

PHNOM PENH WATER SUPPLY AUTHORITY
(Co.0839 Et/2012)
(Incorporated in Cambodia)

DIRECTORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

Registration No. Co.0839 Et/2012

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

**DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022**

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PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of PPWSA for the financial year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activities of PPWSA are to engage in the processing and distribution of water for general use by the public in the city of Phnom Penh and surrounding areas, including Takmao and the provision of other related services. The objectives of PPWSA are to:

- Invest in, build, enlarge, operate, repair and maintain the means of water sanitation and distribution;
- Manage devices to increase water production, 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 Directors' resolution and the laws of Cambodia;
- Cooperate with local and external development partners on technology, trade and finance in order to improve and develop PPWSA in accordance with government policy; and
- Ensure sustainable production processes, business and finance for the public interest.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	KHR'000
Profit for the financial year	<u>108,185,865</u>

DIVIDENDS

The amount of dividends declared by PPWSA since the end of the previous financial year were as follows, details of which are disclosed in Note 29 to the financial statements:

	KHR'000
Dividend of KHR310 per ordinary share in respect of the financial year ended 31 December 2022, declared on 18 March 2022.	<u>4,044,252</u>

RESERVES OR PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY
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DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the financial statements of PPWSA were prepared, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off for bad debts and the making of allowance for doubtful debts and had satisfied themselves that there were no known bad debts and no allowance for doubtful debts was required.

At the date of this report, the directors are not aware of any circumstances which would render it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of PPWSA.

CURRENT ASSETS

Before the financial statements of PPWSA were prepared, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of PPWSA had been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of 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 PPWSA which has arisen since the end of the financial year which secures the liabilities of any other person; and
- (ii) any contingent liabilities in respect of PPWSA which has arisen since the end of the financial year.

In the opinion of the directors, no contingent or other liability of PPWSA has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Authority to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

PHNOM PENH WATER SUPPLY AUTHORITY
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DIRECTORS' REPORT (CONTINUED)

ITEMS OF MATERIAL AND UNUSUAL NATURE

In the opinion of the directors,

- (i) the results of the operations of PPWSA for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of PPWSA for the financial year in which this report is made.

ISSUE OF SHARES AND DEBENTURES

During the financial year, no new issue of shares or debentures were made by PPWSA, other than those disclosed in Note 13(c) to the financial statements.

DIRECTORS

The directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

H.E. Oum Sotha	(End of Mandate on 6 January 2023)
H.E. Sim Sitha	(Appointed on 6 January 2023)
H.E. Mey Vann	
H.E. Long Naro	
H.E. Noun Pharath	
Mr. Ma Noravin	
Mr. Oum Sengbora	(End of Mandate on 13 May 2022)
Mr. Zhang Yun Feng	(End of Mandate on 13 May 2022)
Mr. Nam Chantry	(Appointed on 13 May 2022)
Mr. Sreng Samork	(Appointed on 13 May 2022)

SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Details of significant event subsequent to the end of the financial year are disclosed in Note 36 to the financial statements.

AUDITORS

The auditors, Messrs. Baker Tilly (Cambodia) Co., Ltd, have expressed their willingness to continue in office.

PHNOM PENH WATER SUPPLY AUTHORITY
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DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors of PPWSA are responsible for ascertaining that the financial statements of PPWSA give a true and fair view of the financial position of PPWSA as at 31 December 2022, and its financial performance and its cash flows for the financial year then ended. In preparing these financial statements, the directors of PPWSA are required to:

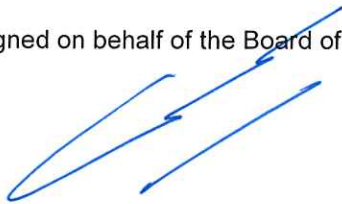
- (i) adopt appropriate accounting policies in accordance with Cambodian International Financial Reporting Standards ("CIFRSs"), which are supported by reasonable and prudent judgement and estimates and then apply them consistently;
- (ii) comply with the disclosure requirements of CIFRSs or, if there have been any departures from such standards, in the interest of fair presentation, ensure that this has been appropriately disclosed, explained and quantified in the financial statements;
- (iii) maintain adequate accounting records that enable PPWSA to prepare its financial statements under CIFRSs and an effective system of internal controls;
- (iv) prepare the financial statements on a going-concern basis unless it is inappropriate to assume that PPWSA will continue operations in the reasonable future; and
- (v) effectively control and direct PPWSA and be involved in all material decisions affecting its operations and performance, and ascertain that such matters have been properly reflected in the financial statements.

The directors confirm that PPWSA has complied with the above requirements in preparing its financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

We, H.E. **SIM SITHA**, H.E. **LONG NARO** and **DENG POLYDEN**, being the directors and officer of PPWSA, do hereby state that in the opinion of the directors, the accompanying financial statements are properly drawn up in accordance with the Cambodian International Financial Reporting Standards so as to give a true and fair view of the financial position of PPWSA as at 31 December 2022 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors,



.....
SIM SITHA
Chairman of the Board of Director



.....
DENG POLYDEN
Deputy Director General
in charge of Finance



.....
LONG NARO
Director General

Date: 15 MAR 2023

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 KHR'000	2021 KHR'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,203,041,914	1,893,864,619
Intangible assets	6	12,089,587	12,530,278
Total non-current assets		<u>2,215,131,501</u>	<u>1,906,394,897</u>
Current assets			
Inventories	7	152,737,078	143,731,508
Trade and other receivables	8	28,264,940	24,875,167
Contract assets	9	92,768,374	66,024,580
Loan to employees	10	7,956,651	7,956,651
Short-term investments	11	126,118,416	68,163,833
Cash and cash equivalents	12	61,158,915	89,659,538
Total current assets		<u>469,004,374</u>	<u>400,411,277</u>
TOTAL ASSETS		<u>2,684,135,875</u>	<u>2,306,806,174</u>
EQUITY AND LIABILITY			
Equity attributable to owners of the PPWSA			
Share capital and share premium	13	620,759,107	619,315,886
Reserves	14	543,268,075	418,038,410
Retained earnings		108,185,865	129,273,917
TOTAL EQUITY		<u>1,272,213,047</u>	<u>1,166,628,213</u>
Non-current liabilities			
Borrowings	15	986,495,717	790,359,750
Deferred government and other grants	16	69,238,477	16,812,186
Deferred tax liabilities	17	77,016,716	72,307,299
Other payables	18	76,801,705	69,446,073
Total non-current liabilities		<u>1,209,552,615</u>	<u>948,925,308</u>
Current liabilities			
Trade and other payables	18	154,661,152	141,969,545
Borrowings	15	23,499,158	23,128,518
Contract liabilities	9	4,456,756	1,788,894
Current tax liabilities		19,753,147	24,365,696
Total current liabilities		<u>202,370,213</u>	<u>191,252,653</u>
Total liabilities		<u>1,411,922,828</u>	<u>1,140,177,961</u>
TOTAL EQUITY AND LIABILITY		<u>2,684,135,875</u>	<u>2,306,806,174</u>

The accompanying notes form an integral part of these 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 2022

	Note	2022 KHR'000	2021 KHR'000
Income:			
Sales	19	299,723,507	282,369,797
Construction service fee		24,976,316	26,241,989
Foreign exchange gains - net	20	-	2,273,984
Other income	21	21,478,333	58,259,487
		<u>346,178,156</u>	<u>369,145,257</u>
Expenses:			
Depreciation and amortisation charges		(59,455,074)	(55,194,412)
Electricity costs		(35,218,743)	(35,791,983)
Employee benefits expense	22	(70,175,422)	(63,631,237)
Raw materials for water treatment	23	(12,140,740)	(9,541,982)
Raw materials for household water connections	24	(4,953,371)	(3,163,768)
Repairs and maintenance		(8,009,358)	(7,050,855)
Construction service expense		(16,618,024)	(22,448,213)
Other operating expenses		(11,243,416)	(15,226,506)
Foreign exchange losses - net	20	(3,481,166)	-
		<u>(221,295,314)</u>	<u>(212,048,956)</u>
Operating profit		124,882,842	157,096,301
Finance income	25	17,737,746	13,555,064
Finance costs	26	(12,104,696)	(4,794,779)
Profit before tax		130,515,892	165,856,586
Income tax	27	(22,330,027)	(36,582,669)
Profit for the year, representing total comprehensive income for the year		<u>108,185,865</u>	<u>129,273,917</u>
Earnings per share attributable to owners			
Basic earnings per share (KHR)	28	1,243.90	1,486.37
Diluted earnings per share (KHR)	28	1,243.90	1,486.37

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

PHNOM PENH WATER SUPPLY AUTHORITY
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	Share capital and share premium KHR'000	Reserves KHR'000	Retained earnings KHR'000	Total KHR'000
At 1 January 2021		541,227,282	352,473,530	88,351,845	982,052,657
Profit for the financial year, representing total comprehensive income for the year		-	-	129,273,917	129,273,917
Transactions with owners					
Capital contribution	13	78,088,604	-	-	78,088,604
Transfer to reserves	14	-	65,564,880	(65,564,880)	-
Dividends	29	-	-	(22,786,965)	(22,786,965)
Total transactions with owners		78,088,604	65,564,880	(88,351,845)	55,301,639
At 31 December 2021 / 1 January 2022		619,315,886	418,038,410	129,273,917	1,166,628,213
Profit for the financial year, representing total comprehensive income for the year		-	-	108,185,865	108,185,865
Transactions with owners					
Capital contribution	13	1,443,221	-	-	1,443,221
Transfer to reserves	14	-	125,229,665	(125,229,665)	-
Dividends	29	-	-	(4,044,252)	(4,044,252)
Total transactions with owners		1,443,221	125,229,665	(129,273,917)	(2,601,031)
At 31 December 2022		620,759,107	543,268,075	108,185,865	1,272,213,047

