

**PHNOM PENH WATER SUPPLY AUTHORITY
(INCORPORATED IN CAMBODIA)**

**AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
31 DECEMBER 2019**

Registration No:
Co.0839 Et/2012

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

CORPORATE INFORMATION

DIRECTORS:

H.E. Om Sotha
H.E. Mey Vann
H.E. Sim Sitha
H.E. Noun Pharath
Mr. Ma Noravin
Mr. Om Sengbora
Mr. Zhang Yun Feng

REGISTERED OFFICE:

No. 45, St.106
Sangkat Srah Chork, Khan Daun Penh
Phnom Penh
Cambodia

PRINCIPAL BANKERS:

Canadia Bank Plc.
Vattanac Bank
Advance Bank of Asia Ltd.
Foreign Trade Bank of Cambodia
ACLEDA Bank Plc.
Cambodian Public Bank
Prasac Microfinance Institution
Hattha Kaksekar Limited
AMK Microfinance Institution Plc
Sathapana Bank Plc.
Chip Mong Commercial Bank Plc.
National Treasury
Municipal Treasury
Takmao Treasury

AUDITORS:

BDO (Cambodia) Limited

Registration No:
Co.0839 Et/2012

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

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PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Phnom Penh Water Supply Authority ("PPWSA") for the financial year ended 31 December 2019.

Principal activities

The principal activities of the PPWSA are processing and supplying water to Phnom Penh and surrounding areas, including Takmao and carrying out other water supply related activities. There have been no significant changes in the nature of these activities during the financial year.

Results of operations

KHR'000

Profit for the financial year

33,291,913

Dividend

Dividend declared since the end of the previous financial year was as follows:

KHR'000

In respect of financial year ended 31 December 2018:

First and final dividend of KHR217.60 per ordinary share

18,925,360

Reserves and provisions

There was a transfer of KHR54,681,808,000 from retained earnings to legal, general and development reserves, as approved during the Board of Directors meeting on 27 March 2019.

Bad and doubtful debts

Before the statement of profit or loss and other comprehensive income and statement of financial position of the PPWSA were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render it necessary to write off bad debts or the amount of the allowance for doubtful debts in the financial statements of the PPWSA inadequate to any material extent.

Current assets

Before the statement of profit or loss and other comprehensive income and statement of financial position were made out, the Directors took reasonable steps to ensure that for any current assets which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the PPWSA have been written down to an amount expected if realised.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the PPWSA misleading.

**PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)**

DIRECTORS' REPORT (continued)

Valuation methods

At the date of this report, the Directors are not aware of any circumstances, which have arisen and which may render adherence to the existing method of valuation of assets or liabilities of the PPWSA misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there does not exist:

- (i) any charge on the assets of the PPWSA which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (ii) any contingent liability of the PPWSA which has arisen since the end of the financial year.

No contingent or other liability has become enforceable, or is likely to become enforceable, within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the PPWSA to meet its obligations when they fall due.

Change of circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or in the financial statements of the PPWSA, which would render any amount stated in the financial statements as misleading.

Items of an unusual nature

The results of the operations of the PPWSA during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the PPWSA for the financial year for which this report is made.

Share capital

The PPWSA did not issue any shares during the current financial year.

No option to take up unissued shares in the PPWSA was granted during the financial year and there were no shares under options at the end of the financial year in respect of shares in the PPWSA.

Directors

The Directors who have held for office since the date of the last report are:

H.E. Om Sotha	(appointed on 25 February 2020)
H.E. Mey Vann	
H.E. Sim Sitha	
H.E. Noun Pharath	
Mr. Ma Noravin	(appointed on 24 February 2020)
Mr. Om Sengbora	
Mr. Zhang Yun Feng	
H.E. Soem Nara	(resigned on 16 November 2019)
Mr. Long Naro	(resigned on 9 February 2020)

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

DIRECTORS' REPORT (continued)

Directors' benefits

During and at the end of the financial year, no arrangements subsisted to which the PPWSA is a party, with the object or objects of enabling the Directors of the PPWSA to acquire benefits by means of the acquisition of shares in or debentures of the PPWSA or other body corporate.

Since the end of the previous financial year, the Directors have not received or become entitled to receive any benefit by reason of a contract made by the PPWSA or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except for any benefit which may be deemed to have arisen by virtue of those transactions as disclosed in Note 32 to the financial statements.

Directors' responsibility in respect of the financial statements

The Directors are responsible to ascertain that the financial statements give a true and fair view of the financial position of the PPWSA as at 31 December 2019, and of its financial performance and cash flows for the financial year then ended. In preparing these financial statements, the Directors are required to:

- (a) adopt appropriate accounting policies which are supported by reasonable judgements and estimates and then apply them consistently;
- (b) comply with the disclosure requirements of the Cambodian International Financial Reporting Standards ("CIFRSs") or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (c) maintain adequate accounting records and an effective system of internal controls;
- (d) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the PPWSA will continue its operations in the foreseeable future; and
- (e) control and direct effectively the PPWSA in all material decisions affecting its operations and performance and ascertain that such decisions and/or instructions have been properly reflected in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

Significant event during the financial year

The significant event during the financial year is disclosed in Note 37 to the financial statements.

Significant event subsequent to the end of the reporting period

The significant event subsequent to the end of the reporting period is disclosed in Note 38 to the financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

DIRECTORS' REPORT (continued)

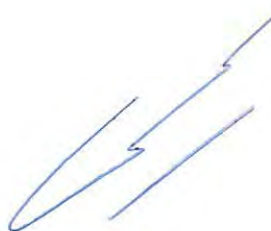
Statement by the Directors

In the opinion of the Directors, the financial statements set out on pages 10 to 48 have been drawn up in accordance with Cambodian International Financial Reporting Standards so as to give a true and fair view of the financial position of the PPWSA as at 31 December 2019, and of its financial performance and cash flows for the financial year then ended. ✓

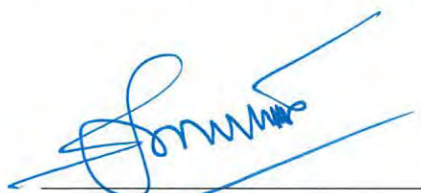
Signed on behalf of the Board of Directors,



Oum Sotha
Chairman of the Board of Directors



Sim Sitha
Director General



Ros Kimleang
Deputy Director General in
charge of Finance & Stock Exchange

Phnom Penh, Cambodia
Date: 12 June 2020

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)
(Registration No: Co.0839 Et/2012)**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Phnom Penh Water Supply Authority ("PPWSA"), which comprise statement of financial position as at 31 December 2019, and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies, as set out on pages 10 to 48.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the PPWSA as at 31 December 2019, and of its financial performance and cash flows for the financial year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the PPWSA in accordance with the *Code of Ethics for Professional Accountants and Auditors* of the Kampuchea Institute of Certified Public Accountants and Auditors ("Code of Ethics") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the PPWSA for the current financial year. These matters were addressed in the context of our audit of the financial statements of the PPWSA as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)
(Registration No: Co.0839 Et/2012) (continued)**

Key Audit Matters (continued)

(a) Accrued water revenue

Accrued water revenue of KHR10.4 billion as disclosed in Note 10 to the financial statements represents the value of water supplied to customers between the date of the last meter reading and the reporting date where no bill has been issued by the PPWSA to the customer at the end of the reporting period. Accrued water revenue is computed based on estimates of the water consumption by PPWSA's customers and applicable water pricing. We determined this to be key audit matter as it involves significant management judgement to estimate customer consumption between the last invoice date and the end of the reporting period to determine the accrued water revenue at the reporting date.

Audit response

We involved our IT specialists to test the operating effectiveness of automated and non-automated controls over the customer billing systems. Our tests assessed the controls in place to ensure all services supplied to customers are estimated into and processed through the billing systems. We subsequently applied a combination of substantive analytical review procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these systems.

(b) Impairment of trade receivables

Gross trade receivables of the PPWSA as at 31 December 2019 were KHR8.5 billion as disclosed in Note 9 to the financial statements.

We determined this to be key audit matter because it requires management to exercise significant judgement in determining the probability of default by trade receivables, appropriate forward looking information, significant increase in credit risk and estimated cash flows recoverable in worst-case scenarios.

Audit response

Our audit procedures included the following:

- Recomputed the probability of default using historical data and forward looking information adjustment applied by the PPWSA;
- Recomputed the correlation coefficient between the macroeconomic indicators used by the PPWSA and historical losses to determine the appropriateness of the forward-looking information used by the PPWSA;
- Inquiries of management to assess the rationale underling the relationship between the forward-looking information and expected credit losses; and
- Assessed actual loss events subsequent to the end of reporting period for its relationship with the indicators of significant increase in credit risk applied by management.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)
(Registration No: Co.0839 Et/2012) (continued)**

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the PPWSA are responsible for the other information. The other information comprises the Directors' Report but does not include the financial statements of the PPWSA and our auditors' report thereon.

Our opinion on the financial statements of the PPWSA does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the PPWSA, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the PPWSA or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the PPWSA are responsible for the preparation and fair presentation of these financial statements in accordance with CIFRSs. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the PPWSA that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the PPWSA, the Directors are responsible for assessing the PPWSA'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 the Directors either intend to liquidate the PPWSA, or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the PPWSA as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CIsAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)
(Registration No: Co.0839 Et/2012) (continued)**

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with CISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the PPWSA, 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 PPWSA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- 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 PPWSA'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 of the PPWSA 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 PPWSA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the PPWSA, including the disclosures, and whether the financial statements of the PPWSA represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors 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.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)
(Registration No: Co.0839 Et/2012) (continued)**

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the PPWSA for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

This report is made solely to the shareholders of the PPWSA, as a body. We do not assume responsibility to any other person for the content of this report.



