortisation charged	193,778	786,117
Balance end of the period	3,009,633	3,595,086
Carrying amounts, end of period	2,069,715	2,263,493

7. Short-term investments

These represent fixed deposits placed with financial institutions for a period of between four and twelve months and earn interest at rates ranging from 4% to 5% per annum.

Short-term investments include deposits amounting to KHR18.9 billion set up specifically for the purpose of paying retirement benefits to retirees who are entitled to retirement benefits under PPWSA's pension scheme.

8. Reserves

	Capital reserve KHR'000	Legal reserve KHR'000	General reserve KHR'000	Development reserve KHR'000	Total KHR'000
As at 01 January 2016	1,648,435	15,390,933	15,390,933	153,361,471	185,791,772
Transfer from retained earnings	-	2,847,456	2,847,456	37,984,729	43,679,641
As at 31 March 2016 (Unaudited)	1,648,435	18,238,389	18,238,389	191,346,200	229,471,413
As at 01 January 2015	1,648,435	13,103,537	13,103,537	121,337,928	149,193,437
Transfer from retained earnings	-	2,287,396	2,287,396	32,023,543	36,598,335
As at 31 December 2015 (Audited)	1,648,435	15,390,933	15,390,933	153,361,471	185,791,772

In accordance with PPWSA's Articles of Incorporation, article 44, dated 27 June 2012, PPWSA's net profit, after offsetting with losses brought forward (if any), can be used as follows:

- for management and staff bonus
- for legal reserve – 5%
- for general reserve – 5%
- the remaining balance for development reserve.

9. Borrowings

	Unaudited 31 March 2016 KHR'000	Audited 31 December 2015 KHR'000
Non-current		
Loan - ADB	31,986,928	32,639,723
Loan - AFD	145,067,949	133,659,740
Loan - JICA	84,394,377	90,061,399
	261,449,254	256,360,862
Current		
Accrued interest expense	891,945	3,225,167
Current portion of loan - ADB	1,305,589	1,305,589
Current portion of loan - AFD	14,893,675	14,529,698
Current portion of loan - JICA	9,377,153	9,480,147
	26,468,362	28,540,601
Total	287,917,616	284,901,463

The maturity dates of these borrowings are as follows:

	Unaudited 31 March 2016 KHR'000	Audited 31 December 2015 KHR'000
Current		
Not later than one year	26,468,362	28,540,601
Non-current		
Later than one year but not later than two years	25,576,417	25,315,434
Later than two years but not later than five years	94,076,312	90,412,247
Later than five years	141,796,525	140,633,181
	287,917,616	284,901,463

10. Retirement benefit obligations

The amounts recognised in the condensed interim statement of financial position are as follows:

	Unaudited 31 March 2016 KHR'000	Audited 31 December 2015 KHR'000
Present value of defined benefit obligation	30,587,015	29,852,391
Fair value of plan assets	-	-
Liability recognized for retirement benefit obligation	30,587,015	29,852,391

The movements in the defined benefit obligations during the period are as follows:

	Unaudited 31 March 2016 KHR'000	Audited 31 December 2015 KHR'000
Balance at beginning of period	29,852,391	30,246,160
Current service cost	400,991	1,485,152
Interest cost	608,023	2,138,321
Benefit paid	(274,390)	(1,000,181)
Actuarial gain	-	(3,017,061)
Balance at end of period	30,587,015	29,852,391

The amounts recognised within salaries, wages and related expenses in the condensed interim statement of profit or loss and other comprehensive income are as follows:

	Unaudited Three-month period ended	
	31 March 2016 KHR'000	31 March 2015 KHR'000
Current service cost	400,992	341,307
Interest cost	608,023	351,071
	1,009,015	692,378

11. Deferred government and other grants

	Government grant KHR'000	JICA grant KHR'000	Other grants KHR'000	Total KHR'000
Balance as at 1 January 2016	5,091,956	24,313,102	805,888	30,210,946
Amortisation charges	(56,724)	(527,170)	(6,099)	(589,993)
Balance as at 31 March 2016 (Unaudited)	5,035,232	23,785,932	799,789	29,620,953
Balance as at 1 January 2015	5,318,855	26,421,781	830,282	32,570,918
Amortisation charges	(226,899)	(2,108,679)	(24,394)	(2,359,972)
Balance at 31 December 2015 (Audited)	5,091,956	24,313,102	805,888	30,210,946

12. Trade and other payables

	Unaudited 31 March 2016 KHR'000	Audited 31 December 2015 KHR'000
Trade payables	17,807,453	14,826,156
Amount due to Phnom Penh Municipality	7,749,083	5,836,540
Accrued staff incentive	1,971,360	4,541,388
Performance guarantee	123,589	134,090
Unearned income	76,533	214,109
Deferred income	5,278	5,278
Other taxes payable	714,172	361,808
Other payables	1,032,279	1,388,631
	29,479,747	27,308,000

13. Dividends payable

On 28 March 2016, the Board of Directors approved the declaration of dividends in respect of the year ended 31 December 2015 of KHR 152 per share, amounting to a total dividend of KHR 13,269 million. The dividends were paid on 27 April 2016.

