

2006

MOSTAFA SHAWKI & CO

EGYPTIAN FOUNDATION FOR DEVELOPING & IMPROVING ENTERPRISES
(LEAD)

FINANCIAL STATEMENTS
TOGETHER WITH THE AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

AUDITOR'S REPORT

**To: EGYPTIAN FOUNDATION FOR DEVELOPING & IMPROVING ENTERPRISES
(LEAD)**

We have audited the financial statements of **Lead Foundation** which are comprised of the balance sheet, income statement and cash flow statement for the year ended December 31, 2006. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Egyptian Accounting Standards on Auditing and in light of governing laws. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis the documents and evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lead Foundation as of December 31, 2006 and the results of its operations for the year then ended in conformity with the CGAP Guideline.


DR. AHMED SHAWKI
MAZARS MOSTAFA SHAWKI

Cairo, May 24, 2007



TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN ARABIC

EGYPTIAN FOUNDATION FOR DEVELOPING & IMPROVING ENTERPRISES

(LEAD)

BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2006

(Amount expressed in LE)

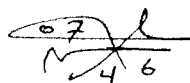
		<u>31/12/2006</u>	<u>31/12/2005</u>
	<u>Disclosure No.</u>	<u>L.E</u>	<u>L.E</u>
<u>ASSETS</u>			
Cash		789,395	2,069,923
Short Term Deposits		38,355,999	27,062,977
Total Loan Portfolio		26,120,259	18,411,209
Loan loss reserve		(14,300)	--
		-----	-----
Net loan portfolio	(4)	26,105,959	18,411,209
Net Fixed Assets	(3/d)	6,953,572	3,339,636
Other Assets	(5)	279,031	163,960
		-----	-----
TOTAL ASSETS		<u>72,483,956</u>	<u>51,047,705</u>
<u>LIABILITES & EQUITY</u>			
<u>LIABILITIES</u>			
Liabilities with other banks		23,554,760	15,422,728
Accounts Payable		532,071	608
Accruals	(6)	775,622	230,469
		-----	-----
TOTAL LIABILITIES		<u>24,862,453</u>	<u>15,653,805</u>
<u>EQUITY</u>			
Balance of Retained earnings carried forward for 2005		35,393,900	14,851,193
Retained earnings		12,227,603	20,542,707
		-----	-----
Total Equity		<u>47,621,503</u>	<u>35,393,900</u>
		-----	-----
TOTAL LIABILITIES & EQUITY		<u>72,483,956</u>	<u>51,047,705</u>
<u>Notes</u>			
<u>1- Outstanding Loan Portfolio</u>			
Current Loan Portfolio		25,876,366	18,323,036
Delinquent Loan Portfolio - overdue 1 to 30 days		229,343	88,173
Delinquent Loan Portfolio - overdue 31 days		14,550	--
		-----	-----
Total Loan Portfolio		26,120,259	18,411,209
Less:-			
Loan Loss Provision		(14,300)	--
		-----	-----
Net Loan Portfolio		<u>26,105,959</u>	<u>18,411,209</u>

- The accompanying notes are an integral part of these financial statements
- Auditor's report attached

Chairman Board of Directors

Financial Manager

Treasurer


4/6

TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN ARABIC

EGYPTIAN FOUNDATION FOR DEVELOPING & IMPROVING ENTERPRISES

(LEAD)

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2006

(Amounts expressed in LE)

	<u>Disclosure</u>	<u>31/12/2006</u>	<u>31/12/2005</u>
	<u>No</u>	<u>L.E</u>	<u>L.E</u>
<u>INCOME</u>			
<u>FINANCIAL REVENUE</u>			
Financial Revenue from Loan Portfolio		8,265,612	3,971,492
Financial Revenue from Investments		1,356,417	573,487
		-----	-----
Total Financial Revenue		9,622,029	4,544,979
<u>EXPENSES</u>			
<u>Financial Expenses</u>			
Interest cost and bank charges	(7)	2,078,576	1,302,695
		-----	-----
FINANCIAL MARGIN		7,543,453	3,242,284
Provision for Loan Losses		14,300	(4,125)
Loans written off		--	4,125
Depreciation		743,246	572,355
<u>Administrative Expenses</u>			
Personnel Expenses	(8)	5,489,444	3,534,536
Other Administrative Expenses	(9)	1,556,630	1,130,977
		-----	-----
NET OPERATING INCOME/LOSS		(260,167)	(1,995,584)
<u>Non Operating Revenue & Expenses</u>			
Grants and Donations	(10)	12,657,691	22,464,635
Other Non Operating Income		14,929	23,666
Other Non Operating (Expenses)/ Revenue		(184,850)	49,990
		-----	-----
NET INCOME		12,227,603	20,542,707