Lim Seng Siew
Partner

BDO (Cambodia) Limited
Certified Public Accountants

Phnom Penh, Cambodia
Date: 12 June 2020

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 KHR'000	2018 KHR'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,374,031,554	1,215,679,824
Intangible assets	6	13,411,013	14,326,092
		<u>1,387,442,567</u>	<u>1,230,005,916</u>
Current assets			
Inventories	8	103,755,868	97,014,178
Trade and other receivables	9	13,564,801	18,468,010
Contract assets	10	13,321,083	46,041,769
Loan to Pursat Water Supply	7	-	112,365
Loan to employees	11	7,826,214	5,478,350
Short-term investments	12	17,909,267	33,622,417
Other tax receivables		5,312,052	5,312,052
Cash and bank balances	13	55,212,070	13,353,758
		<u>216,901,355</u>	<u>219,402,899</u>
TOTAL ASSETS		<u>1,604,343,922</u>	<u>1,449,408,815</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	14	541,227,282	541,227,282
Reserves	15	339,185,444	284,503,636
Retained earnings		33,291,913	73,607,168
TOTAL EQUITY		<u>913,704,639</u>	<u>899,338,086</u>
LIABILITIES			
Non-current liabilities			
Borrowings	16	303,948,144	285,635,901
Retirement benefit obligations	17	-	-
Deferred government and other grants	18	20,959,838	23,131,029
Deferred tax liabilities	19	59,526,828	45,580,070
Other payables	20	65,398,879	56,848,623
		<u>449,833,689</u>	<u>411,195,623</u>
Current liabilities			
Trade and other payables	20	196,661,333	82,250,223
Borrowings	16	33,136,698	42,118,629
Contract liabilities	10	2,876,260	36,645
Current tax liabilities		8,131,303	14,469,609
		<u>240,805,594</u>	<u>138,875,106</u>
TOTAL LIABILITIES		<u>690,639,283</u>	<u>550,070,729</u>
TOTAL EQUITY AND LIABILITIES		<u>1,604,343,922</u>	<u>1,449,408,815</u>

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

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 KHR'000	2018 KHR'000
Revenue:			
Sales	21	194,272,261	205,841,498
Construction service fees	22	3,359,827	8,092,103
Foreign exchange gain – net	27	1,461,237	-
Other income	23	17,403,491	51,159,692
		<u>216,496,816</u>	<u>265,093,293</u>
Expenses:			
Depreciation and amortisation charges		(49,703,532)	(43,069,524)
Electricity costs		(37,308,266)	(38,826,732)
Salaries, wages and related expenses	24	(51,409,104)	(53,996,452)
Raw materials for water treatment	25	(7,671,340)	(7,502,667)
Raw materials for household water connections	26	(2,844,717)	(3,556,905)
Repairs and maintenance		(7,230,666)	(8,313,279)
Construction service expenses		(2,752,932)	(5,672,339)
Reversal of impairment on loan to employees	11	2,347,864	443,486
Other operating expenses		(7,949,679)	(8,785,828)
Foreign exchange loss – net	27	-	(941,822)
		<u>(164,522,372)</u>	<u>(170,222,062)</u>
Operating profit		51,974,444	94,871,231
Finance income	28	8,824,404	16,814,254
Finance costs	28	(11,508,318)	(16,176,827)
Profit before tax		49,290,530	95,508,658
Tax expense	29	(15,998,617)	(19,007,953)
Profit for the financial year		33,291,913	76,500,705
Other comprehensive income, net of tax			
Item that will not be reclassified to profit or loss:			
Actuarial loss on retirement benefit obligation	17	-	(2,893,537)
Total comprehensive income for the financial year		<u>33,291,913</u>	<u>73,607,168</u>
Earnings per share (expressed in KHR) attributable to shareholders of the PPWSA during the financial year are as follows:			
Basic earnings per share	30	382.78	846.32
Diluted earnings per share	30	382.78	846.32

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

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Share capital KHR'000	Reserves KHR'000	Retained earnings KHR'000	Total KHR'000
Balance as at 1 January 2018		541,227,282	264,829,678	33,067,826	839,124,786
Profit for the financial year		-	-	76,500,705	76,500,705
Actuarial loss on retirement benefit obligation		-	-	(2,893,537)	(2,893,537)
Total comprehensive income		-	-	73,607,168	73,607,168
Transactions with owners					
Transfer to reserves	15	-	19,673,958	(19,673,958)	-
Dividend	31	-	-	(13,393,868)	(13,393,868)
Total transactions with owners		-	19,673,958	(33,067,826)	(13,393,868)
Balance as at 31 December 2018/ 1 January 2019		541,227,282	284,503,636	73,607,168	899,338,086
Profit for the financial year, representing total comprehensive income		-	-	33,291,913	33,291,913
Transactions with owners					
Transfer to reserves	15	-	54,681,808	(54,681,808)	-
Dividend	31	-	-	(18,925,360)	(18,925,360)
Total transactions with owners		-	54,681,808	(73,607,168)	(18,925,360)
Balance as at 31 December 2019		541,227,282	339,185,444	33,291,913	913,704,639

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

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 KHR'000	2018 KHR'000
Cash flows from operating activities			
Profit before tax		49,290,530	95,508,658
Adjustments for:			
Amortisation of intangible assets	6	2,196,104	1,762,210
Amortisation of deferred government and other grants	18	(2,171,191)	(2,359,972)
Depreciation of property, plant and equipment	5	47,507,428	41,307,314
Finance income	28	(8,824,404)	(16,814,254)
Finance costs	28	11,508,318	16,176,827
Gain on settlement of retirement benefit obligation	17	-	(32,928,143)
Reversal of impairment on loan to employees	11	(2,347,864)	(443,486)
Property, plant and equipment written off		728,660	3,822,107
Retirement benefit obligation expense	17	-	5,415,937
Operating profit before working capital changes		97,887,581	111,447,198
Changes in working capital:			
Inventories		(6,741,690)	(32,488,054)
Trade and other receivables		4,401,402	24,964,499
Trade and other payables		95,555,030	29,384,849
Contract assets		32,720,686	(46,041,769)
Contract liabilities		2,876,260	36,645
Refundable water deposits		6,409,516	4,848,065
Cash generated from operations		233,108,785	92,151,433
Income tax paid		(8,390,165)	(7,737,928)
Retirement benefit paid	17	-	(1,302,664)
Net cash from operating activities		224,718,620	83,110,841
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(200,125,829)	(161,843,284)
Interest capitalisation on qualifying assets	5	(2,666,186)	(2,720,159)
Purchase of intangible assets	6	(203,209)	(26,786)
Loan repayments from Pursat Water Supply		112,365	142,380
Proceeds from disposal of short-term investments		15,713,150	63,081,287
Interest received		1,198,062	2,553,613
Net cash used in investing activities		(185,971,647)	(98,812,949)

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

	Note	2019 KHR'000	2018 KHR'000
Cash flows from financing activities			
Dividend paid		(2,838,804)	(6,509,081)
Drawdown of borrowings		47,268,062	73,339,211
Interest paid		(4,704,556)	(7,994,981)
Repayments of borrowings		<u>(36,613,363)</u>	<u>(45,771,810)</u>
Net cash from financing activities		<u>3,111,339</u>	<u>13,063,339</u>
Net increase/(decrease) in cash and cash equivalents		41,858,312	(2,638,769)
Cash and cash equivalents at beginning of financial year		<u>13,353,758</u>	<u>15,992,527</u>
Cash and cash equivalents at end of financial year	13	<u>55,212,070</u>	<u>13,353,758</u>

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings (Note 16) KHR'000
At 1 January 2018	307,637,587
Cash flows	19,572,420
Non-cash flows:	
- Effect of foreign exchange	(7,747,918)
- Accrued interest	<u>8,292,441</u>
At 31 December 2018	<u>327,754,530</u>
At 1 January 2019	327,754,530
Cash flows	5,950,143
Non-cash flows:	
- Effect of foreign exchange	803,821
- Accrued interest	<u>2,576,348</u>
At 31 December 2019	<u>337,084,842</u>

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

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

1. CORPORATE INFORMATION

The Phnom Penh Water Supply Authority (“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. The PPWSA is acknowledged as having the economic characteristics of a public enterprise by the Ministry of Commerce under the registration number Co.0839 Et/2012, dated 27 March 2012.

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

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

The financial statements were authorised for issue by the Board of Directors on 12 June 2020.

2. PRINCIPAL ACTIVITIES

The principal activities of the PPWSA are to process and distribute water for general use by the public in the city of Phnom Penh. The objectives of the 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 financial statements of the PPWSA have been prepared in accordance with Cambodian International Financial Reporting Standards (“CIFRSs”) as issued by the National Accounting Council of the Ministry of Economy and Finance.

4. BASIS OF ACCOUNTING

The accounting policies adopted are consistent with those of the previous financial year except for the effects, if any, of the adoption of new amendments to CIFRSs during the financial year. The new CIFRSs adopted during the financial year are disclosed in Note 39 to the financial statements.

The financial statements of the PPWSA have been prepared under the historical cost convention except as otherwise stated in the financial statements and on a going concern basis.

As at 31 December 2019, the PPWSA’s current liabilities exceeded its current assets by KHR23,904 million. This condition indicates the existence of an uncertainty, which may cast doubt about the PPWSA’s ability to continue as a going concern. The ability of the PPWSA to continue as a going concern in the foreseeable future is therefore dependent on its ability to receive continuous financial support from a substantial shareholder to sustain its operations and meet its obligations as and when they fall due.

The shareholder has agreed to continue to support the PPWSA by providing adequate financial assistance to enable the PPWSA to continue as a going concern for the foreseeable future. As such, the Directors consider that it is appropriate to prepare the financial statements of the PPWSA on a going concern basis, and accordingly, the financial statements do not include any adjustments related to the recoverability and classification of recorded assets amount, or to amounts or classification of liabilities that may be necessary, if the going concern basis of preparing the financial statements of the PPWSA is inappropriate.