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

PHNOM PENH WATER SUPPLY AUTHORITY
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	2022 KHR'000	2021 KHR'000
Cash flows from operating activities			
Profit before tax		130,515,892	165,856,586
Adjustments for:			
Amortisation of intangible assets	6	1,994,147	1,702,419
Depreciation of property, plant and equipment	5	57,460,927	53,491,993
Amortisation of deferred government and other grants	16	(2,009,908)	(2,009,907)
Waiver of dividends payable	21	-	(36,372,177)
Written off of property, plant and equipment	5	136,839	5,749,176
Finance income	25	(4,656,618)	(2,706,044)
Finance costs	25	9,115,530	6,436,677
Net unrealised foreign exchange loss/(gain)		1,553,740	(10,928,248)
		194,110,549	181,220,475
Operating profit before changes in working capital		194,110,549	181,220,475
Increase in inventories		(89,819,201)	(72,331,066)
(Increase)/Decrease in trade and other receivables		(1,668,049)	1,376,002
Decrease in trade and other payables		8,509,694	5,184,655
Increase in contract assets		(26,743,794)	(23,102,033)
Increase/(Decrease) in contract liabilities		2,667,862	(1,827,672)
Increase in refundable water deposits		7,355,632	4,250,237
Net cash from operations		94,412,693	94,770,598
Income tax paid		(22,233,157)	(25,473,919)
Net cash from operating activities		72,179,536	69,296,679
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(281,619,716)	(289,716,945)
Purchase of intangible assets	6	(390,075)	(1,133,062)
Increase in short-term investments		(57,954,583)	(49,719,119)
Interest capitalised on qualifying assets		(5,505,096)	(4,398,469)
Interest received		2,934,894	2,109,045
Receipt of EU grants	16	54,436,199	-
Net cash used in investing activities		(288,098,377)	(342,858,550)
Cash flows from financing activities			
Capital contribution from MoEF, net		1,443,221	(103,656)
Dividends paid		(4,044,252)	(3,418,042)
Drawdown of borrowings		218,280,439	303,185,292
Interest paid		(7,491,804)	(7,556,383)
Repayments of borrowings		(20,769,386)	(28,596,307)
Net cash generated from financing activities		187,418,218	263,510,904
Net decreased in cash and cash equivalents		(28,500,623)	(10,050,967)
Cash and cash equivalents at the beginning of the year		89,659,538	99,710,505
Cash and cash equivalents at the end of the year	12	61,158,915	89,659,538

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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

(a) Reconciliation of liabilities arising from financing activities:

	Borrowings KHR'000	Dividends payable KHR'000	Share capital and share premium KHR'000	Total KHR'000
At 1 January 2022	813,488,268	-	619,315,886	1,432,804,154
Finance activities				
Capital contribution from MoEF, net	-	-	1,443,221	1,443,221
Dividends paid	-	(4,044,252)	-	(4,044,252)
Drawdown of borrowings	218,280,439	-	-	218,280,439
Interest paid	(7,491,804)	-	-	(7,491,804)
Repayments of borrowings	(20,769,386)	-	-	(20,769,386)
Net cash generated from financing activities	190,019,249	(4,044,252)	1,443,221	187,418,218
Liabilities-related other changes				
Dividends	-	4,044,252	-	4,044,252
Accrued interest on borrowings	9,115,530	-	-	9,115,530
Foreign exchange gain on borrowings	(2,628,172)	-	-	(2,628,172)
Total liabilities-related other changes	6,487,358	4,044,252	-	10,531,610
At 31 December 2022	1,009,994,875	-	620,759,107	1,630,753,982

PHNOM PENH WATER SUPPLY AUTHORITY
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

(a) Reconciliation of liabilities arising from financing activities: (continued)

	Borrowings KHR'000	Dividends payable KHR'000	Share capital and share premium KHR'000	Total KHR'000
At 1 January 2021	548,135,576	17,003,254	541,227,282	1,106,366,112
Finance activities				
Capital contribution from MoEF, net	-	-	(103,656)	(103,656)
Dividends paid	-	(3,418,042)	-	(3,418,042)
Drawdown of borrowings	303,185,292	-	-	303,185,292
Interest paid	(7,556,383)	-	-	(7,556,383)
Repayments of borrowings	(28,596,307)	-	-	(28,596,307)
Net cash generated from financing activities	267,032,602	(3,418,042)	(103,656)	263,510,904
Liabilities-related other changes				
Dividends	-	22,786,965	-	22,786,965
Accrued interest on borrowings	6,436,677	-	-	6,436,677
Foreign exchange gain on borrowings	(8,116,587)	-	-	(8,116,587)
Waiver of dividends payable	-	(36,372,177)	-	(36,372,177)
Total liabilities-related other changes	(1,679,910)	(13,585,212)	-	(15,265,122)
Equity-related other changes				
Acquisition through capital contribution	-	-	78,192,260	78,192,260
At 31 December 2021	813,488,268	-	619,315,886	1,432,804,154

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

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Phnom Penh Water Supply Authority (“PPWSA”) is under the technical supervision of the Ministry of Industry, Science, Technology and Innovation (“MISTI”) and the financial supervision of the Ministry of the Economy and Finance (“MoEF”), and has its headquarter in Phnom Penh. PPWSA is acknowledged as having the economic characteristic 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 PPWSA is No. 45, Street 106, Sangkat Srah Chork, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia.

The principal activities of PPWSA are to engage in the processing and distribution of water for general use by the public in the city of Phnom Penh and surrounding areas, including Takmao and the provision of other related services. The objectives of PPWSA are to:

- Invest in, build, enlarge, operate, repair and maintain the means of water sanitation and distribution;
- Manage devices to increase water production, 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 Directors’ resolution and the laws of Cambodia;
- Cooperate with local and external development partners on technology, trade and finance in order to improve and develop PPWSA in accordance with government policy; and
- Ensure sustainable production processes, business and finance for the public interest.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of PPWSA have been prepared in accordance with the Cambodian International Financial Reporting Standards (“CIFRSs”).

2.2 Adoption of amendments/improvements to CIFRSs

PPWSA has adopted the following amendments/improvements to CIFRSs for the financial year beginning on 1 January 2022:

Amendments/Improvements to CIFRSs

CIFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021- Amendment to CIFRS 16
CIAS 16	Property, Plant and Equipment
CIAS 37	Provisions, Contingent Liabilities and Contingent Assets
CIAS 41	Agriculture
CIFRS 1	First time Adoption of International Financial Reporting Standards
CIFRS 3	Business Combinations

The adoption of the above-mentioned amendments/improvements to CIFRSs have no significant impact on the financial statements of PPWSA.

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 Standards and amendments/improvements that have been issue but not yet effective

PPWSA has not adopted the following new standards and amendments/improvements that have been issued but not yet effective:

<u>New Standard</u>	Effective for financial periods beginning on or after
CIFRS 17 Insurance Contracts	1 January 2023
<u>Amendments/Improvements</u>	
CIFRS 1 First-time Adoption of Cambodian International Financial Reporting Standards	1 January 2023 [#]
CIFRS 3 Business Combinations	1 January 2023 [#]
CIFRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 January 2023 [#]
CIFRS 7 Financial Instruments: Disclosures	1 January 2023 [#]
CIFRS 9 Financial Instruments	1 January 2023 [#]
CIFRS 10 Consolidated Financial Statements	Deferred
CIFRS 15 Revenue from Contracts with Customers	1 January 2023 [#]
CIFRS 16 Leases	1 January 2024
CIFRS 17 Insurance Contracts	1 January 2023
CIAS 1 Presentation of Financial Instruments	1 January 2023 [#] / 1 January 2024
CIAS 7 Statement of Cash Flows	1 January 2023 [#]
CIAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023
CIAS 12 Income Taxes	1 January 2023
CIAS 16 Property, Plant and Equipment	1 January 2023 [#]
CIAS 19 Employee Benefits	1 January 2023 [#]
CIAS 28 Investments in Associates and Joint Ventures	Deferred/ 1 January 2023 [#]
CIAS 32 Financial Instruments: Presentation	1 January 2023 [#]
CIAS 36 Impairment of Assets	1 January 2023 [#]
CIAS 37 Provisions, Contingent Liabilities and Contingent Assets	1 January 2023 [#]
CIAS 38 Intangible Assets	1 January 2023 [#]
CIAS 40 Investment Property	1 January 2023 [#]

[#] Amendments as to the consequence of effective CIFRS 17 Insurance Contracts

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 Standards and amendments/improvements that have been issued but not yet effective (Continued)

PPWSA plans to adopt the above applicable standards and amendments/improvements when they become effective. A brief discussion on the above significant standards and amendments/improvements that may be applicable to PPWSA are summarised below.

Amendments to CIFRS 3 Business Combinations

The amendments update CIFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version.

Amendments to CIFRS 10 Consolidated Financial Statements and CIAS 28 Investments in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in CIFRS 10 and those in CIAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in CIFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

Amendments to CIAS 1 Presentation of Financial Statements

The amendments include specifying that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period; clarifying that classification of liability is unaffected by the likelihood of the entity to exercise its right to defer settlement of the liability for at least twelve months after the reporting period; clarifying how lending conditions affect classification of a liability; and clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The amendments require an entity to disclose its material accounting policy information rather than significant accounting policies. The amendments, amongst others, also include example of circumstances in which an entity is likely to consider an accounting policy information to be material to its financial statements. To support this amendments, CIFRS Practice Statement 2 was also amended to provide guidance on how to apply the concept of materiality to accounting policy information disclosures.

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 Standards and amendments/improvements that have been issued but not yet effective (continued)

Amendments to CIAS 1 Presentation of Financial Statements (continued)

The guidance and examples provided in the CIFRS 2 Practice Statement 2 highlight the need to focus on entity-specific information and demonstrate how the four-step materiality process can address standardise (or boilerplate) information and duplication of requirements of CIFRSs in the accounting policy information disclosures.

Amendments to CIAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments revise the definition of accounting estimates to clarify how an entity should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because the changes in accounting estimates are applied prospectively to transactions, other events, or conditions from the date of that change, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

Amendments to CIAS 12 Income Taxes

The amendments specify how an entity should account for deferred tax on transactions such as leases and decommissioning obligation.