14. Finance income/costs

	Unaudited Three-month period ended	
	31 March 2016 KHR'000	31 March 2015 KHR'000
Finance income:		
Interest income on bank deposits (a)	3,250,794	2,228,737
Unwind concessional loan discount to employees	-	168,138
Net foreign exchange gain on borrowings	-	18,363,439
Interest income on loans to Pursat Water Supply	5,848	7,105
	3,256,642	20,767,419
Finance costs:		
Interest expense on borrowings (b)	(9,338,845)	(2,733,808)
Net foreign exchange losses on borrowings	2,816,052	-
Interest expense capitalised on qualifying assets	94,972	17,576
	(6,427,819)	(2,716,232)

- (a) Interest income represents interest earned from savings and deposit accounts held at local banks during the period.
- (b) Interest expense represents the interest charges on the loans obtained from AFD and the subsidiary loans obtained from the MoEF, which are funded through loans obtained from the ADB and JICA.

15. Tax expense

PPWSA has an obligation to pay tax on profits at the rate of 20% of taxable profit or a minimum tax at the rate of 1% of total revenue, whichever is higher. The minimum tax is calculated at the rate of 1% of the annual turnover inclusive of all taxes. It represents the minimum amount of tax that PPWSA will pay to tax authorities. PPWSA has a tax on profit liability that exceeds the minimum tax liability, thus, no minimum tax will be payable. Tax is payable even if PPWSA is in a tax loss position.

16. Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of PPWSA by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Three-month period ended	
	31 March 2016	31 March 2015
Profit attributable to equity holders (KHR'000)	7,580,889	21,688,308
Weighted average number of shares	86,973,162	86,973,162
Basic earnings per share (KHR)	87.16	249.36

(b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

PPWSA had no dilutive potential ordinary shares as at the period end. As such, the diluted earnings per share were equivalent to the basic earnings per share.

17. Related party transactions

(a) PPWSA had the following transactions with related parties during the financial period:

	Unaudited	
	Three-month period ended	
	31 March 2016	31 March 2015
	KHR'000	KHR'000
<u>Common control</u>		
MoEF:		
Interest on borrowings paid	2,343,224	2,515,064
Pursat Water Supply:		
Interest on loans paid	5,848	7,105

(b) Compensation of key management personnel

Key management compensation during the financial period is as follows:

	Unaudited	
	Three-month period ended	
	31 March 2016	31 March 2015
	KHR'000	KHR'000
Salaries and other expenses	519,691	863,779
Retirement benefits	15,728	25,719
	535,419	889,498

18. Financial risk management objectives and policies

The financial risk management objective of PPWSA is to optimise value creation for its shareholders whilst minimising the potential adverse impact arising from volatility of the financial markets.

The Directors are responsible for setting the objectives and underlying principles of financial risk management for PPWSA. The Management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement and exposure limits in accordance with the objectives and underlying principles approved by the Directors.

(a) Credit risk

Credit risk is the risk of financial loss to PPWSA if a counter party to a financial instrument fails to perform as contracted. PPWSA is mainly exposed to credit risk from credit sales. It is PPWSA's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that PPWSA is exposed to minimal credit risk.

PPWSA's primary exposure to credit risk arises through its trade receivables from its customers. The credit period is three months and PPWSA seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by Management.

(b) Liquidity and cash flow risk

Liquidity and cash flow risk arises from PPWSA's management of working capital. It is the risk that PPWSA will encounter difficulty in meeting its financial obligations when they fall due.

PPWSA actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In its liquidity risk management strategy, PPWSA maintains a level of cash and cash equivalents deemed adequate to finance PPWSA's activities.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments of PPWSA would fluctuate because of changes in market interest rates.

The exposure of PPWSA to interest rate risk arises primarily from its borrowings. PPWSA manages its interest rate exposure by closely monitoring the debt market and where necessary, maintaining a prudent mix of fixed and floating rate borrowings. PPWSA does not use derivative financial instruments to hedge any debt obligations.

19. Capital commitments

At the end of the current financial quarter, PPWSA has commitments on capital expenditure in respect of:

	Unaudited	Audited
	31 March 2016	31 December 2015
	KHR'000	KHR'000
Construction of water treatment plant	25,931,781	33,890,892
Purchase of iron pipes, fitting and accessories	7,002,160	2,547,962
Consultation services	1,476,513	1,313,300
Information system	927,262	951,904
	35,337,716	38,704,058

20. Restatement of previously issued financial statements

The statement of financial position as at 31 December 2015 was restated to reflect tax receivables of KHR'000 5,312,052 as part of current assets instead of offsetting it with current tax liabilities. The table below summarises the effects of this restatement:

Effect on statement of financial position

	Audited		As at 31 December 2015 Adjustment		Restated KHR'000
	Dr	Cr	Dr	Cr	
	KHR'000	KHR'000	KHR'000	KHR'000	
Current assets					
Tax receivables	-	-	5,312,052	-	5,312,052
Current liabilities					
Current tax liabilities	-	3,649,094	-	5,312,052	8,961,146