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold land KHR'000	Building KHR'000	Machinery KHR'000	Fluid Laboratory equipment KHR'000	Office furniture and equipment KHR'000	Electricity equipment KHR'000	Motor vehicles KHR'000	Valves and tools KHR'000	Water meters KHR'000	House connection KHR'000	Construction in progress KHR'000	Total KHR'000	
<i>Cost</i>													
Balance at 1.1.2018	174,238,381	243,734,419	78,255,063	555,750,373	816,404	15,847,334	127,789,059	38,372,414	20,195,682	4,592,393	-	235,200,110	1,494,791,632
Additions	-	27,179	534,359	3,525	39,522	1,645,253	463,186	2,115,774	878,479	22,086	49,153	141,708,656	147,487,172
Transfers	-	83,803,309	19,992,830	70,377,241	-	5,057,841	21,525,659	1,106,895	4,016,560	3,059,919	5,296,158	(214,236,412)	-
Transfers to intangible assets (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(10,850,110)	(10,850,110)
Written-off	-	(2,709,714)	(1,863,843)	(168,524)	(161,840)	(1,293,027)	(1,340,695)	-	(227,264)	(31,162)	-	(1,912,285)	(9,708,354)
Balance at 31.12.2018	174,238,381	324,855,193	96,918,409	625,962,615	694,086	21,257,401	148,437,209	41,595,083	24,863,457	7,643,236	5,345,311	149,909,959	1,621,720,340
Additions	-	-	3,354,126	-	83,643	1,315,188	1,281,628	2,848,511	1,033,628	4,023	-	197,744,887	207,665,634
Transfers	-	3,052,507	3,640,535	8,660,537	-	136,939	17,699	-	179,762	721,462	6,633,569	(23,043,010)	-
Transfers to intangible assets (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(1,077,816)	(1,077,816)
Written-off	-	-	-	-	-	-	-	-	-	-	-	(728,660)	(728,660)
Balance at 31.12.2019	174,238,381	327,907,700	103,913,070	634,623,152	777,729	22,709,528	149,736,536	44,443,594	26,076,847	8,368,721	11,978,880	322,805,360	1,827,579,498

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land KHR'000	Building KHR'000	Machinery KHR'000	Fluid Laboratory equipment KHR'000	Office furniture and equipment KHR'000	Electricity equipment KHR'000	Motor vehicles KHR'000	Valves and tools KHR'000	Water meters connection KHR'000	House connection KHR'000	Construct- ion in progress KHR'000	Total KHR'000
<i>Accumulated depreciation</i>												
Balance at												
1.1.2018	-	(62,024,370)	(46,156,905)	(142,324,129)	(771,025)	(8,762,117)	(76,382,972)	(22,141,770)	(9,082,879)	(2,973,282)	-	(370,619,449)
Depreciation for the year	-	(6,911,121)	(4,395,389)	(14,500,792)	(10,995)	(2,347,542)	(5,831,934)	(4,380,035)	(1,968,141)	(763,283)	-	(41,307,314)
Written-off	-	1,075,769	1,808,875	70,033	161,840	1,271,544	1,269,120	-	203,318	25,748	-	5,886,247
Balance at												
31.12.2018	-	(67,859,722)	(48,743,419)	(156,754,888)	(620,180)	(9,838,115)	(80,945,786)	(26,521,805)	(10,847,702)	(3,710,817)	(198,082)	(406,040,516)
Depreciation for the year	-	(6,840,614)	(5,565,590)	(17,145,590)	(19,738)	(2,799,679)	(6,661,832)	(4,358,517)	(2,222,706)	(1,157,174)	(735,988)	(47,507,428)
Balance at												
31.12.2019	-	(74,700,336)	(54,309,009)	(173,900,478)	(639,918)	(12,637,794)	(87,607,618)	(30,880,322)	(13,070,408)	(4,867,991)	(934,070)	(453,547,944)
<i>Carrying amounts</i>												
Balance at												
31.12.2019	174,238,381	253,207,364	49,604,061	460,722,674	137,811	10,071,734	62,128,918	13,563,272	13,006,439	3,500,730	11,044,810	322,805,360
Balance at												
31.12.2018	174,238,381	256,995,471	48,174,990	469,207,727	73,906	11,419,286	67,491,423	15,073,278	14,015,755	3,932,419	5,147,229	1,215,679,824

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- (a) All items of property, plant and equipment are initially measured at cost. After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.
- (b) Depreciation is calculated to write down the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal depreciation periods are as follows:

Building	50 years
Machinery	10, 15 and 20 years
Fluid equipment	15, 35, 40 and 50 years
Laboratory equipment	7 years
Office furniture and equipment	7 years
Electricity equipment	7 years
Motor vehicles	7 years
Valves and tools	7 years
Water meters	5 years
House connection	12 years

Freehold land has unlimited useful life and is not depreciated.

Constructions in progress represent construction of new water treatment plant, extension of the transmission and distribution networks and renovation-in-progress. Constructions in progress are not depreciated until such time when the asset is available for use.

- (c) During the financial year, the PPWSA made the following cash payments to purchase property, plant and equipment:

	2019 KHR'000	2018 KHR'000
Additions	207,665,634	147,487,172
(Increase)/Decrease in payables to suppliers and performance guarantee	(4,873,619)	17,076,271
Interest capitalised on qualifying assets	<u>(2,666,186)</u>	<u>(2,720,159)</u>
Cash payments on purchase of property, plant and equipment	<u>200,125,829</u>	<u>161,843,284</u>

6. INTANGIBLE ASSETS

	KHR'000
<i>Cost</i>	
Balance as at 1.1.2018	9,845,237
Additions	26,786
Transfer from property, plant and equipment (Note 5)	<u>10,850,110</u>
Balance as at 31.12.2018	20,722,133
Additions	203,209
Transfer from property, plant and equipment (Note 5)	<u>1,077,816</u>
Balance as at 31.12.2019	<u>22,003,158</u>

6. INTANGIBLE ASSETS (continued)

	KHR'000
<i>Accumulated amortisation</i>	
Balance as at 1.1.2018	(4,633,831)
Amortisation for the year	<u>(1,762,210)</u>
Balance as at 31.12.2018	(6,396,041)
Amortisation for the year	<u>(2,196,104)</u>
Balance as at 31.12.2019	<u>(8,592,145)</u>
<i>Carrying amounts</i>	
Balance as at 31.12.2019	<u>13,411,013</u>
Balance as at 31.12.2018	<u>14,326,092</u>

- (a) Intangible assets are initially measured at cost. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.
- (b) Intangible assets comprise accounting software as well as network software and are amortised over seven years using the straight line method.

7. LOAN TO PURSAT WATER SUPPLY

	2019 KHR'000	2018 KHR'000
Not later than one year	<u>-</u>	<u>112,365</u>

- (a) Loan to Pursat Water Supply was classified as financial assets measured at amortised cost.
- (b) The loan to Pursat Water Supply was made in US\$ in accordance with the loan agreement signed between the PPWSA and Pursat Water Supply on 4 June 2008 that amounted to KHR1,156 million (US\$283,192). The purpose of the loan was to finance the construction of the main water supply network in Kandiang district, Pursat province, which was constructed and completed by the PPWSA in April 2009. The loan was unsecured and subject to interest at the rate of 5% per annum.
- (c) The loan was being repaid by Pursat Water Supply in 120 monthly instalments in accordance with the repayment schedule set out in Article G of the loan agreement. However, based on the request letter No. 05 IME.WS.PS dated 9 January 2013 from Pursat Water, the repayment schedule was amended to 126 monthly instalments by deferring the principal repayments scheduled from January to June 2013 (resuming repayment from July 2013). Interest is still due for payment on a monthly basis. This proposed letter was approved by the PPWSA on 24 January 2013.

The loan was fully settled in September 2019.

- (d) Weighted average effective interest rate of loan to Pursat Water Supply of the PPWSA as at the end of each reporting period was as follows:

31 December 2018	Weighted average effective interest rate per annum %	Within 1 year KHR'000	Total KHR'000
Fixed rates	5.00	<u>112,365</u>	<u>112,365</u>

7. LOAN TO PURSAT WATER SUPPLY (continued)

- (e) Fair value of the loan to Pursat Water Supply was categorised as Level 3 in the fair value hierarchy.

Valuation techniques used and key inputs to valuation on the loan to Pursat Water Supply measured at level 3 are described below:

Financial asset	Valuation technique used	Significant unobservable input	Inter-relationship between key unobservable inputs and fair value
Loan to Pursat Water Supply	Discounted cash flow method	Discount rate	The higher the discount rate, the lower the fair value of the financial asset would be

- (f) Loan to Pursat Water Supply that was not carried at fair value and whose carrying amount do not approximate of fair values was as follows:

	2018 Carrying amount KHR'000	Fair value KHR'000
Loan to Pursat Water Supply	<u>112,365</u>	<u>111,451</u>

Fair value of the loan to Pursat Water Supply was estimated by discounting future contracted cash flows at the current market interest rate available to the PPWSA for similar financial instruments.

8. INVENTORIES

	2019 KHR'000	2018 KHR'000
At cost		
Distribution pipes and fittings	71,145,822	66,600,214
Water meters	16,647,980	18,265,430
Spare parts and tools	6,398,655	2,895,290
Chemicals	906,597	986,137
Drums and other packages	100,216	100,216
Inventories in transit*	528,652	2,238,143
Other materials	<u>8,027,946</u>	<u>5,928,748</u>
	<u>103,755,868</u>	<u>97,014,178</u>

* Inventories in transit are main pipes which arrived at the port of Cambodia.

- (a) Inventories costs are determined using the weighted average cost basis and stated at the lower of cost and net realisable value.
- (b) During the financial year, inventories of the PPWSA recognised as expenses amounted to KHR10,516 million (2018: KHR11,059 million).