In specified circumstances, CIAS 12 exempts an entity from recognising deferred tax when it recognises assets or liabilities for the first time. There had been some uncertainties about whether the exemption from recognising deferred tax applied to transactions such as leases and decommissioning obligations – transactions for which an entity recognises both an asset and liability. The amendments clarify that the exemption does not apply and that entity is required to recognise deferred tax on such transactions.

Amendments to CIAS 16 Property, Plant and Equipment

The amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity shall recognise such sales proceeds and related cost in profit or loss.

Amendments to CIAS 37 Provisions, Contingent Liabilities and Contingent Assets

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.4 Functional and presentation currency

The financial statements are presented in Khmer Riel (“KHR”), which is also PPWSA’s functional currency, and has been rounded to the nearest thousand, unless otherwise stated.

2.5 Basis of measurement

The financial statements of PPWSA have been prepared on the historical cost basis, except as otherwise disclosed in Note 3 to the financial statements.

2.6 Use of estimates and judgement

The preparation of financial statements in conformity with the CIFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying PPWSA’s accounting policies. Although these estimates and judgment are based on the directors’ best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates that are significant to the financial statements are disclosed in Note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years presented in the financial statements of PPWSA.

3.1 Translation of foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rate ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchanges rates ruling at the dates the fair value was determined.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments

Financial instruments are recognised in the statement of financial position when, and only when, PPWSA become a party to the contractual provisions of the financial instrument.

Except for the trade receivables that do not contain a significant financing component or for which PPWSA has applied the practical expedient, the financial instruments are recognised initially at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which PPWSA have applied the practical expedient are measured at the transaction price determined under CIFRS 15.

(a) Subsequent measurement

PPWSA categorises the financial instruments as follows:

(i) Financial assets

Subsequent measurement of debt instruments depends on PPWSA's business model for managing the asset and the cash flow characteristics of the asset. PPWSA classifies its debts instruments as financial assets at amortised cost.

Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.8(a) to the financial statements. Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

(ii) Financial liabilities

PPWSA classifies its financial liabilities at amortised cost.

Financial liabilities at amortised cost

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using effective interest method. Gains and losses are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

(b) Derecognition

A financial asset or a part of it is derecognised when, and only when:

- (i) the contractual rights to receive the cash flows from the financial asset expire, or
- (ii) PPWSA has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party and either (a) PPWSA has transferred substantially all the risks and rewards of the asset, or (b) PPWSA has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

PPWSA evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, PPWSA continues to recognise the transferred asset to the extent of its continuing involvement. In that case, PPWSA also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that PPWSA has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that PPWSA could be required to repay.

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.8(b) to the financial statements.

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use. The cost of self-constructed assets also includes cost of materials, direct labour, and any other direct attributable costs but excludes internal profits. For qualifying assets, borrowings costs are capitalised in accordance with the accounting policy on borrowing costs in Note 3.13 to the financial statements.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to PPWSA and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

(c) Depreciation

Freehold land has an unlimited useful life and therefore is not depreciated. Assets under construction included in property, plant and equipment are not depreciated as those assets are not yet available for use.

All other property, plant and equipment are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

	Useful lives (years)
Building	3 - 50
Machinery	3 - 20
Fluid equipment	6 - 50
Laboratory equipment	6 - 7
Office furniture and equipment	2 - 7
Electricity equipment	2 - 20
Motor vehicles	2 - 7
Valves and tools	3 - 35
Water meters	5 - 20
House connection	12

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment (continued)

(c) Depreciation (continued)

The residual values, useful lives and depreciation methods are reviewed at the end of each reporting period and adjusted as appropriate.

(d) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in profit or loss.

3.4 Intangible assets

Intangible assets comprise accounting software as well as network software which are acquired by PPWSA, have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.8(b).

The amortisation methods used and the estimated useful lives are as follows:

	Method	Useful lives (years)
Accounting and network software	Straight-line	1 - 7

3.5 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the weighted average basis. The cost comprises all costs of purchase plus other cost incurred in bringing the inventories to their present location and condition. Inventories include raw materials, consumable, spare parts and other water supply related inventories and are valued at the actual costs of bringing the inventory to its intended purposes less allowances for damages, obsolete and slow-moving items using the weighted average basis. Spare parts and water supply-related inventories with a useful life of more than one year are capitalised as property, plant and equipment upon being put into use.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sales.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Contract assets/(liabilities)

Contract asset is the right to consideration in exchange for goods or services transferred to the customers when that right is conditioned on something other than the passage of time (for example, PPWSA's future performance). The contract asset is transferred to receivables when the rights become unconditional. This usually occurs when PPWSA issues an invoice to the customer. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.8(a).

Contract liability is the obligation to transfer goods or services to customers for which PPWSA has received the consideration or have billed the customers.

3.7 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and cash deposited and managed by the General Department of National Treasury, Treasury of Phnom Penh Municipality, Treasury of Tboung Khmum Provincial and Treasury of Kandal Provincial that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

3.8 Impairment of assets

(a) Impairment of financial assets

PPWSA assesses on a forward looking basis the expected credit losses associated with its debt financial assets carried at amortised cost. The impairment methodology applied is disclosed in Note 31(b) to the financial statements.

For trade receivables, PPWSA applies the simplified approach permitted by the CIFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, PPWSA makes an estimate of the asset's recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs").

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of assets (continued)

(b) Impairment of non-financial assets (continued)

Where the carrying amount of an asset exceed its recoverable amount, the carrying amount of asset is reduced to its recoverable amount.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.9 Share capital

(a) Ordinary shares

Ordinary shares are equity instruments. An equity instrument is a contract that evidences a residual interest in the assets of PPWSA after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(b) Preference shares

Preference shares are classified as equity if it is non-redeemable, or is redeemable but only at PPWSA's option, and any dividend payments are discretionary. Dividends thereon are recognised as distributions within equity.

Preference shares are classified as financial liability if it is redeemable on a specific date or at the option of the equity holders, of if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

(c) Capital contribution

Non-reciprocal contributions from owners are equity and are recorded as capital contribution. Net assets arising from the capital contribution are generally measured at fair value as at the date of the capital contribution and are recorded based on the nature of such assets contributed by owners.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Employee benefits

Short-term employee benefits obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to PPWSA.

3.11 Revenue and other income

PPWSA recognises revenue that depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which PPWSA expect to be entitled in exchange for those goods or services.

Revenue recognition of PPWSA is applied for each contract with a customer or a combination of contracts with the same customer (or related parties of a customer). For practical expedient, PPWSA applied revenue recognition to a portfolio of contracts (or performance obligations) with similar characteristics if PPWSA reasonably expects that the effects on the financial statements would not differ materially from recognising revenue on the individual contracts (or performance obligations) within that portfolio.

PPWSA measures revenue from sale of goods or services at its transaction price, being the amount of consideration to which PPWSA expect to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties such as service tax, adjusted for the effects of any variable considerations, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer. If the transaction price includes variable consideration, PPWSA uses the expected value method by estimating the sum of probability-weighted amounts in a range or possible consideration amounts, or the most likely outcome method, depending on which method PPWSA expects to better predict the amount of consideration to which it is entitled.

For contract with separate performance obligations, the transactions price is allocated to the separate performance obligations on the relative stand-alone selling price basis. If the stand-alone selling price is not directly observable, PPWSA estimates it by using the expected cost plus margin approach.

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or services underlying the particular performance obligations, which the performance obligation may be satisfied at a point in time or over time.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A modification exists when the change either creates new or changes existing enforceable rights and obligations of the parties to the contract. PPWSA has assessed the type of modification and accounted for as either creates a separate new contract, terminates the existing contract and creation of a new contract; or forms a part of the existing contracts.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Revenue and other income (continued)

(a) Revenue from water sales

Revenue from water sales are recognised at a point in time when PPWSA satisfies its performance obligations based on customer's consumption of water and when the water has been supplied by PPWSA.

(b) Water connection revenue

Revenue from household water connection 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.

(d) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(e) 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 province.

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

Revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards complete satisfaction of a performance obligation is determined based on estimated margins prior. PPWSA also estimated total contract costs in applying the input method to recognise revenue over time.

3.12 Government grants

Grants from the governments and other development agencies are recognised at a nominal amount where there is reasonable assurance that the grant will be received and PPWSA will comply with all attached conditions. Grants are deferred and recognised in the statement of profit or loss and other comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Deferred grants relating to the cost of property, plant and equipment granted by donors are recognised at cost upon receipt. Deferred grants are included in non-current liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight-line basis to match the expected lives of the related assets.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Government grants (continued)

The benefit of a government loan at a below market foreign exchange rate, i.e., favourable fluctuations between the value of the currency of the loan (Special Drawing Right) and the currency of its repayment by PPWSA ("KHR"), is treated as a government grant.

3.13 Borrowing costs

Borrowing costs are interest and other costs that PPWSA incur in connection with borrowing of funds.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use.

PPWSA begins capitalising borrowing costs when PPWSA has incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that the necessary to prepare the asset for its intended use.

3.14 Income tax

Income tax expense in profit or loss comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

(b) Deferred tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Income tax (continued)

(b) Deferred tax (continued)

Deferred tax is not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation Authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

3.15 Earnings per share

PPWSA presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basis EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of PPWSA by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.16 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The director general of PPWSA, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, PPWSA uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that PPWSA can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

PPWSA recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following:

4.1 Determining the functional currency

PPWSA operates in Cambodia and conduct purchases and other transactions in multiple currencies. Judgment is applied in determining the functional currency wherever the indications are mixed. PPWSA uses, in hierarchy, sale indicators as the primary basis, followed by purchased and operating expenses indicators, and in the event that those indicators are no conclusive, the currency in which borrowings and other funds are raised for financing the operations.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

4.2 Depreciation and useful lives of property, plant and equipment

As disclosed in Notes 3.3 to the financial statements, PPWSA review the residual values, useful lives and depreciation methods at the end of each reporting period. Estimates are applied in the selection of the depreciation method, the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment may differ from the estimates applies and therefore, future depreciation charges could be revised.