9. TRADE AND OTHER RECEIVABLES

	2019 KHR'000	2018 KHR'000
Trade receivables		
Household receivables	2,736,974	4,704,922
Commercial receivables	1,852,376	4,027,483
Public administration receivables	3,775,383	2,836,682
Water wholesalers	145,338	338,729
Less: Impairment loss (household receivables)	<u>(5,553)</u>	<u>(5,553)</u>
	<u>8,504,518</u>	<u>11,902,263</u>
Other receivables		
Interest receivables	725,374	1,227,181
Advances to suppliers	226,949	221,520
VAT receivables -- net	456,397	897,896
Other receivables	<u>3,651,563</u>	<u>4,219,150</u>
	<u>5,060,283</u>	<u>6,565,747</u>
Total receivables	<u>13,564,801</u>	<u>18,468,010</u>

- (a) Total receivables are classified as financial assets measured at amortised cost.
- (b) Trade receivables are non-interest bearing and the normal trade credit terms granted by the PPWSA to households and businesses is one month (2018: one month) and to government departments is one year (2018: one year).
- (c) Public administrator customers are related to receivables from government departments with whom there is no recent history of default.
- (d) Trade receivables are denominated in KHR and other receivables are mainly denominated in KHR.
- (e) For impairment of trade receivables that do not contain a significant financing component, the PPWSA applies the CIFRS 9 simplified approach to measuring expected credit loss using a lifetime credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. The expected loss rates are based on the PPWSA's historical credit losses experienced. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the PPWSA's customers.

As at the end of each reporting period, the credit risks exposures and concentration relating to trade receivables of the PPWSA are summarised in the table below:

	2019 KHR'000	2018 KHR'000
Maximum exposure	8,504,518	11,902,263
Collateral obtained (deposits from customers)	<u>(8,504,518)</u>	<u>(11,902,263)</u>
Net exposure to credit risk	<u>-</u>	<u>-</u>

During the financial year, the PPWSA did not renegotiate the terms of any trade receivables.

9. TRADE AND OTHER RECEIVABLES (continued)

(f) Movements in the impairment allowance for trade receivables are as follows:

	Specific allowance KHR'000	Total allowance KHR'000
At 1 January 2019	5,553	5,553
Charge for the year	<u>-</u>	<u>-</u>
At 31 December 2019	<u>5,553</u>	<u>5,553</u>

Specific allowance refers to individually determined debtors who are in significant financial difficulties and have defaulted on payments to be impaired as at the end of financial year.

(g) Impairment for other receivables are recognised based on the general approach within CIFRS 9 using the forward looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

10. CONTRACT ASSETS/(LIABILITIES)

	2019 KHR'000	2018 KHR'000
Contract assets		
Construction service receivable	2,916,716	515,614
Accrued water revenue	<u>10,404,367</u>	<u>45,526,155</u>
	<u>13,321,083</u>	<u>46,041,769</u>
Contract liabilities		
Deferred income	(5,278)	(5,278)
Unearned income	<u>(2,870,982)</u>	<u>(31,367)</u>
	<u>(2,876,260)</u>	<u>(36,645)</u>
	<u>10,444,823</u>	<u>46,005,124</u>

(a) Construction service receivable and unearned income

Construction service receivable and unearned income represent the timing differences in revenue recognition and the milestone billings. The milestone billings are structured and/or negotiated with customers to reflect physical completion of the contracts.

Construction service receivable is transferred to receivables when the rights to economic benefits become unconditional. This usually occurs when the PPWSA issues billing to the customers.

Unearned income represents the cash received in advance for the construction services provided in relation to the expansion of the water distribution system to a water supply distributor in the provinces. Unearned income is recognised as revenue when performance obligations are satisfied.

(b) Accrued water revenue

Accrued water revenue represents water supplied to customers but not billed at the year end. These contract assets are transferred to receivables when the right to economic benefits becomes unconditional, which occurs when the PPWSA issues the bill.

10. CONTRACT ASSETS/(LIABILITIES) (continued)

(c) The amount of KHR476 million (2018: KHR476 million) recognised in contract liabilities at the beginning of the financial year has been recognised as revenue for the financial year ended 31 December 2019.

(d) Contract value yet to be recognised as revenue

Revenue expected to be recognised in the future relating to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period, are as follows:

	2019 US\$	2020 US\$	Total US\$
31 December 2019	-	2,876,260	2,876,260
31 December 2018	36,645	-	36,645

(e) The PPWSA applies the CIFRS 9 simplified approach to measuring expected credit losses on contract assets by using a lifetime credit loss provision as disclosed in Note 9 to the financial statements.

11. LOAN TO EMPLOYEES

	2019 KHR'000	2018 KHR'000
Receivables from employees	8,217,525	8,217,525
Less: Impairment loss	<u>(391,311)</u>	<u>(2,739,175)</u>
	<u>7,826,214</u>	<u>5,478,350</u>

(a) Loan to employees are classified as financial assets measured at amortised cost.

(b) On 15 February 2012, the Board of Directors approved the motion that 10% of the floating shares be reserved for the PPWSA's staff. The number of shares to be allotted to each employee was finalised on 3 April 2012. This date is therefore regarded as the grant date for the employee share option plan. The total loans, paid on 6 April 2012, amounted to KHR8,218 million. The PPWSA provided interest-free loans with a term of three year to employees and senior officers to purchase these shares. On the due date the loans must be repaid in full to the PPWSA. According to the minutes of the Board of Directors meeting dated 20 December 2012, the employees are allowed to trade their shares if the loans have been paid.

The fair value of the loan to employees are based on cash flow discounted using a weighted average interest rate of 14.40% per annum. Management assessed that the 14.40% interest rate is a reasonable rate, being equivalent to the rate at which the employees could obtained loans from commercial banks in Khmer Riel currency for a period of three years. There is no change of this rate at the commercial banks.

On the granted date, the fair value adjustment to the loan balance of KHR2,729 million was recognised in salaries, wages and related expenses. This was because the fair value of the loans has been reduced through a preferential rate (interest-free) and a benefit was provided to the employees.

This loan is due in April 2015. However, due to the decline in share prices, management had decided to make an allowance for impairment amounting to KHR574 million in the financial statements for the financial year ended 31 December 2017 to the level of the share prices as at 31 December 2017, based on management expectation on the amount to be realised if the employees dispose these shares to settle this amount.

On 31 December 2019, the share price has increased and management has decided to make a reversal of impairment amounting to KHR2,348 million (2018: KHR443 million) in the financial statements.

The Board of Directors is in the process of discussing and obtaining advice from the Securities and Exchange Commission of Cambodia on its employee share option scheme.

11. LOAN TO EMPLOYEES (continued)

- (c) The PPWSA applies the CIFRS 9 general approach to measuring expected credit losses using forward looking expected credit loss model provision as disclosed in Note 9 to the financial statements.
- (d) As at the end of each reporting period, the credit risks exposures and concentration relating to loan to employees of the PPWSA are summarised in the table below:

	2019 KHR'000	2018 KHR'000
Maximum exposure	7,826,214	5,478,350
Collateral obtained	<u>(7,826,214)</u>	<u>(5,478,350)</u>
Net exposure to credit risk	<u>-</u>	<u>-</u>

- (f) Movements in the impairment allowance for loan to employees is as follows:

	2019 KHR'000	2018 KHR'000
At 1 January	2,739,175	3,182,661
Reversal of impairment loss	<u>(2,347,864)</u>	<u>(443,486)</u>
At 31 December	<u>391,311</u>	<u>2,739,175</u>

12. SHORT-TERM INVESTMENTS

- (a) Short-term investments are classified as financial assets measured at amortised cost.
- (b) The short-term investments include deposits amounting to KHR17.9 billion (2018: KHR33.6 billion) set up specially for the purpose of paying retirement benefits to retirees who are entitled to retirement benefits under the pension scheme. There is no restriction for the PPWSA to use these short-term investments for other purposes.
- (c) The short-term investments represents fixed deposits placed with financial institutions for a period of between four and twelve months, earning interest at rate of 4.00% (2018: 4.00% and 5.50%) per annum.

Weighted average effective interest rate of short-term investments of the PPWSA as at the end of each reporting period are as follows:

	Weighted average effective interest rate per annum %	Within 1 year KHR'000	Total KHR'000
31 December 2019			
Fixed rates	4.00%	<u>17,909,267</u>	<u>17,909,267</u>
31 December 2018			
Fixed rates	4.28%	<u>33,622,417</u>	<u>33,622,417</u>

- (d) Short-term investments are denominated in US\$.

13. CASH AND BANK BALANCES

	2019 KHR'000	2018 KHR'000
Cash on hand	538,040	1,384,995
Cash at banks	<u>54,674,030</u>	<u>11,968,763</u>
	<u>55,212,070</u>	<u>13,353,758</u>

- (a) Cash and bank balances are classified as financial assets measured at amortised cost.
- (b) The currency exposure profile of cash and bank balances is as follows:

	2019 KHR'000	2018 KHR'000
Khmer Riel	44,865,428	12,266,249
United States Dollar	<u>10,346,642</u>	<u>1,087,509</u>
	<u>55,212,070</u>	<u>13,353,758</u>

14. SHARE CAPITAL

	Ordinary shares		Class A shares		Share premium	Total
	Number	KHR'000	Number	KHR'000	KHR'000	KHR'000
As at 31.12.19	<u>86,973,162</u>	<u>86,973,162</u>	<u>391,101,942</u>	<u>391,100,942</u>	<u>63,153,178</u>	<u>541,227,282</u>
As at 31.12.18	<u>86,973,162</u>	<u>86,973,162</u>	<u>391,100,942</u>	<u>391,100,942</u>	<u>63,153,178</u>	<u>541,227,282</u>

- (a) On 15 February 2012, the Board of Directors approved the split of the existing capital of KHR465,028,000 into 73,927,187 ordinary shares and 391,100,942 Class A shares with a par value of KHR1,000 per share. Class A shares are not eligible for interest or dividend and have rights and conditions as detailed in article 12.2 of the Articles of Incorporation dated 27 June 2012.
- (b) On 18 April 2012, the PPWSA was successfully listed on the Cambodia Securities Exchange ("CSX"). It is the first company on the CSX. The total number of ordinary shares is 86,973,162 shares with a par value of KHR1,000 per share. The costs of issuing 13,045,975 new shares amounting to KHR6,000 million have been offset with the share premium. All issued ordinary shares are fully paid. The details of ordinary shares are as follows:

Shareholders

	Number of shares	%
MoEF	73,927,187	85%
Other shareholders	11,741,606	14%
Employee share option scheme*	<u>1,304,369</u>	<u>1%</u>
	<u>86,973,162</u>	<u>100%</u>

* Based on the minutes of the Board of Directors meeting dated 20 December 2012, the employees are allowed to trade their shares if the corresponding loans have been repaid.