The carrying amounts of PPWSA's property, plant and equipment are disclosed in Note 5 to the financial statements.

4.3 Capital contribution from owners

When the owner contributed the assets, liabilities and equity of Tbong Khmum Province Water Treatment Plant Operation ("the Tbong Khmum Project") and the assets of Sihanoukville Water Supply Authority into PPWSA, a judgement was made as to whether the transaction should be accounted for as a business combination or separate assets contributed by the owners. In making this judgement, PPWSA assessed the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business in CIFRS 3 Business Combination.

In accounting for the Tbong Khmum Project and the assets of Sihanoukville Water Supply Authority, the fair values of the identifiable assets and liabilities consumed are recognised. The determination of the fair values of contributed assets and liabilities assumed is based on the Ministry of Industry, Science, Technology and Innovation's judgement. Any changes in these assumptions will have impact of the carrying amounts of the contributed assets and liabilities assumed.

The fair values of the contributed assets and liabilities assumed are disclosed in Note 13(c) to the financial statements.

4.4 Impairment of financial assets and contract assets

The impairment provisions for financial assets and contract assets are based on assumptions about risk of default and expected credit loss rate. PPWSA use judgement in making these assumptions and selecting inputs to the impairment calculation, based on PPWSA's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The information about the impairment losses on PPWSA's financial assets and contract assets are disclosed in Note 31(b)(i) to the financial statements.

4.5 Revenue recognition in relation to accrued water revenue

Accrued water revenue is recognised based on the water volume produced, the water volume billed, the average water loss and the average tariff by type of customers. The Board of Directors uses statistics on the water loss rate and the average tariff based on past experience, which may not properly reflect the actual rates and the current situation.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

4.6 Revenue recognition in relation to construction service revenues

PPWSA recognised construction service revenue and expenses in profit or loss by using the progress towards complete satisfaction of performance obligation. The progress towards complete satisfaction of performance obligation is determined by the proportion that construction costs incurred for work performed to date bear to the estimated total constructions costs.

Significant judgment is required in determining the progress towards complete satisfaction of performance obligation, the extent of the construction costs incurred, the estimates total construction revenue and expenses, as well as the recoverability of the construction projects. In making the judgement, PPWSA evaluates based on past experience.

4.7 Measurement of income tax

Significant judgement is required in determining PPWSA's estimation for current, deferred taxes because the ultimate tax liability for PPWSA as a whole is uncertain. When the final outcome of its taxes are determined with the tax authorities, the amounts might be different from the initial estimates of its taxes. Such differences may impact the current, deferred and indirect taxes in the period when such determination is made. PPWSA will make adjustments for current, deferred taxes in respect of prior years in the current period on those differences arise.

The income tax expense of PPWSA is disclosed in Note 27 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Building	Machinery	Fluid equipment	Laboratory equipment	Office furniture and equipment	Electricity equipment	Motor vehicles	Valves and tools	Water meters	House connection	Construction in progress	Total
	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000
Cost													
At 1 January 2022	176,576,155	414,752,230	134,787,221	701,096,785	2,938,504	25,292,218	163,593,680	49,750,390	39,773,268	12,804,002	24,115,031	693,343,524	2,438,823,008
Additions	-	43,048	89,375	-	-	2,957,343	82,483	152,169	250,515	3,451	-	283,546,428	287,124,812
Transfer	-	1,191,592	1,386,160	23,020,047	-	-	279,784	-	762,855	732,340	6,279,002	(33,651,780)	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	-	-	-	(1,125,000)	(1,125,000)
Transfer from inventory	-	-	1,236,073	-	185,196	-	715,643	33,121	4,652,650	40,493	-	73,912,072	80,775,249
Written-off	-	-	-	-	-	-	-	-	-	-	-	(136,839)	(136,839)
At 31 December 2022	<u>176,576,155</u>	<u>415,986,870</u>	<u>137,498,829</u>	<u>724,116,832</u>	<u>3,123,700</u>	<u>28,249,561</u>	<u>164,671,590</u>	<u>49,935,680</u>	<u>45,439,288</u>	<u>13,580,286</u>	<u>30,394,033</u>	<u>1,015,888,405</u>	<u>2,805,461,230</u>
Accumulated depreciation													
At 1 January 2022	-	84,915,242	65,222,044	209,396,038	843,398	16,837,723	99,403,559	38,285,590	18,458,101	7,734,053	3,862,641	-	544,958,389
Depreciation charge for the financial year	-	8,880,529	7,440,613	19,240,207	351,101	2,383,832	7,982,036	3,414,218	3,732,834	1,783,240	2,252,318	-	57,460,927
At 31 December 2022	<u>-</u>	<u>93,795,771</u>	<u>72,662,657</u>	<u>228,636,245</u>	<u>1,194,499</u>	<u>19,221,555</u>	<u>107,385,595</u>	<u>41,699,808</u>	<u>22,190,935</u>	<u>9,517,293</u>	<u>6,114,959</u>	<u>-</u>	<u>602,419,316</u>
Net carrying amount													
At 31 December 2022	<u>176,576,155</u>	<u>322,191,098</u>	<u>64,836,172</u>	<u>495,480,588</u>	<u>1,929,201</u>	<u>9,028,006</u>	<u>57,285,995</u>	<u>8,235,872</u>	<u>23,248,353</u>	<u>4,062,994</u>	<u>24,279,074</u>	<u>1,015,888,405</u>	<u>2,203,041,914</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land	Building	Machinery	Fluid equipment	Laboratory equipment	Office furniture and equipment	Electricity equipment	Motor vehicles	Valves and tools	Water meters	House connection	Construction in progress	Total
	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000
Cost													
At 1 January 2021	174,238,381	333,453,102	105,753,743	645,820,010	849,387	23,115,032	151,256,071	45,878,922	27,637,594	9,526,779	17,474,630	540,365,694	2,075,369,345
Additions	-	117,898	2,404,355	-	348,294	2,801,563	1,377,482	3,277,517	2,036,000	15,235	-	281,737,070	294,115,414
Acquisition through capital contribution (Note 13(c))	2,337,774	31,149,140	5,188,089	28,900,330	1,007,433	128,276	3,253,207	-	6,196,254	5,774	25,983	-	78,192,260
Transfer	-	59,800,036	23,450,588	26,600,962	765,789	66,013	10,190,978	1,079,124	3,976,955	3,256,214	6,614,418	(135,801,077)	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	-	-	-	(16,431)	(16,431)
Transfer from inventory	-	-	-	-	-	-	-	-	-	-	-	7,212,446	7,212,446
Written-off	-	(9,767,946)	(2,009,554)	(224,517)	(32,399)	(818,666)	(2,484,058)	(485,173)	(73,535)	-	-	(154,178)	(16,050,026)
At 31 December 2021	176,576,155	414,752,230	134,787,221	701,096,785	2,938,504	25,292,218	163,593,680	49,750,390	39,773,268	12,804,002	24,115,031	693,343,524	2,438,823,008
Accumulated depreciation													
At 1 January 2021	-	81,595,636	60,193,579	191,178,138	670,866	15,261,758	94,386,235	34,837,130	15,359,648	6,098,179	2,186,077	-	501,767,246
Depreciation charge for the financial year	-	8,064,294	6,761,483	18,322,184	204,931	2,376,858	7,364,047	3,933,633	3,152,125	1,635,874	1,676,564	-	53,491,993
Written-off	-	(4,744,688)	(1,733,018)	(104,284)	(32,399)	(800,893)	(2,346,723)	(485,173)	(53,672)	-	-	-	(10,300,850)
At 31 December 2021	-	84,915,242	65,222,044	209,396,038	843,398	16,837,723	99,403,559	38,285,590	18,458,101	7,734,053	3,862,641	-	544,958,389
Net carrying amount													
At 31 December 2021	176,576,155	329,836,988	69,565,177	491,700,747	2,095,106	8,454,495	64,190,121	11,464,800	21,315,167	5,069,949	20,252,390	693,343,524	1,893,864,619

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2022 KHR'000	2021 KHR'000
Additions	287,124,812	294,115,414
Interest capitalised on qualifying assets	(5,505,096)	(4,398,469)
Cash payment for purchase of property, plant and equipment	<u>281,619,716</u>	<u>289,716,945</u>

6. INTANGIBLE ASSETS

	Note	2022 KHR'000	2021 KHR'000
Software			
Cost			
At 1 January		25,007,900	23,858,407
Additions		390,075	1,133,062
Transfer from inventory		38,381	-
Transfer from property, plant and equipment	5	1,125,000	16,431
At 31 December		<u>26,561,356</u>	<u>25,007,900</u>
Accumulated amortisation			
At 1 January		12,477,622	10,775,203
Amortisation charge for the financial year		1,994,147	1,702,419
At 31 December		<u>14,471,769</u>	<u>12,477,622</u>
Carrying amount			
At 31 December		<u>12,089,587</u>	<u>12,530,278</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. INVENTORIES

	2022	2021
	KHR'000	KHR'000
Distribution pipes and fittings	117,905,502	114,788,867
Water meters	9,218,894	8,813,130
Spare parts and tools	7,474,340	9,694,291
Chemicals	2,057,004	348,528
Drums and other packages	100,216	100,216
Inventories in transit*	5,805,052	624,829
Other materials	10,176,070	9,361,647
	<u>152,737,078</u>	<u>143,731,508</u>

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

The cost of inventories of PPWSA recognised as an expense during the financial year was KHR17,094 million (2021: KHR12,705 million).

8. TRADE AND OTHER RECEIVABLES

	2022	2021
	KHR'000	KHR'000
Trade		
Household receivables	1,119,927	1,541,393
Commercial receivables	1,300,959	1,062,903
Public administration receivables	11,673,281	12,209,947
Water wholesalers	103,647	44,215
Less: Impairment loss (household receivables)	(5,553)	(5,553)
	<u>14,192,261</u>	<u>14,852,905</u>
Non-trade		
Performance guarantee	2,887,769	2,887,769
Interest receivables	2,308,870	1,009,298
Advances to suppliers	636,173	208,665
VAT receivables - net	146,746	624,271
Other receivables	8,093,121	5,292,259
	<u>14,072,679</u>	<u>10,022,262</u>
	<u>28,264,940</u>	<u>24,875,167</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

- (a) Trade receivables are non-interest bearing and normal credit terms offered by PPWSA is one month (2021: one month) and to public administration is one year (2021: one year) from the date of invoices. Other credit terms are assessed and approved on a case by case basis.

Receivables that are impaired

PPWSA's trade receivables that are impaired at the reporting date and the reconciliation of movement in the impairment of trade receivables are as follows:

	2022 KHR'000	2021 KHR'000
At 1 January / 31 December	5,533	5,533

- (b) Public administration receivables are receivables from government-related entities.

9. CONTRACT ASSETS/LIABILITIES

	Note	2022 KHR'000	2021 KHR'000
Contract assets			
Contract assets relating to construction service contracts	(a)	3,533,898	536,051
Contract assets relating to water revenue	(b)	89,234,476	65,488,529
		92,768,374	66,024,580
Contract liabilities			
Contract liabilities relating to construction service contracts	(c)	4,456,756	1,788,894

- (a) Construction assets relating to construction service contracts 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.
- (b) Contract assets relating to 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 PPWSA issues the bill.
- (c) Contract liabilities relating to construction service contracts represent the cash received in advance for the construction services provided in relation to the expansion of the water distribution system to water supply distributor in the provinces. It is recognised as revenue when performance obligations are satisfied.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. CONTRACT ASSETS/LIABILITIES (CONTINUED)

(d) Significant changes in contract balances

	2022	2021
	KHR'000	KHR'000
Contract assets (a)		
At 1 January	536,051	4,861,270
Increase due to revenue recognised for unbilled construction service fee to customers	12,807,718	15,220,515
Decrease due to invoice billed to customers	<u>(9,809,871)</u>	<u>(19,545,734)</u>
At 31 December	<u>3,533,898</u>	<u>536,051</u>
Contract assets (b)		
At 1 January	65,488,529	38,061,277
Increase due to revenue recognised for unbilled water sales to customers	320,510,729	310,777,008
Decrease due to invoice billed to customers	<u>(296,764,782)</u>	<u>(283,349,756)</u>
At 31 December	<u>89,234,476</u>	<u>65,488,529</u>
Contract liabilities		
At 1 January	1,788,894	3,616,566
Increase due to advance received from customers, but revenue not recognised	2,667,862	1,751,256
Decrease due to revenue recognised for unbilled goods or services transferred to customers	<u>-</u>	<u>(3,578,928)</u>
At 31 December	<u>4,456,756</u>	<u>1,788,894</u>

10. LOAN TO EMPLOYEES

	2022	2021
	KHR'000	KHR'000
Receivables from employees	8,217,525	8,217,525
Less: Impairment loss	<u>(260,874)</u>	<u>(260,874)</u>
	<u>7,956,651</u>	<u>7,956,651</u>

On 15 February 2012, the Board of Directors approved the motion that 10% of the floating shares be reserved for PPWSA's staff. The number of shares to be allotted to each employee was finalized 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. PPWSA provided interest-free loans with a term of three years to employees and senior officers to purchase these shares. On the due date the loans must be repaid in full to 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. LOAN TO EMPLOYEES (CONTINUED)

This loan is due in April 2015. However, due to decline in share prices, management had decided to make an allowance for impairment to the level of the share prices as at reporting date, based on management's expectation on the amount to be realised if the employees dispose these shares to settle this amount.

The Board of Directors is still in the process of awaiting advice from the Securities and Exchange Regulator of Cambodia on its employee share option scheme as at the date of these financial statements.

Loan to employees that are impaired

PPWSA's loan to employees that are impaired at the reporting date and the reconciliation of movement in the impairment of loan to employees are as follows:

	2022	2021
	KHR'000	KHR'000
At 1 January/31 December	<u>260,874</u>	<u>260,874</u>

11. SHORT-TERM INVESTMENTS

These represent fixed deposit placed with financial institutions for a period of between nine to twelve months (2021: nine to twelve months) and earn interest at rates ranging from 3.50% to 5.75% (2021: 3.50% to 4.75%) per annum.

12. CASH AND CASH EQUIVALENTS

	Note	2022	2021
		KHR'000	KHR'000
Cash and bank balances	(a)	44,690,915	68,363,538
Short-term deposits (within 3 months)	(b)	<u>16,468,000</u>	<u>21,296,000</u>
		<u>61,158,915</u>	<u>89,659,538</u>

(a) Bank balances earns interest at rates ranging from 0.5% to 2% (2021: 0.5% to 2%) per annum. Included in cash and bank balances are KHR4,442,476,000 (2021: KHR2,793,885,000) held by General Department of National Treasury, Treasury of Phnom Penh Municipality, Treasury of Tboung Khmum Provincial and Treasury of Kandal Provincial which are non-interest bearing.

(b) These represent fixed deposit placed with financial institutions for three months (2021: three months) and earn interest at rates ranging from 2.25% to 2.75% (2021: 1.25% to 2.75%) per annum.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. SHARE CAPITAL AND SHARE PREMIUM

	Note	No. of shares	2022 KHR'000	2021 KHR'000
Ordinary shares	(b)	86,973,162	86,973,162	86,973,162
Class A shares	(a)	391,100,942	391,100,942	391,100,942
Share premium		-	63,153,178	63,153,178
Capital reserve	(c)	-	79,531,825	78,088,604
		<u>478,074,104</u>	<u>620,759,107</u>	<u>619,315,886</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 held by MoEF, not eligible for interest or dividend and have rights and conditions as detailed in Article 12.2 of the Memorandum of Articles and Association of PPWSA dated 27 June 2012.

(b) On 18 April 2012, PPWSA was successfully listed as the first entity listed on the Cambodia Securities Exchange. The total number of ordinary share is 86,973,162 shares with a par value of KHR1,000 per share. The costs of issuance of 13,045,975 new shares amounting to KHR6,000 million have been off-set with the share premium. All issued ordinary shares are fully paid. The ordinary shareholders are as follows:

	Number of shares	%
MoEF	73,927,187	85%
Other shareholders	11,741,606	14%
Employee share option scheme*	1,304,369	1%
	<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.

All ordinary shares rank equally with regard to PPWSA's residual assets.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

- (c) The following table summarises the recognised amounts of assets contributed and liabilities assumed at the date of capital contribution.

	Note	2022 KHR'000	2021 KHR'000
Inventories		1,443,221	-
Property, plant and equipment	5	-	78,192,260
Trade receivables		-	72,163
Cash and cash equivalents		-	1,095
Trade payables		-	(149,714)
Accrued staff incentive		-	(27,200)
Total identifiable net assets contributed		1,443,221	78,088,604

2022

On 30 December 2022, the Ministry of the Economy and Finance ("MoEF") increased its capital in PPWSA by injecting inventory into PPWSA, totaling to KHR1,443,221,000, without the insurance of any additional shares of PPWSA.

The MoEF had on its letter reference number 13505 dated 30 December 2022 instructed PPWSA to reflect this capital contribution as share capital of PPWSA.

2021

On 23 March 2021, the MoEF increased its capital in PPWSA by injecting the assets, liabilities and equity of Tbong Khmum Province Water Treatment Plant Operation ("the Tbong Khmum Project") into PPWSA, totaling to KHR78,088,604,000, without the issuance of any additional shares of PPWSA.

The MoEF had on its letter reference number 6228 S.H.V dated 15 July 2020 instructed PPWSA to reflect this capital contribution as share capital of PPWSA.

Included in the identifiable assets and liabilities contributed by the MoEF at the date of capital contribution, the Tbong Khmum Projects are its input (water treatment plant, production processes and workforce). PPWSA has determined that together the contributed inputs and process contributable to the ability to create revenue. PPWSA has concluded that the contributed set is separate assets.

Taking control of the Tbong Khmum Project will enable to PPWSA to increase its share of the water production market through access to the Tbong Khmum Project's customer base. PPWSA also expects to reduce costs through economies of scale.

During the financial year, Tbong Khmum Project contributed revenue of KHR294,944,000.

The fair value of the capital contribution was based on the net assets of the Tbong Khmum Project valued by Ministry of Industry, Science, Technology and Innovation at the date of the capital contribution.

PPWSA does not incur any contribution-related cost.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. RESERVES

	Capital reserve KHR'000	Legal reserve KHR'000	General reserve KHR'000	Development reserve KHR'000	Total KHR'000
At 1 January 2021	1,648,435	27,700,385	27,700,385	295,424,325	352,473,530
Transfer from retained earnings	-	4,417,592	4,417,592	56,729,696	65,564,880
At 31 December 2021	1,648,435	32,117,977	32,117,977	352,154,021	418,038,410
Transfer from retained earnings	-	6,463,694	6,463,694	112,302,277	125,229,665
At 31 December 2022	1,648,435	38,581,671	38,581,671	464,456,298	543,268,075

- (a) In accordance with PPWSA's Memorandum of Articles and Association dated 27 June 2012, Article 44 of PPWSA's Memorandum of Articles and Association, the distribution of dividends and reserves shall be as follows:

Retained earnings 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.