15. RESERVES

	Capital reserve KHR'000	Legal reserve KHR'000	General reserve KHR'000	Development reserve KHR'000	Total KHR'000
As at 1.1.2018	1,648,435	20,702,042	20,702,042	221,777,159	264,829,678
Transfer from retained earnings	-	1,653,391	1,653,391	16,367,176	19,673,958
As at 31.12.2018/ 1.1.2019	1,648,435	22,355,433	22,355,433	238,144,335	284,503,636
Transfer from retained earnings	-	3,680,356	3,680,356	47,321,096	54,681,808
As at 31.12.2019	1,648,435	26,035,789	26,035,789	285,465,431	339,185,444

- (a) In accordance with the PPWSA's status dated 22 February 1999, article 29 the PPWSA's profit, after offsetting with losses carried forward (if any), can be used as follows:
- for management and staff bonuses
 - for legal reserve – 5%
 - for general reserve – 5%
 - the remaining balance for development reserve
- (b) Effective from the year ended 31 December 2007, the MoEF accepted the proposed 10% annual profit distribution from the PPWSA in its letter No. 2254, dated 2 May 2008. However, from 2012 onward, after the listing of the PPWSA, the distribution of dividends will be in accordance with the new status of the PPWSA, date 27 June 2012. The distribution of dividends shall be as follows:

The dividend policy shall be determined in line with the following criteria for profit allocation:

1. Compensation for losses incurred in previous years
2. After the compensation for losses, the remaining profit, if any, shall be distributed as follows:
 - i. Reward to management and employees as follows:
 - One month's salary for all employees if the net profit is between 5% and 10% of operating expenses
 - Two months' salary for all employees if the net profit is between 10% and 20% of operating expenses
 - Three months' salary for all employees if the net profit is more than 20% of operating expense
 - ii. 2% for retirement benefits and disability benefits
 - iii. 5% for legal reserve
 - iv. 5% for general reserve
 - v. 5% for social fund, which shall be recorded as an expense in the year of the transition
3. The remaining amount after the above allocations shall be allocated to:
 - i. Reserve for future investments (retained earnings) subject to the Board of Director's approval
 - ii. The remaining balance after investment reserve is allocated to the MoEF and public investors at the ratio of 85% and 15%, respectively.

15. RESERVES (continued)

- (c) The use of reserves to pay for corporate social responsibility is in accordance with letter No. 284 from the Ministry of the Council of Ministers, dated 11 March 2010. Corporate social responsibility represents the development of a water supply system for military teams in several provinces. The work extended into 2011 in accordance with the letter of the Deputy Prime Minister Keat Chhon No. 2210 MEF, dated 22 April 2011.

16. BORROWINGS

	2019 KHR'000	2018 KHR'000
Non-current		
Agence Francaise De Developmen ("Afd") – Credit No. 1075 03 S	4,582,604	13,845,207
MoEF – Japan International Cooperation Agency ("JICA")	49,425,079	61,134,075
MoEF – Asian Development Bank ("ADB")	38,242,500	28,722,956
Afd – Credit No. 1121 01F	82,512,499	101,563,068
Afd - Credit No. 1174 01 P	<u>129,185,462</u>	<u>80,370,595</u>
	<u>303,948,144</u>	<u>285,635,901</u>
Current		
Afd – Credit No. 1075 03 S	9,175,626	9,247,624
MoEF – JICA	1,827,646	10,883,669
MoEF – ADB	2,485,038	2,200,189
Afd – Credit No. 1121 01F	18,411,047	18,555,201
Afd - Credit No. 1174 01 P	<u>1,237,341</u>	<u>1,231,946</u>
	<u>33,136,698</u>	<u>42,118,629</u>
Total borrowings		
Afd – Credit No. 1075 03 S	13,758,230	23,092,831
MoEF – JICA	51,252,725	72,017,744
MoEF – ADB	40,727,538	30,923,145
Afd – Credit No. 1121 01F	100,923,546	120,118,269
Afd - Credit No. 1174 01 P	<u>130,422,803</u>	<u>81,602,541</u>
	<u>337,084,842</u>	<u>327,754,530</u>

- (a) Borrowings are classified as financial liabilities measured at amortised cost.
- (b) Afd – Credit No. 1075 03 S

With reference to the credit facility agreement No.CKH 1075 03S dated 8 May 2009, the PPWSA was provided with a credit facility in a maximum amount of EUR16,000,000 from Afd.

The purpose of the credit facility is to finance the construction of the first tranche of a new water production facility in Niroth and extension of transmission and distribution network corresponding to the additional water production (Sub-package A).

The annual interest is EURIBOR minus 1.35%. In no case is the rate to be less than 0.25% nor to exceed 5.21%. The floating rate was converted into a fixed rate at the end of the disbursement period of 0.88% starting from 1 December 2013.

The loan shall be repaid in 16 equal half-yearly instalments commencing on 30 November 2013 and ending on 31 May 2021. All transactions are carried out in EUR, both withdrawals and repayments.

The credit facility was secured by the comfort letter from MoEF and MIH.

16. BORROWINGS (continued)

(c) MoEF – JICA

With reference to the subsidiary loan agreement dated 18 May 2010, the PPWSA was provided with a term loan in a maximum amount of JPY3,513,000,000 from MoEF.

The purpose of the loan is to finance the design and construction of the water treatment plant and transmission in Niroth (Sub-package B).

The annual interest is 0.66% (2018: 7.35%) per annum.

The loan shall be repaid in 24 equal half-yearly instalments commencing on 20 September 2014 and ending on 20 March 2026. All transactions are carried out in US\$, both withdrawals and repayments.

On 15 March 2019, pursuant to the amendment to the Subsidiary Loan Agreement No. CP-P9 (MoEF – JICA), the loan shall be dominated in Japanese Yen (“JPY”) and PPWSA shall repay the principal and interest of the loan in local currency at the exchange rate which MoEF pays to JICA. The annual interest rate was adjusted from 7.50% to 0.66% per annum. The loan maturity was extended from 12 years to 40 years, which is ending on 20 March 2049.

(d) MoEF – ADB

With reference to the subsidiary loan agreement dated 5 May 1997, the PPWSA was provided with a term loan in a maximum amount of KHR38,299,937,500 (SDR9,605,000) from MoEF.

The purpose of the loan is to finance the Provincial and Peri-urban Water and Sanitation Project.

The annual interest is 1.65% (2018: 6.5%) per annum.

The loan shall be repaid in semi-annual instalments on 15 January and 15 July of each year, commencing from 2012. The foreign exchange risk resulting from any fluctuations between the value of the currency of the loan (SDR) and the currency used for repayment by the PPWSA (KHR) shall be borne in full by the MoEF. The exchange rate (KHR/SDR) is fixed at the contract date.

On 15 March 2019, pursuant to the amendment to the Subsidiary Loan Agreement No.1468 - CAM (MoEF – ADB), the loan shall be dominated in Special Drawing Right (“SDR”) and PPWSA shall repay the principal and interest of the loan in local currency at the exchange rate which MoEF pays to ADB. The annual interest rate was adjusted from 6.50% to 1.65% per annum. The loan shall be repaid in semi-annual instalments on 1 April and 1 October of each year, commencing from 2019.

16. **BORROWINGS (continued)**

(e) AfD – Credit No. 1121 01F

With reference to the credit facility agreement No.CKH 1121 01F dated 11 March 2013, the PPWSA was provided with a credit facility in a maximum amount of EUR30,000,000 AfD.

The purpose of the credit facility is to finance the construction of the second tranche of the water production facility in Niroth and for the extension and optimisation of the Phnom Penh transmission and distribution system.

The annual interest is EURIBOR six-month rate minus 0.59%, capped at 5.19% per annum and with a minimum of 0.25% per annum.

The credit facility shall be repaid in 24 equally half-yearly including a grace period of four years. All transactions are carried out in EUR, both withdrawals and repayments.

(f) AfD – Credit No. 1174 01P

With reference to the credit facility agreement No.CKH 1174 01P dated 27 December 2016, the PPWSA was provided with a credit facility in a maximum amount of US\$47,100,000, which is equivalent to EUR30,000,000 AfD.

The purpose of the credit facility is to finance the construction of a new water treatment plant on the site of the present Chamcar Mon water treatment plant and the extension of the transmission and distribution networks.

The effective global rate (taux effectif global) applicable to the facility may be valued at an annual rate of 1.16% on the basis of a 365 days and an interest period of 6 months, capped at 1.14% per annum plus 0.65%, which is charged by MoEF and with a minimum of 0.25% per annum.

The credit facility shall be repaid in 26 equal semi-annual installments including a grace period of seven years. All transactions are carried out in US\$, both withdrawals and repayments.

(g) Fair values of the borrowings of the PPWSA are categorised as Level 3 in the fair value hierarchy. There is no transfer between levels in the hierarchy during the financial year.

Valuation techniques used and key inputs to valuation on the borrowing measured at level 3 are described below:

Financial liability	Valuation technique used	Significant unobservable input	Inter-relationship between key unobservable inputs and fair value
Borrowings	Discounted cash flow method	Discount rate	The higher the discount rate, the lower the fair value of the financial liabilities would be

16. BORROWINGS (continued)

- (h) Borrowings that are not carried at fair values and whose carrying amounts do not approximate of fair values are as follows:

	2019		2018	
	Carrying amount KHR'000	Fair value KHR'000	Carrying amount KHR'000	Fair value KHR'000
Fixed rate loans	<u>337,084,842</u>	<u>198,399,770</u>	<u>327,754,530</u>	<u>246,353,411</u>

Fair values of the borrowings are estimated by discounting future contracted cash flows at the current market interest rate available to the PPWSA for similar financial instruments.

- (i) The following table sets out the carrying amounts, the weighted average effective interest rates as at the end of each reporting period and the remaining maturities of the borrowings of the PPWSA that are exposed to interest rate risk:

31 December	Weighted average effective interest rate per annum %	Within	1 - 2	2 - 5	More than	Total
		1 year	years	years	5 years	
2019		KHR'000	KHR'000	KHR'000	KHR'000	KHR'000
Fixed rates	1.10	<u>33,136,699</u>	<u>26,970,655</u>	<u>67,164,155</u>	<u>209,813,333</u>	<u>337,084,842</u>
31 December 2018						
Fixed rates	2.64	<u>42,118,629</u>	<u>38,406,982</u>	<u>92,145,600</u>	<u>155,083,319</u>	<u>327,754,530</u>

- (k) The table below summarises the maturity profile of the borrowings of the PPWSA at the end of each reporting period based on contractual undiscounted repayment obligations as follows:

31 December	On demand or within one year	One to five years	Over five years	Total
	KHR'000	KHR'000	KHR'000	
2019				
Borrowings	<u>34,429,297</u>	<u>124,199,741</u>	<u>205,951,954</u>	<u>364,580,992</u>
31 December 2018				
Borrowings	<u>45,927,953</u>	<u>157,193,009</u>	<u>176,065,354</u>	<u>379,186,316</u>

- (l) The currency exposure profile of borrowings is as follows:

	2019 KHR'000	2018 KHR'000
Khmer Riel	-	143,211,100
United States Dollar	130,422,803	153,620,285
Euro	114,681,776	30,923,145
Special Drawing Right	40,727,538	-
Japanese Yen	<u>51,252,725</u>	<u>-</u>
	<u>337,084,842</u>	<u>327,754,530</u>

17. RETIREMENT BENEFIT OBLIGATIONS

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

	2019 KHR'000	2018 KHR'000
Present value of funded defined benefit obligations	-	-
Fair value of plan assets	-	-
Net liability recognised in statement of financial position	<u>-</u>	<u>-</u>

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

	2019 KHR'000	2018 KHR'000
Balance as at 1 January	-	40,133,717
Current service cost	-	2,260,046
Interest cost	-	3,155,891
Benefits paid	-	(1,302,664)
Actuarial loss	-	2,893,537
Gain on settlement of retirement benefit obligation (Note 23)	-	(32,928,143)
Reclass to other payables	-	(14,212,384)
Balance as at 31 December	<u>-</u>	<u>-</u>

The amounts recognised in the statement of profit or loss and other comprehensive income are as follows:

	2019 KHR'000	2018 KHR'000
Current service cost	-	2,260,046
Interest cost	-	3,155,891
Total included in salaries, wages and related expenses	<u>-</u>	<u>5,415,937</u>

The amounts anticipated to be paid within 12 months of the years ended 31 December 2018 were KHR 1,303 million.

The principal actuarial assumptions are as follows:

	2019	2018
Discount rates	-	4.00%
Salary growth rate (a)		
Withdrawal rates (b)		
Mortality rates (c)		

(a) Salary growth rate

The actuarial methodology prescribed by CIAS 19 *Employee Benefits* requires future salary increase to be estimated and allowed for when determining the actuarial liabilities and costs of the retirement benefit scheme ("the Scheme"). As the benefit under the Scheme is defined in relation to final gross salary just before retirement then the valuation requires an assumption to be determined with regard to further salary increases.

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

(a) Salary growth rate (continued)

To determine the future long-term salary increment rate, two approaches were considered. One is based on inflation plus real salary growth model while the other based on historical salary increase experience.

Under the first approach, salary increment can be thought of being consisted of two major components as shown in the formula below:

$$\text{Salary increment} = \text{Inflation} + \text{Real Salary Growth}$$

Based on this approach, reasonable salary increment rates derived from inflation range from 5% to 7% per annum.

Under the second approach, salary increment analysis was performed on both historical salary data and salary scales. In addition salary increments due to promotion within the class were analysed. Together with the salary scale revision of 10% every two years (approximately 5% per year), salary increment rates derived from historical salary increase experience can range from 7% to 9% per annum.

Based on the above, reasonable long-term salary increment rates can range from 5% to 9% per annum (i.e. 5% to 7% derived from inflation plus real salary growth model; 7% to 9% derived from historical salary increase experience). For the current valuation, a long term salary growth rate of 7% per annum was used.

(b) Withdrawal rates

The withdrawal rates are used in the valuation to estimate the number of members who would leave each year in the future before attaining normal retirement age. The higher the withdrawal rates, the lower the numbers of existing members expected to survive to normal retirement age. The withdrawal rates are usually linked to age or length of service e.g. older employees are less likely to resign than their younger counterparts.

The staff turnover rates used in the valuation are age related which correspond to an average staff turnover rate of approximately 1% per annum.

For the current valuation, the withdrawal rates used are as follows:

Attained age	Withdrawal (Percentage)
20	2.3
25	1.8
30	1.2
35	0.8
40	0.6
45	0.7
50	0.5
55	0.2

(c) Mortality rates

In the absence of published mortality rates in Cambodia, the 2008 Thailand mortality life expectancy table modified to fit the Cambodian life expectancy was used in the current valuation. The 2008 Thailand mortality table is the latest published mortality table in Thailand.

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

(c) Mortality rates (continued)

The table below shows sample rates from the mortality table used:

Age	Mortality rates (% per annum)	
	Male	Female
20	0.2280	0.0769
25	0.2546	0.0849
30	0.2587	0.0949
35	0.2903	0.1194
40	0.3690	0.1519
45	0.4986	0.1957
50	0.6808	0.2984
55	1.0322	0.5343

18. DEFERRED GOVERNMENT AND OTHER GRANTS

	Government grant KHR'000	JICA grant KHR'000	Other grant KHR'000	Total KHR'000
Balance as at 1.1.2018	4,638,162	20,095,741	757,098	25,491,001
Amortisation	(226,897)	(2,108,680)	(24,395)	(2,359,972)
Balance as at 31.12.2018	4,411,265	17,987,061	732,703	23,131,029
Balance as at 1.1.2019	4,411,265	17,987,061	732,703	23,131,029
Amortisation	(38,117)	(2,108,679)	(24,395)	(2,171,191)
Balance as at 31.12.2019	4,373,148	15,878,382	708,308	20,959,838

Amortisation of deferred government and other grants is recognised as other income in the statement of profit or loss and other comprehensive income.

(a) Government Grant

The government grant represents the gain arising from a favourable differences in rates used for a fixed conversion (KHR/SDR) under the Subsidy Loan Agreement between the MoEF and the PPWSA on 5 May 1997 at the sum of SDR9,695,000 from the ADB. The PPWSA has decided to keep the gain on the PPWSA's books as a grant (no refund requirement on the gain) and the gain is to be amortised using the same policy as other deferred grants.

(b) JICA grants

JICA grants represent the project for introduction of clean energy by solar electricity generation system.

(c) Other grants

Other grants represent donations of property, plant and equipment from the Association International des Maires Francophones ("AIMF") and KUBOTA Construction Co., Ltd.

19. DEFFERED TAX LIABILITIES

The components and movements of deferred tax (liabilities)/assets are as follows:

	At 1.1.2019 KHR'000	Recognised in profit or loss (Note 29) KHR'000	At 31.12.2019 KHR'000
Property, plant and equipment	(57,267,178)	(5,950,595)	(63,217,773)
Allowance for inventory obsolescence	50,645	-	50,645
Allowance for doubtful debts	522,858	-	522,858
Staff benefits	5,582,642	(2,706,241)	2,876,401
Unrealised exchange	5,530,963	(5,289,922)	241,041
	<u>(45,580,070)</u>	<u>(13,946,758)</u>	<u>(59,526,828)</u>

	At 1.1.2018 KHR'000	Recognised in profit or loss (Note 29) KHR'000	At 31.12.2018 KHR'000
Property, plant and equipment	(50,179,185)	(7,087,993)	(57,267,178)
Retirement benefit obligation	7,453,492	(7,453,492)	-
Allowance for inventory obsolescence	50,645	-	50,645
Allowance for doubtful debts	522,858	-	522,858
Staff benefits	1,503,586	4,079,056	5,582,642
Unrealised exchange	5,441,245	89,718	5,530,963
	<u>(35,207,359)</u>	<u>(10,372,711)</u>	<u>(45,580,070)</u>

20. TRADE AND OTHER PAYABLES

	2019 KHR'000	2018 KHR'000
Other payables - non-current		
Refundable water deposits	60,814,262	54,404,746
Performance guarantee	4,584,617	2,443,877
	<u>65,398,879</u>	<u>56,848,623</u>
Trade payables - current		
Third parties	<u>13,401,766</u>	<u>30,870,886</u>

20. TRADE AND OTHER PAYABLES (continued)

	2019 KHR'000	2018 KHR'000
Other payables - current		
Accrued staff incentive	8,261,680	7,626,015
Amount due to Phnom Penh Municipality	25,294,747	12,671,424
Amount due to employees	1,295,107	14,212,384
Performance guarantee	67,345	67,285
Dividend payable	22,971,343	6,884,787
Other tax payable	162,468	209,188
Other accrual	7,457,465	5,270,992
Other payables	<u>117,749,412</u>	<u>4,437,262</u>
	<u>183,259,567</u>	<u>51,379,337</u>
	<u>196,661,333</u>	<u>82,250,223</u>
	<u>262,060,212</u>	<u>139,098,846</u>

- (a) Trade and other payables are classified as financial liabilities measured at amortised cost.
- (b) Trade payables are non-interest bearing and the normal trade credit terms granted to the PPWSA range from one to three months (2018: one to three months).
- (c) Refundable water deposits are collected from customers based on the size of the water meter prior to connection and are recorded at the received amount as refundable water deposits under non-current liabilities.
- (d) Amount due to employees represents the amount to be distributed to the employees as full settlement arising from the termination of the PPWSA's pension scheme effective on 31 December 2018.
- (e) Trade payables and performance guarantee are mainly denominated in US\$ and other payables are mainly denominated in KHR.
- (f) The table below summarises the maturity profile of the trade and other payables of the PPWSA at the end of each reporting period based on contractual undiscounted repayment obligations as follows:

	On demand or within one year KHR'000	One to five years KHR'000	Over five years KHR'000	Total KHR'000
31 December 2019				
Trade and other payables	<u>196,661,333</u>	<u>4,584,617</u>	<u>60,814,262</u>	<u>262,060,212</u>
31 December 2018				
Trade and other payables	<u>82,250,223</u>	<u>2,443,877</u>	<u>54,404,746</u>	<u>139,098,846</u>

21. REVENUE

	2019 KHR'000	2018 KHR'000
Water sales:		
- households	81,972,006	85,449,131
- commercial	84,996,364	91,704,546
- public administration institution	6,624,225	8,044,941
- autonomous state authorities	325,997	415,595
- wholesalers	7,587,312	8,325,002
Rounding difference on water sales revenue	44,617	57,035
Less: Invoice cancellations	<u>(1,491,759)</u>	<u>(1,219,443)</u>
	180,058,762	192,776,807
Water connection revenue	10,296,606	9,782,471
Water meter replacement charges	3,799,713	3,164,157
Spare parts and meter sales	<u>117,180</u>	<u>118,063</u>
	<u>194,272,261</u>	<u>205,841,498</u>

(a) Sale of water

Revenue from sale of water is recognised at a point in time when the water has been supplied by the PPWSA and consumed by the customers.