The remaining amount after the above allocations shall be allocated to:

- vi. Reserve for future investments, subject to the Board of Director's approval
 - vii. The remaining balance after investment reserve is allocated to the MoEF and public investors at the ratio of 85% and 15%, respectively.
- (b) The use of reserve 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. BORROWINGS

	2022	2021
	KHR'000	KHR'000
Non-current liabilities		
Unsecured borrowings	986,495,717	790,359,750
Current liabilities		
Unsecured borrowings	<u>23,499,158</u>	<u>23,128,518</u>
Total borrowings	<u>1,009,994,875</u>	<u>813,488,268</u>

The terms of outstanding borrowings are as follows:

	Currency	Nominal Interest rate	Year of maturity	2022	2021
				KHR'000	KHR'000
MoEF - Japan International Cooperation Agency	JPY	0.660%	2049	37,869,839	45,200,650
MoEF - Asian Development Bank	SDR	1.650%	2037	32,810,095	36,499,596
AfD - Credit No. 1121 01 F	EUR	0.250%	2025	44,001,408	64,917,065
MoEF - AfD - Credit No. 1174 01 P	USD	1.800%	2037	149,299,838	146,375,548
MoEF - AfD - Credit No. 1176 01 S	USD	0.900%	2038	285,434,485	223,260,652
MoEF - AfD - Credit No. 1244 01 M	USD	0.900%	2039	118,478,956	34,272,146
European Investment Bank	USD	0.610% - 0.965%	2048	342,100,254	262,962,611
Total interest-bearing liabilities				<u>1,009,994,875</u>	<u>813,488,268</u>

Breach of loan covenants

PPWSA has unsecured borrowings with a carrying amount KHR1,009,994,875,000 as at 31 December 2022. These borrowings bear interest from 0.250% to 1.800% and are repayable ranges from 2 to 26 years. However, these borrowings contained certain covenants which PPWSA has to comply, otherwise MoEF and / or AfD may suspend or cancel the rights of PPWSA to request additional disbursement of the unwithdrawn amount and repayable on demand of its existing outstanding balance, if such covenant breached is material.

PPWSA exceeded its maximum leverage threshold as at 31 December 2022. However, PPWSA obtained a waiver from the relevant party, extended until 31 December 2022. Accordingly, the borrowings were not repayable on demand at 31 December 2022.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. DEFERRED GOVERNMENT AND OTHER GRANTS

	Government grant KHR'000	JICA grant KHR'000	Other grant KHR'000	EU grant KHR'000	Total KHR'000
At 1 January 2021	4,240,640	13,897,539	683,914	-	18,822,093
Amortisation charge for the financial year	(134,069)	(1,853,006)	(22,832)	-	(2,009,907)
At 31 December 2021 / 1 January 2022	4,106,571	12,044,533	661,082	-	16,812,186
Received during the financial year	-	-	-	54,436,199	54,436,199
Amortisation charge for the financial year	(134,069)	(1,853,006)	(22,833)	-	(2,009,908)
At 31 December 2022	3,972,502	10,191,527	638,249	54,436,199	69,238,477

(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 PPWSA on 5 may 1997 at the sum of SDR9,695,000 from the ADB. PPWSA has decided to keep the gain on 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 KUNOTA Construction Co., Ltd.

(d) EU grants

The additional grants represent grant for purchase of materials for Bakheng Water Supply Project C at an amount of EUR12,700,000 in the form of an investment grant made available through the general budge of the European Union ("EU").

As at the end of financial year, PPWSA has received the payment of disbursement of Grant totaling to EUR12,574,864 or equivalent of KHR54,436,199,000 upon the fulfillment of the contract condition. No amortisation in respect of such grant as at the end of the financial year as the construction of Bakheng Water Project C is still yet to be completed.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. DEFERRED TAX LIABILITIES

	At 1.1.2022	Recognised	At 31.12.2022
	KHR'000	in profit or loss	KHR'000
		KHR'000	
Property, plant and equipment and intangible assets	(74,215,452)	(6,251,066)	(80,466,518)
Allowance for inventory obsolescence	50,645	(40,564)	10,081
Allowance for doubtful debts	522,858	(469,573)	53,285
Staff benefits	2,953,139	126,371	3,079,510
Unrealised foreign exchange	(1,618,489)	1,925,415	306,926
	<u>(72,307,299)</u>	<u>(4,709,417)</u>	<u>(77,016,716)</u>
	At 1.1.2021	Recognised	At 31.12.2021
	KHR'000	in profit or loss	KHR'000
		KHR'000	
Property, plant and equipment and intangible assets	(68,004,090)	(6,211,362)	(74,215,452)
Allowance for inventory obsolescence	50,645	-	50,645
Allowance for doubtful debts	522,858	-	522,858
Staff benefits	2,930,149	22,990	2,953,139
Unrealised foreign exchange	1,993,781	(3,612,271)	(1,618,489)
	<u>(62,506,657)</u>	<u>(9,800,643)</u>	<u>(72,307,299)</u>

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. TRADE AND OTHER PAYABLES

	Note	2022 KHR'000	2021 KHR'000
Non-current:			
<u>Other payables</u>			
Refundable water deposits	(a)	<u>76,801,705</u>	<u>69,446,073</u>
Current:			
<u>Trade payables</u>			
Third parties	(b)	48,078,710	33,251,064
Accruals construction-in-progress		<u>23,208,075</u>	<u>38,283,099</u>
		<u>71,286,785</u>	<u>71,534,163</u>
<u>Other payables</u>			
Accrued staff incentive		9,993,226	9,241,237
Amount due to Phnom Penh Municipality		57,830,594	47,455,958
Performance guarantee		67,390	67,344
Other tax payable		385,903	293,258
Seniority payment		6,071,437	6,146,076
Other payables		<u>9,025,817</u>	<u>7,231,509</u>
		<u>83,374,367</u>	<u>70,435,382</u>
Total trade and other payables (current)		<u>154,661,152</u>	<u>141,969,545</u>
Total trade and other payables (non-current and current)		<u>231,462,857</u>	<u>211,415,618</u>

- (a) Refundable water deposits are collected from customers based on the size of the water meter prior to connection and are recorded at the amount received as refundable water deposits under non-current liabilities.
- (b) Trade payables are non-interest bearing and the normal credit terms granted to PPWSA is one to three months (2021: one to three months).

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. SALES

	2022	2021
	KHR'000	KHR'000
Water sales:		
- households	110,873,519	112,290,774
- commercial	151,870,153	128,582,099
- public administration	19,671,036	21,500,185
- wholesalers	10,317,389	9,333,345
Rounding difference on water sales revenue	70,442	66,249
Less: Invoice cancellations	<u>(6,513,321)</u>	<u>(3,188,402)</u>
	286,289,218	268,584,250
Water connection revenue	8,819,483	9,735,973
Water meter replacement charges	4,222,754	3,871,144
Spare parts and meter sales	392,052	178,430
	<u>299,723,507</u>	<u>282,369,797</u>

20. FOREIGN EXCHANGE GAINS/(LOSSES) – NET

	2022	2021
	KHR'000	KHR'000
Gain/(Loss) on foreign exchange		
- realised	2,659,440	(561,815)
- unrealised	<u>(6,140,606)</u>	<u>2,835,799</u>
	<u>(3,481,166)</u>	<u>2,273,984</u>

21. OTHER INCOME

	2022	2021
	KHR'000	KHR'000
Government and other grants	2,009,908	2,009,907
Spare parts and meter sales	15,240,650	16,414,430
Penalty revenue	290,042	165,945
Waiver of dividends	-	36,372,177
Other revenue	3,937,733	3,297,028
	<u>21,478,333</u>	<u>58,259,487</u>

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. EMPLOYEE BENEFITS EXPENSE

	2022	2021
	KHR'000	KHR'000
Employee salaries	35,130,863	32,767,764
Incentives	11,452,529	10,509,506
Bonuses	9,510,552	8,680,816
Seniority payment	1,153,862	1,193,357
Wages for contractors	886,563	1,025,967
Other employee-related expenses	12,041,053	9,453,827
	<u>70,175,422</u>	<u>63,631,237</u>

23. RAW MATERIALS FOR WATER TREATMENT

	2022	2021
	KHR'000	KHR'000
Chlorine	4,606,139	3,283,477
Poly Aluminium Chloride	6,140,816	5,084,947
Salt	914,299	802,946
Other materials	479,486	370,612
	<u>12,140,740</u>	<u>9,541,982</u>

24. RAW MATERIALS FOR HOUSEHOLD WATER CONNECTIONS

	2022	2021
	KHR'000	KHR'000
Materials for house connection	3,300,330	2,270,227
Consumer water meter replacement	1,065,338	606,540
Pipe costs	35,779	18,972
Other costs	551,924	268,029
	<u>4,953,371</u>	<u>3,163,768</u>

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCE INCOME

	2022 KHR'000	2021 KHR'000
Interest income on bank deposits	4,656,618	2,706,044
Unrealised foreign exchange gain on borrowings	13,081,128	10,849,020
	<u>17,737,746</u>	<u>13,555,064</u>

26. FINANCE COST

	2022 KHR'000	2021 KHR'000
Interest expense on borrowings	9,115,530	6,436,677
Unrealised foreign exchange loss on borrowings	8,494,262	2,756,571
Interest capitalised on qualifying assets	(5,505,096)	(4,398,469)
	<u>12,104,696</u>	<u>4,794,779</u>

27. INCOME TAX

	2022 KHR'000	2021 KHR'000
Income tax:		
- current year	17,620,610	24,523,593
- under provision in prior year	-	2,258,433
	<u>17,620,610</u>	<u>26,782,026</u>
Deferred tax:		
Origination of temporary differences	4,709,417	9,800,643
	<u>22,330,027</u>	<u>36,582,669</u>

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. INCOME TAX (CONTINUED)

The reconciliation of income tax computed at the statutory tax rate to the income tax expense is as follows:

	2022 KHR'000	2021 KHR'000
Profit before tax	<u>130,515,892</u>	<u>165,856,586</u>
Income tax using the applicable tax rates of 20% (2021: 20%)	26,103,178	33,171,317
Tax affects arising from:		
- non-allowable expenses	115,330	331,201
- temporary differences	(3,888,481)	821,718
- under provision of income tax in prior year	-	2,258,433
Income tax expense during the financial year	<u>22,330,027</u>	<u>36,582,669</u>

28. EARNINGS PER SHARE

Basic earnings per ordinary share

Basic earnings per share are based on the profit for the financial year attributable to owners of PPWSA and the weighted average number of ordinary shares outstanding during the financial year, calculated as follows:

	2022 KHR'000	2021 KHR'000
Profit attributable to owners of PPWSA	108,185,865	129,273,917
Weighted average number of shares	<u>86,973,162</u>	<u>86,973,162</u>
Basic earnings per share (KHR)	<u>1,243.90</u>	<u>1,486.37</u>
Diluted earnings per share (KHR)	<u>1,243.90</u>	<u>1,486.37</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.

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

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. RELATED PARTIES TRANSACTIONS (CONTINUED)

(b) Key management personnel compensation

Total key management personnel compensation is analysed as below:

	2022 KHR'000	2021 KHR'000
Salaries and other expenses	<u>2,380,572</u>	<u>2,435,463</u>

31. FINANCIAL INSTRUMENTS

(a) **Categories of financial instruments**

The following table analyses the financial instruments in the statement of financial position by the classes of financial instruments to which they are assigned:

	Amortised cost KHR'000	Carrying amount KHR'000
At 31 December 2022		
Financial assets		
Short-term investments	126,118,416	126,118,416
Trade and other receivables	27,482,021	27,482,021
Cash and cash equivalents	61,158,915	61,158,915
Loan to employees	7,956,651	7,956,651
	<u>222,716,003</u>	<u>222,716,003</u>
Financial liabilities		
Trade and other payables	231,076,954	231,076,954
Borrowings	1,009,994,875	1,009,994,875
	<u>1,241,071,829</u>	<u>1,241,071,829</u>

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

The following table analyses the financial instruments in the statement of financial position by the classes of financial instruments to which they are assigned: (continued)

	Amortised cost	Carrying amount
	KHR'000	KHR'000
At 31 December 2021		
Financial assets		
Short-term investments	68,163,833	68,163,833
Trade and other receivables	24,042,231	24,042,231
Cash and cash equivalents	89,659,538	89,659,538
Loan to employees	7,956,651	7,956,651
	<u>189,822,253</u>	<u>189,822,253</u>
Financial liabilities		
Trade and other payables	211,122,360	211,122,360
Borrowings	813,488,268	813,488,268
	<u>1,024,610,628</u>	<u>1,024,610,628</u>

(b) Finance risk management

PPWSA's activities are exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risk includes credit risk, liquidity risk, foreign currency risk and interest rate risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

(i) Credit risk

Credit risk is the risk of financial loss to PPWSA that may arise on outstanding financial instruments should a counterparty default on its obligations. PPWSA is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including cash and cash equivalents. PPWSA has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

Trade receivables and contract assets

PPWSA's primary exposure to credit risk arises through its trade receivables and contract assets from its customers. The credit period is one month for households and business customers and one year for government departments and PPWSA seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balance is reviewed regularly by the Board of Directors.

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Finance risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

Credit risk concentration profile

PPWSA determines the credit risk concentration of its trade receivables on an ongoing basis. The credit risk concentration profile of PPWSA's trade receivables at the reporting date are as follows:

	2022		2021	
	KHR'000	%	KHR'000	%
Household receivables	1,114,374	8%	1,535,840	10%
Commercial receivables	1,300,959	9%	1,062,903	7%
Public administration receivables	11,673,281	82%	12,209,947	82%
Water wholesalers receivables	103,647	1%	44,215	1%
	<u>14,192,261</u>		<u>14,852,905</u>	

PPWSA does 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.

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

Cash and cash equivalents and short-term investment

Included in cash and bank balances are KHR4,442,476,000 (2021: KHR2,793,885,000) held by General Department of National Treasury, Treasury of Phnom Penh Municipality, Treasury of Tboung Khmum Provincial, Treasury of Kandal Provincial.

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

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Finance risk management (continued)

(ii) Liquidity risk

Liquidity risk is the risk that PPWSA will encounter difficulty in meeting financial obligations when they fall due. PPWSA's exposure to liquidity risk arise primarily from mismatches of the maturities between financial assets and liabilities. PPWSA's exposure to liquidity risk arise principally from trade and other payables and borrowings.

PPWSA's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. PPWSA maintains sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. PPWSA uses a series of processes to obtain maximum benefits from its flow of funds, such that they are efficiently managed to maximise income from investment and minimise cost of borrowed funds. PPWSA's treasury department also ensure that there are sufficient unutilized stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

Maturity analysis

The maturity analysis of PPWSA's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations as follows:

	Undiscounted contractual cash flow				Total KHR'000
	Carrying amount KHR'000	On demand within 1 year KHR'000	Between 1 and 5 years KHR'000	More than 5 years KHR'000	
At 31 December 2022					
Financial liabilities					
Trade and other payables	231,076,954	154,275,249	-	76,801,705	231,076,954
Borrowings	1,009,994,875	23,499,158	200,765,174	785,730,543	1,009,994,875
	<u>1,241,071,829</u>	<u>177,774,407</u>	<u>200,765,174</u>	<u>862,532,248</u>	<u>1,241,071,829</u>
At 31 December 2021					
Financial liabilities					
Trade and other payables	211,122,360	141,676,287	-	69,446,073	211,122,360
Borrowings	813,488,268	23,229,235	169,148,147	629,068,856	821,446,238
	<u>1,024,610,628</u>	<u>164,905,522</u>	<u>169,148,147</u>	<u>698,514,929</u>	<u>1,032,568,598</u>

(iii) Foreign currency risk

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. PPWSA's exposure to the risk of changes in foreign exchange rates relates primarily to PPWSA's operating activities (when cash and cash equivalents, short-term investments, purchases and borrowings that are denominated in a foreign currency).

PHNOM PENH WATER SUPPLY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Finance risk management (continued)

(iii) Foreign currency risk (continued)

PPWSA's unhedged financial assets and liabilities that are not denominated in their functional currencies are as follows:

	2022	2021
	KHR'000	KHR'000
Financial assets and liabilities not held in functional currencies:		
<u>Cash and cash equivalents</u>		
United States Dollar	<u>34,894,385</u>	<u>26,463,286</u>
<u>Short-term investments</u>		
United States Dollar	<u>91,118,416</u>	<u>68,163,834</u>
<u>Trade and other payables</u>		
United State Dollar	81,993,250	47,618,880
European Euro	<u>23,991,854</u>	<u>21,389,992</u>
	<u>105,985,104</u>	<u>69,008,873</u>
<u>Borrowings</u>		
United States Dollar	895,313,528	666,870,957
European Euro	43,999,061	64,917,065
Special Drawing Right	32,810,102	36,499,596
Japanese Yen	<u>37,872,184</u>	<u>45,200,650</u>
	<u>1,009,994,875</u>	<u>813,488,268</u>

PPWSA's principal foreign currency exposure relates mainly to United States Dollar ("USD"), European Euro ("EUR"), Special Drawing Right ("SDR") and Japanese Yen ("JPY").

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Finance risk management (continued)

(iii) Foreign currency risk (continued)

Sensitivity analysis for foreign currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR, SDR and JPY, with all other variables held constant:

	Change in rate	2022	2021
	%	KHR'000	KHR'000
USD/KHR	+ 3%	(25,388,579)	(18,585,965)
	- 3%	25,388,579	18,585,965
EUR/KHR	+ 3%	(2,039,727)	(2,587,766)
	- 3%	2,039,727	2,587,766
SDR/KHR	+ 3%	(984,303)	(1,090,589)
	- 3%	984,303	1,090,589
JPY/KHR	+ 3%	(1,136,166)	(1,353,523)
	- 3%	1,136,166	1,353,523

(iv) Interest rate risk

Interest rate risk is the risk of fluctuation in fair value or future cash flows of PPWSA's financial instruments as a result of changes in market interest rates.

Whilst PPWSA's operating results are subject to the effect of change in interest rate, PPWSA's constantly monitors the net effect of its transactions in the same interest to minimise the exposure to interest rate risk. The directors are of the view that there is no material impact from interest rate risk, there is no material impact and hence no sensitivity analysis is presented.

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Finance risk management (continued)

(v) Fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Trade and other receivables, loan to employees, short-term investments, cash and cash equivalents, trade and other payables and contract liabilities are not included in the table below as their carrying amounts are reasonably approximate to their fair value due to the relatively short-term nature of those financial instruments.

	Carrying amount KHR'000	Fair value of financial instruments not carried at fair value KHR'000
Borrowings		
31.12.2022	1,009,994,875	868,569,688
31.12.2021	813,488,268	821,446,238
	<hr/>	<hr/>

Level 3 fair value

Fair value of financial instruments not carried at fair value

The fair value of borrowings is determined using the discounted cash flows method based on discount rates that reflects the issuer's borrowing rate as the end of the reporting period.

32. CAPITAL COMMITMENT

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

	2022 KHR'000	2021 KHR'000
Construction of water treatment plant	101,740,068	393,733,852
Consultation services	9,891,722	7,771,956
Purchase of iron pipes, fitting and accessories	23,120,399	3,405,060
	<hr/>	<hr/>
	134,752,189	404,910,868
	<hr/>	<hr/>

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. SEGMENTAL REPORTING

Segmental reporting in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear and subject to interpretation. Often different interpretation exists 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.

34. TAXATION CONTINGENCIES

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear and subject to interpretation. Often different interpretation exists 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 the tax liabilities of PPWSA have been adequately provided based on its interpretation of tax legislations. However, the relevant authorities may have differing interpretations and effects could be significant.

35. CAPITAL MANAGEMENT

PPWSA's policy is to ensure that it maintains sufficient capital to carry out its statutory functions. To achieve this, PPWSA reviews its sufficiency of capital as appropriate, taking into consideration its capital expenditure needs, government policies, regulatory requirements and its ability to access capital markets. PPWSA defines capital as its total equity.

There were no changes in PPWSA's approach to capital management during the financial years ended 31 December 2022 and 31 December 2021.

36. SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

PPWSA had made announcements on the change of Board of Directors in Cambodia Securities Exchange ("CSX") as follows:

On 11th January 2023, H.E. Sim Sitha, Secretary of State of Ministry of Industry, Science, Technology and Innovation, was appointed as the Chairman of Phnom Penh Water Supply Authority's Board of Directors for the 8th mandate by Anukret No. 31 AnKr TT dated 6th January 2023 to replace H.E. Oum Sotha.

On 27th February 2023, Mr. Ma Noravin, Deputy Director General in charge of Production Management, was appointed as the member of the Board of Directors for the 8th mandate representing the PPWSA's employees through voting result by PPWSA's employees.

Registration No. Co.0839 Et/2012

PHNOM PENH WATER SUPPLY AUTHORITY
(Incorporated in Cambodia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements of PPWSA for the financial year ended 31 December 2022 were authorised for issue by the Board of Directors on 15 March 2023.

Registration No. Co.0839 Et/2012

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY**
(Incorporated in Cambodia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Phnom Penh Water Supply Authority ("PPWSA"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of PPWSA for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 5 to 56.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of PPWSA as at 31 December 2022, and of its financial performance and its cash flows for the financial year then ended in accordance with the 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 are independent of PPWSA in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") and the requirements of Kampuchea Institute of Certified Public Accountant and Auditors' *Code of Ethics for Certified Public Accountants and Auditors* ("KICPAA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of KICPAA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 PPWSA for the current financial year. These matters were addressed in the context of our audit of the financial statements of 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 MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY (CONTINUED)**
(Incorporated in Cambodia)

Key Audit Matters (continued)

(a) Carrying values of property, plant and equipment ("PPE") and assessment of useful lives of PPE

Refer to Note 3.3, Note 4.2 and Note 5 to the financial statements

As at 31 December 2022, the carrying values of PPE of PPWSA amounted to KHR2,203 billion.

We focused our audit on the carrying values of PPE because PPE accounts for the majority of PPWSA's total assets and significant management judgement is involved in determining the useful lives of PPE. Given the significance of PPE to PPWSA's financial statements, errors in estimating the useful lives of PPE could result in a material misstatement to the financial statements.

Accordingly, we have identified this as a key audit matter.

Our response:

- We reviewed the appropriateness of the management's estimates of the useful lives of PPE as follows:
 - (i) Discussed with the management on the operational plans of the PPE;
 - (ii) Assessed the management's estimates for the useful lives of new PPE acquired by tracing to underlying documentary support such as project documentation, technical assessment and vendor's specifications;
 - (iii) Reviewed the management's analysis of estimated useful lives of the PPE including the identification of conditions that may indicate significant changes to estimated useful lives such as expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence and legal or similar limits on the use of the asset;
 - (iv) Compared the useful lives of the PPE against entities in the utilities industry based on public information of these entities; and
 - (v) Assessed the adequacy of disclosure in the financial statements.
- We physically sighted to the PPE via our sampling methodology.

Based on the above procedures performed, we did not identify any material exceptions apart from the control weaknesses on the identification of some of its PPE.

(b) Carrying values of borrowings, assessment on its translation of foreign currencies and functional currency

Refer to Note 2.4, Note 3.1, Note 3.2(a)(ii), Note 4.1, Note 15, Note 25 and Note 26 to the financial statements

As at 31 December 2022, the carrying values of borrowings of PPWSA amounted to KHR1,009 billion; unrealised foreign exchange gain and loss on borrowings amounted to KHR13 billion and KHR8 billion respectively, for the financial year ended 31 December 2022.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY (CONTINUED)**
(Incorporated in Cambodia)

Key Audit Matters (continued)

(b) Carrying values of borrowings, assessment on its translation of foreign currencies and functional currency (continued)

Refer to Note 2.4, Note 3.1, Note 3.2(a)(ii), Note 4.1, Note 15, Note 25 and Note 26 to the financial statements (continued)

We focused on this area because the foreign currencies denominated borrowings account for the majority of PPWSA's total liabilities and significant management judgement is involved in determining the functional currency of PPWSA. Given the significance of borrowings to PPWSA's financial statements, errors in concluding PPWSA's functional currency and translation of foreign currencies could result in a material misstatement to the financial statements.

Accordingly, we have identified this as a key audit matter.

Our response:

- We reviewed the appropriateness of the management's judgement in determining the functional currency of PPWSA as follows:
 - (i) Discussed with the management on the operations of PPWSA and the legal requirement for entities to prepare their financial statements in Khmer Riel;
 - (ii) Assessed the reasonableness of the management's judgement which include their consideration of primary economic environment in which PPWSA operates, the currency and regulations that mainly influence its sales prices, and the currency in which funds generated from or used in financing activities and operating activities respectively; and
 - (iii) Assessed the adequacy of disclosure in the financial statements.
- We checked the appropriateness of translation of foreign currencies denominated borrowings as at the end of the financial year as follows:
 - (i) Checked the foreign exchange rates used by comparing the rates used to rates published by the National Bank of Cambodia; and
 - (ii) Performed re-computation on the calculation of unrealised foreign exchange differences to ascertain the mathematical accuracy.

Based on the above procedures performed, we did not identify any material exceptions.

(c) Classification and fair values of refundable water deposits

Refer to Note 18 to the financial statements

As at 31 December 2022, the carrying values of refundable water deposits of PPWSA amounted to KHR76 billion.

We focused on this area because of the judgement exercised by the management in determining the classification and fair values of the refundable water deposits as non-current liabilities of PPWSA.

Accordingly, we have identified this as a key audit matter.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY (CONTINUED)**
(Incorporated in Cambodia)

Key Audit Matters (continued)

(c) Classification and fair values of refundable water deposits (continued)

Refer to Note 18 to the financial statements (continued)

Our response:

- We discussed with the management on the judgement and assumptions made in determining the classification of the refundable water deposits.
- We discussed with the management on the possible fair value impact of the refundable water deposits considering time value of money.
- We reviewed the accuracy of the carrying values of the refundable water deposits by performing substantive test over movement during the financial year in the refundable water deposits control accounts.

Based on the above procedures performed, we did not identify any material exceptions apart from the control weaknesses on the identification of legacy refundable water deposits brought forward.

(d) Recognition of accrued water revenue

Refer to Note 3.6, Note 3.11, Note 4.5 and Note 9 to the financial statements

As at 31 December 2022, the carrying values of accrued water revenue included in contract assets and revenue of PPWSA amounted to KHR89 billion.

We focused on this area because the amount of accrued water revenue recognised during the financial year are affected by a variety of estimates which includes judgement exercised by the management, in particular with regards to the determination of water volume produced, water revenue billed, water loss rate and the related tariff rates.

Accordingly, we have identified this as a key audit matter.

Our response:

- We reviewed the appropriateness of the management's judgement in determining the accrued water revenue of PPWSA as follows:
 - (i) Discussed with the management on the methodology used in deriving the accrued water revenue;
 - (ii) Challenged the key assumptions used by the management, in particular, water volume produced, water loss rate and the related tariff rates; and
 - (iii) Performed re-computation on the calculation of accrued water revenue to ascertain the mathematical accuracy.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY (CONTINUED)**
(Incorporated in Cambodia)

Key Audit Matters (continued)

(d) Recognition of accrued water revenue (continued)

Refer to Note 3.6, Note 3.11, Note 4.5 and Note 9 to the financial statements (continued)

Our response (continued):

- We tested controls, assisted by our IT specialists, including, among others, comparing details of revenue amount in the accounting system with the source documents; recording of receipts in the receivables subsystem; reconciling cash register totals with cash receipts; and recording receipts to the general ledger.
- We checked the subsequent billings of the accrued water revenue.

Based on the above procedures performed, we did not identify any material exceptions.

(e) Impairment of trade receivables

Refer to Note 3.2(a)(i), Note 3.8(a), Note 4.4, Note 8, Note 31(b)(i) to the financial statements

As at 31 December 2022, the carrying values of trade receivables from customers amounted to KHR14 billion.

We focused on this area because it requires management to exercise significant judgement in determining the probability default and expected loss rate by trade receivables that could result in a material misstatement to the financial statements.

Accordingly, we have identified this as a key audit matter.

Our response:

- We obtained understanding of the design and implementation of controls associated with the management's monitoring of outstanding receivables and impairment calculation.
- We discussed with the management on the possible impact of impairment on trade receivables considering that the customers become default.
- We assessed the reasonableness and calculation of expected credit losses by performing alternative procedure testing over 3-year repayment trend covering from 2019 to 2022.

Based on the above procedures performed, we did not identify any material exceptions.

Information Other than the Financial Statements and Auditors' Report Thereon

The management of PPWSA is responsible for the other information. The other information comprises the Directors' Report (but does not include the financial statements of PPWSA and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and other sections included in the annual report, which are expected to be made available to us after that date.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY (CONTINUED)**
(Incorporated in Cambodia)

Information Other than the Financial Statements and Auditors' Report Thereon (continued)

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The management of PPWSA is responsible for the preparation of financial statements of PPWSA that give a true and fair view in accordance with the Cambodian International Financial Reporting Standards. The management is also responsible for such internal controls as the management determines is necessary to enable the preparation of financial statements of PPWSA that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of PPWSA, the management is responsible for assessing 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 management either intends to liquidate PPWSA or to cease operations, or have no realistic alternative but to do so.

Those charged with governance of PPWSA is responsible for overseeing PPWSA's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of 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 these financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY (CONTINUED)**
(Incorporated in Cambodia)

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 skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the 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, actions taken to eliminate threats or safeguards applied.

Registration No. Co.0839 Et/2012

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PHNOM PENH WATER SUPPLY AUTHORITY (CONTINUED)**
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Auditors' Responsibilities for the Audit of the Financial Statements (continued)

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of PPWSA for the current financial 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 determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh public interest benefits of such communication.



Baker Tilly (Cambodia) Co., Ltd.
Certified Public Accountants

Phnom Penh, Kingdom of Cambodia

Date: 15 MAR 2023



Oknha Tan Khee Meng
Certified Public Accountant