(b) Household water connection revenue

Revenue from household water connection revenue is recognised at a point in time when the water connection is completed.

(c) Water meter replacement charge

Revenue from water meter replacement is recognised at a point in time based on an amount of KHR50 per 1mm of water meter is charged each month during the billing cycle.

22. CONSTRUCTION SERVICE FEES

Construction service fees represent fees from construction service provided in relation to the expansion of the water distribution system to a water supply distributor in the provinces.

Revenue from construction contracts is measured at the fixed transaction price agreed under the agreement.

Revenue is recognised as and when control of the asset is transferred to the customer and it is probable that the PPWSA would collect the consideration to which it will be entitled in exchange for the asset that would be transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the performance of the PPWSA does not create an asset with an alternative use to the PPWSA and the PPWSA has an enforceable right to payment for performance completed to date.

22. CONSTRUCTION SERVICE FEES (continued)

If control of the asset transfers over time, revenue is recognised over the period of the contract using the input method by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Significant judgement is required in determining performance obligations, transaction price allocation and costs in applying the input method to recognise revenue over time.

The PPWSA identifies performance obligations that are distinct and material, which is judgmental in the context of contract. Transaction prices were determined based on estimated margins prior to its allocation to the identified performance obligation. The PPWSA also estimated total contract costs in applying the input method to recognise revenue over time.

23. OTHER INCOME

	2019 KHR'000	2018 KHR'000
Government and other grants	2,171,191	2,359,972
Gain on settlement of retirement benefit obligation	-	32,928,143
Spare parts and meter sales	11,356,233	13,099,236
Penalty revenue	912,200	350,786
Other revenue	2,963,867	2,421,555
	<u>17,403,491</u>	<u>51,159,692</u>

24. SALARY, WAGES AND RELATED EXPENSES

	2019 KHR'000	2018 KHR'000
Employee salaries	24,004,073	23,334,386
Incentives	9,754,110	8,761,463
Bonuses	6,511,484	6,125,952
Retirement benefit costs	1,265,741	4,155,016
Wages for contractors	766,379	456,804
Other employee-related expenses	9,107,317	11,162,831
	<u>51,409,104</u>	<u>53,996,452</u>

25. RAW MATERIALS FOR WATER TREATMENT

	2019 KHR'000	2018 KHR'000
Chlorine	1,981,035	2,733,371
Poly Aluminium Chloride	4,315,865	3,749,469
Salt	1,075,245	520,859
Other materials	299,195	498,968
	<u>7,671,340</u>	<u>7,502,667</u>

26. RAW MATERIALS FOR HOUSEHOLD WATER CONNECTIONS

	2019 KHR'000	2018 KHR'000
Materials for house connection	2,215,404	2,898,219
Consumer water meter replacement	394,155	471,349
Pipe costs	11,137	9,444
Other costs	<u>224,021</u>	<u>177,893</u>
	<u>2,844,717</u>	<u>3,556,905</u>

27. FOREIGN EXCHANGE GAIN/(LOSS) – NET

	2019 KHR'000	2018 KHR'000
Foreign exchange gains	15,610,100	2,969,274
Foreign exchange losses	<u>(14,148,863)</u>	<u>(3,911,096)</u>
	<u>1,461,237</u>	<u>(941,822)</u>

28. FINANCE INCOME/(COSTS)

	2019 KHR'000	2018 KHR'000
Finance income:		
- Interest income on bank deposits (a)	694,379	1,172,992
- Foreign exchange gain on borrowings	8,128,149	15,632,304
- Interest income on loan to Pursat Water Supply	<u>1,876</u>	<u>8,958</u>
	<u>8,824,404</u>	<u>16,814,254</u>
Finance costs:		
- Interest expense on borrowing (b)	(5,242,534)	(11,012,600)
- Foreign exchange loss on borrowings	(8,931,970)	(7,884,386)
- Interest capitalised on qualifying assets	<u>2,666,186</u>	<u>2,720,159</u>
	<u>(11,508,318)</u>	<u>(16,176,827)</u>
Finance (cost)/income - net	<u>(2,683,914)</u>	<u>637,427</u>

(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 loan obtained from AfD and the subsidiary loans obtained from the MoEF, which are funded through loans obtained from the ADB and JICA.

29. TAX EXPENSE

	2019 KHR'000	2018 KHR'000
Income tax expense:		
Current year	<u>2,051,859</u>	<u>8,635,242</u>
Deferred tax expense (Note 19):		
Origination and reversal of temporary differences	8,044,735	10,945,962
Under/(Over) provision in prior year	<u>5,902,023</u>	<u>(573,251)</u>
	<u>13,946,758</u>	<u>10,372,711</u>
Total tax expense	<u>15,998,617</u>	<u>19,007,953</u>

Under the Cambodian Law on Taxation, the PPWSA has an obligation to pay tax on profit at 20% (2018: 20%) of the taxable profit or a minimum tax at 1% (2018: 1%) of total revenue, whichever is higher.

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate of the PPWSA is as follows:

	2019 KHR'000	2018 KHR'000
Profit before tax	<u>49,290,530</u>	<u>95,508,658</u>
Tax at Cambodian statutory tax rate of 20%	9,858,106	19,101,732
Tax effects in respect of:		
Non-allowable expenses	<u>238,488</u>	<u>479,472</u>
	10,096,594	19,581,204
Under/(Over) provision of deferred tax in prior year	<u>5,902,023</u>	<u>(573,251)</u>
Total tax expense	<u>15,998,617</u>	<u>19,007,953</u>

30. EARNINGS PER SHARE

	2019 KHR'000	2018 KHR'000
Profit attributable to ordinary equity holders	33,291,913	73,607,168
Weighted average number of ordinary shares in issue	<u>86,973,162</u>	<u>86,973,162</u>
Basic earnings per share	382.78	846.32
Diluted earnings per share	<u>382.78</u>	<u>846.32</u>

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.

The 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.

31. DIVIDEND

	2019		2018	
	Dividend per share KHR	Amount of dividend KHR'000	Dividend per share KHR	Amount of dividend KHR'000
First and final dividend declared	<u>217.60</u>	<u>18,925,360</u>	<u>154.00</u>	<u>13,393,868</u>

On 27 March 2019, the Board of Directors proposed and approved the dividend in respect of the financial year ended 31 December 2018 of KHR217.60 per share, amounting to a total dividend of KHR18.9 billion.

32. RELATED PARTY DISCLOSURES

- (a) Parties are considered related to the PPWSA if the PPWSA has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the PPWSA and the party are subject to common control or common significant influence. Related parties can be individuals or other parties.

Key management personnel comprises persons (including the Directors of the PPWSA) having the authority and responsibility for planning, directing and controlling the activities of the PPWSA directly and indirectly.

- (b) The PPWSA had the following transactions with related parties during the financial year.

	2019 KHR'000	2018 KHR'000
<u>Common control</u>		
MoEF		
Interest on borrowings paid	9,288,407	10,018,283
Pursat Water Supply		
Interest on loan received	<u>1,876</u>	<u>8,958</u>

Balances with related parties at the end of the reporting period are disclosed in Note 7 and Note 16 to the financial statements.

The related party transactions described above were carried out on negotiated commercial terms.

- (c) Key management compensation during the financial period is as follows:

	2019 KHR'000	2018 KHR'000
Salaries and other expenses	2,148,791	2,247,805
Retirement benefits	-	<u>27,567</u>
	<u>2,148,791</u>	<u>2,275,372</u>

33. CAPITAL COMMITMENTS

At the end of the current financial year, the PPWSA has commitment on capital expenditure in respect of:

	2019 KHR'000	2018 KHR'000
Construction of water treatment plant	715,650,181	34,932,949
Consultation services	699,014	4,754,494
Purchase of iron pipes, fitting and accessories	1,056	15,567,936
	<u>716,350,251</u>	<u>55,255,379</u>

34. CAPITAL AND FINANCIAL RISK MANAGEMENT

(a) Capital management

The primary objective of the PPWSA's capital management is to ensure that the PPWSA would be able to continue as a going concern whilst maximising the return to shareholders through the optimisation of the debt and equity ratios. The overall strategy of the PPWSA remains unchanged from that in the previous financial year.

The PPWSA manages its capital structure and makes adjustments to it, in response to changes in economic conditions. In order to maintain or adjust the capital structure, the PPWSA may adjust the dividend payment to shareholders, return capital to its shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2019 and 31 December 2018.

The PPWSA monitors and maintains a prudent level of total debts and to ensure compliance with any externally imposed capital requirements.

(b) Financial risk management

The financial risk management objective of the 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 the 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.

The PPWSA is exposed mainly to foreign currency risk, interest rate risk, credit risk and liquidity and cash flow risk. Information on the management of the related exposures is detailed below:

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in foreign exchange rates.

The PPWSA hold cash and cash equivalents and short-term investments denominated in foreign currencies. At the end of each reporting period, such foreign currency balances in US\$ amounted to KHR10,347 million (2018: KHR1,088 million) and KHR17,909 million (2018: KHR33,622million) respectively for the PPWSA.

34. CAPITAL AND FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(i) Foreign currency risk (continued)

Borrowings of the PPWSA from ADB, AfD and JICA denominated in SDR, EUR, US\$ and JPY amounted to KHR40,727 million (2018: KHR30,923 million), KHR245,105 million (2018: KHR224,814) million and KHR51,253 million (2018: KHR72,018 million) respectively.

The following table demonstrates the sensitivity analysis of the PPWSA to a reasonably possible change in the US\$, EUR, SDR and JPY exchange rates against the functional currency of the PPWSA, with other variables held constant:

	2019 KHR'000	2018 KHR'000
Profit after tax		
US\$/KHR - strengthen by 3% (2018: 3%)	(2,452,005)	(2,853,849)
- weaken by 3% (2018: 3%)	2,452,005	2,853,849
EUR/KHR - strengthen by 3% (2018: 3%)	(2,752,363)	(3,437,066)
- weaken by 3% (2018: 3%)	2,752,363	3,437,066
SDR/KHR - strengthen by 3% (2018: 3%)	(977,461)	-
- weaken by 3% (2018: 3%)	977,461	-
JPY/KHR - strengthen by 3% (2018: 3%)	(1,230,065)	-
- weaken by 3% (2018: 3%)	<u>1,230,065</u>	-

(ii) Interest rate risk

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

The exposure of the PPWSA to interest rate risk arises primarily from loans and borrowings. The 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. The PPWSA does not use derivative financial instruments to hedge any debt obligations.

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity analysis of the PPWSA if interest rates at the end of reporting period changed by 10 basis points with all other variables held constant:

	2019 KHR'000	2018 KHR'000
Profit after tax		
- Increased by 0.1% (2018: 0.1%)	(307,967)	(220,572)
- Decreased by 0.1% (2018: 0.1%)	<u>307,967</u>	<u>220,572</u>

The sensitivity is higher in 2019 than in 2018 because of drawdown of borrowings during the financial year. The assumed movement in basis points for interest rate sensitivity analysis is based on current observable market environment.

34. CAPITAL AND FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(iii) Credit risk

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

The PPWSA's primary exposure to credit risk arises through its trade receivables from its customers. The PPWSA controls the credit risk on sales by ensuring that its customers have sound financial position and credit history.

The PPWSA determines a financial asset to be in default when contractual payments are past due and when internal or external information indicates that financial asset is not recoverable. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

To manage the risk on trade receivables, the PPWSA requires a deposit before the water meter connection is made. No deposit is required for government departments as the PPWSA believes that it can collect from those departments through the MoEF (the source of finance for those departments), which is the PPWSA's financial supervisor and shareholder.

A deposit deduction policy is applied to customers who have not settled their debts in accordance with credit terms and conditions.

To minimise credit risk on cash at banks and short-term investments (bank fixed deposits), the PPWSA has diversified its deposits with different banks using a few large and well-known local banks operating in Cambodia.

Exposure to credit risk and credit risk concentration profile

The maximum exposure to credit risk for the PPWSA is represented by the carrying amounts of each financial asset.

At the end of the reporting period, approximately:

- (i) 39% (2018: 39%) of the PPWSA's trade receivables were due from household customers.
- (ii) 34% (2018: 33%) of the PPWSA's trade receivables were due from commercial customers.
- (iii) 29% (2018: 23%) of the PPWSA's trade receivables were due from public administrative customers.

The PPWSA do not anticipate the carrying amounts recorded at the end of each reporting period to be significantly different from the values that would eventually be received.

34. CAPITAL AND FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(iv) Liquidity and cash flow risk

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

The 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 liquidity risk management strategy, the PPWSA maintains a level of cash and cash equivalents deemed adequate to finance the PPWSA's activities.

35. SEGMENT INFORMATION

The PPWSA treats water for supply to residents in Phnom Penh and surrounding areas. To support its water distribution business, it needs to provide water meter connection as a supporting service. Revenue from water meter connection (a supporting service for water sales) accounts for less than 5% of the total revenue, while water sales account for 73% of the total revenue of the PPWSA.

The PPWSA has one reportable segment, namely, water sales. The chief operating decision maker (the management team) reviews the internal management report, which reports the performance of the water sales segment as a whole, to assess performance and allocate resources. The chief operating decision-maker assesses the performance of the reportable segment by measuring gross revenue, profit before tax and net profit compared to prior periods.

36. 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.

37. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

During the financial year, the following amendments relating to the borrowings from MoEF-JICA and MoEF – ADB were implemented by the PPWSA:

- (a) Amendment to the Subsidiary Loan Agreement No. CP-P9 (MoEF – JICA) dated 15 March 2019. The loan shall be dominated in Japanese Yen (“JPY”) and PPWSA shall repay the principal and interest of the loan in local currency at the exchange rate which MoEF pays to JICA. The annual interest rate was adjusted from 7.50% to 0.66% per annum and the loan maturity was extended from 12 years to 40 years, ending on 20 March 2049.
- (b) Amendment to the Subsidiary Loan Agreement No.1468 - CAM (MoEF – ADB) dated 15 March 2019. The loan shall be dominated in Special Drawing Right (“SDR”) and PPWSA shall repay the principal and interest of the loan in local currency at the exchange rate which MoEF pays to ADB. The annual interest rate was adjusted from 6.50% to 1.65% per annum and the loan shall be repaid in semi-annual instalments on 1 April and 1 October of each year, commencing from year 2019.

38. SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The World Health Organisation declared the 2019 Novel Coronavirus infection (“COVID-19”) a pandemic on 11 March 2020. Since this development occurred subsequent to the end of the reporting period, the COVID-19 pandemic is treated as a non-adjusting event in accordance with CIAS 10 Events after the Reporting Period. Consequently, the financial statements for the financial year ended 31 December 2019 do not reflect the effects arising from this non-adjusting event.

The Company is in the process of assessing the financial reporting impact of COVID-19 pandemic since ongoing developments remain uncertain and cannot be reasonably predicted as at the date of authorisation of the financial statements.

The Company anticipates that the potential financial reporting impact of COVID-19 would be recognised in the financial statements of the Bank during the financial year ending 31 December 2020.

39. ADOPTION OF NEW CIFRSs

39.1 New CIFRSs adopted during the current financial year

PPWSA adopted the following amendments, accounting standards and interpretations during the financial year.

	Effective Date
CIFRS 16 <i>Leases</i>	1 January 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to CIAS 28 <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to CIFRS 9 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to CIFRS 3 <i>Annual Improvements to CIFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to CIFRS 11 <i>Annual Improvements to CIFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to CIAS 12 <i>Annual Improvements to CIFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to CIAS 23 <i>Annual Improvements to CIFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to CIAS 19 <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019

Adoption of the above amendments, accounting standards and interpretations did not have any material effect on the financial performance or position of PPWSA except for the adoption of CIFRS 16 described in the following sections.

39. ADOPTION OF NEW CIFRSs (continued)

39.2 New CIFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2020

The following are accounting standards, amendments and interpretations that have been issued but have not been early adopted by PPWSA.

	Effective Date
Amendments to <i>References to the Conceptual Framework in CIFRS Standards</i>	1 January 2020
Amendments to CIFRS 3 <i>Definition of a Business</i>	1 January 2020
Amendments to CIAS 1 and CIAS 8 <i>Definition of Material</i>	1 January 2020
Amendments to CIFRS 9, CIAS 39 and CIFRS 7 <i>Interest Rate Benchmark Reform</i>	1 January 2020
CIFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to CIFRS 10 and CIAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

PPWSA is in the process of making an assessment of the potential impact from the adoption of these accounting standards, amendments and interpretations hence the Directors are not yet in a position to conclude on the potential impact on the results and the financial position of PPWSA.

The possible effects from the adoption of the above accounting standards, amendments and interpretations are as follows:

Amendments to *References to the Conceptual Framework in CIFRS Standards*

Together with the revised *Conceptual Framework*, the IASB issued *Amendments to References to the Conceptual Framework in CIFRS Standards*, which contains amendments to CIFRS 2, CIFRS 6, CIFRS 14, CIAS 1, CIAS 8, CIAS 34, CIAS 37, CIAS 38, IC Interpretations 12, 19, 20 and 22 as well Standard Interpretations Committee-32.

Amendments to CIFRS 3 *Definition of a Business*

The amendments change the definition of a business to help companies determine whether an acquisition made is of a business or a group of assets.

The new definition of business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

This emphasises that the output of a business is to provide goods and services to customers. This contrasts with the previous definition which focused on economic benefits to investors and others.

The amendments also clarify that, to be considered a business, an acquisition must include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include a framework to assist when evaluating when an input and substantive process are present – including for early stage companies that have not yet generated outputs.

In addition, the amendments introduced an optional “concentration test” to permit a simplified assessment of whether or not an acquired set of activities and assets is a business. The test can be applied by choice on a transaction by transaction basis. A transaction will be treated as an acquisition of assets (ie not a business) if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or groups of similar identifiable assets.

39. ADOPTION OF NEW CIFRSs (continued)

39.2 New CIFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2020 (continued)

Amendments to CIAS 1 and CIAS 8 *Definition of Material*

The amendments clarify the definition of material in the context of applying CIFRS. As the concept of what is and is not material is crucial in preparing financial statements in accordance with CIFRS, a change in the definition may fundamentally affect how preparers make judgments in preparing financial statements.

The new definition of material is information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to CIFRS 9, CIAS 39 and CIFRS 7 *Interest Rate Benchmark Reform*

The amendments affect entities that apply the hedge accounting requirements of CIFRS 9 or CIAS 39 to hedging relationships affected by the interest rate benchmark reform.

Pursuant to the amendments, entities would apply hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.

The amendments apply to all hedging relationships that are directly affected by the interest rate benchmark reform.

CIFRS 17 *Insurance Contracts*

CIFRS 17 replaces CIFRS 4 and requires a current measurement model where estimates are re-measured each reporting period.

Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under CIFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

39. ADOPTION OF NEW CIFRSs (continued)

39.2 New CIFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2020 (continued)

Amendments to CIFRS 10 and CIAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.