- The accompanying notes are an integral part of these financial statements

Chairman Board of Directors

Financial Manager

Treasurer


4/6

TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN ARABIC

EGYPTIAN FOUNDATION FOR DEVELOPING & IMPROVING ENTERPRISES
(LEAD)
CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2006
(Amounts expressed in LE)

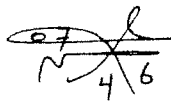
	<u>31/12/2006</u>	<u>31/12/2005</u>
	<u>L.E</u>	<u>L.E</u>
<u>Cash flow from operating activities</u>		
Cash collection from clients (loans interest)	8,265,612	3,971,492
Cash payments for suppliers & employees	(8,989,408)	(5,742,669)
Net cash (used in) operating activities	(723,796)	(1,771,177)
<u>Cash flow from investment activities</u>		
Payments to purchase fixed assets	(3,530,879)	(512,227)
Deposits interests	1,356,417	573,487
Donations	57,325	400,278
Other revenues	6,929	--
Net cash flow (used in) resulted from investment activities	(2,110,208)	461,538
<u>Cash flow from financing activities</u>		
Net collections from loans (principal)	(7,709,050)	(11,733,413)
Collections from membership fees	8,000	23,666
American grants	12,600,366	22,064,357
Currency differences	(184, 850)	49,990
Debtors & debt balances	--	(159,030)
Net cash flow resulted from financing activities	4,714,466	10, 245, 570
Net increase of cash & equivalent during the year	1,880,462	8,935,931
Cash & cash equivalent beginning of the year	13,710,172	4,774,241
Cash & cash equivalent end of the year	15,590,634	13,710,172

- *The accompanying notes are an integral part of these financial statements*

Chairman Board of Directors

Financial Manager

Treasurer


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EGYPTIAN FOUNDATION FOR DEVELOPING & IMPROVING ENTERPRISES
(LEAD)
DISCLOSURES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2006

1. General

Egyptian Foundation for Developing & Improving Enterprises (Lead) was established on 6 May 2003 as a NGO for developing and improving projects registered under number 1765 according to Law No 84 for the year 2002. Lead commenced lending activities in October 2003.

Lead works in Egypt through seven branches by providing services throughout its head offices located in Egypt.

Domicile of business is 16 Lebanon St, Cairo, Egypt

Lead works solely without being a part of a group or organization and has no parent company

2. Foundation purpose

- a- Financing existing small enterprises located in the poorer areas in Egypt according to Article No 48 of the executive regulations.
- b- Supporting the development and the improvement of projects by organizing educational and training courses for commercial skills i.e. marketing, sales and book-keeping.
- c- Providing to improve and upgrade marketing skills in a cooperation with the private sector in various fields regarding the Foundation's scope of work
- d- Establishing more social development projects in order to create more job opportunities within the Foundation's scope of work
- e- Create cultural exchange programs between the Foundation and other similar Foundations, internally and externally, and organizing conferences which may serve the purpose of the Foundation.

These activities are to be performed with the agreement of the responsible organizations according to Article No 48 of the Executive Regulation.

3. Summary of significant accounting policies

The accounts have been prepared in accordance with the Egyptian Accounting Standards.

a. Recording of the financial transactions

Expenses are recorded on an accrual basis and revenues are recorded on a cash basis because the foundation is a non profit making organization.

Lead Foundation separately records the amounts of the grants and donations from the income generated by the financial operations in the income statement

Grants and donations are recognized upon receipt.

b. Foreign currency transactions

Foundation maintains its records in Egyptian pounds. Transactions undertaken during the year denominated in foreign currencies are translated using the free market exchange rates prevailing at the transaction date. At year-end, monetary assets and liabilities are dominated in foreign currencies transactions are translated to Egyptian Pounds using the prevailing exchange rate as of that date. An exchange rate of US\$ 1.00 = at L.E 5.7 was used for US dollars denominated transaction .Translation differences are included in the statement of income.

Loss of L.E 184,850 resulted from translation differences of banks' balance to Egyptian Pounds at the year ended. This amount is charged to the income statement under non operating (expenses) revenues".

There are no currency mismatches between assets and liabilities because they are recorded in Egyptian pounds.

Lead borrows and extends loans in Egyptian pounds.

c. Lending revenue recognition

Lending revenues are recorded including the cash interest received during the period with an annual interest rate as the following:

- Small Enterprises - 16%
- Group Lending - 26%

- There are no grace periods.
 - There are no commissions or fees related to issuing loans.
 - Lead does not collect any delay interests related to over due loans.
 - Lead collects an amount of L.E 5 for everyday over due. (SME loans)
 - Lead does not collect delay penalties (GL loans)
- Differences between the debt and credit interest are used to finance the operating expenses.

d. Net fixed assets

Fixed assets are stated at an acquisition cost, recorded using their historical cost and are depreciated using the straight-line method starting from the date of utilization of each asset and according to the estimated useful life of each asset as follows:

<u>Description</u>	<u>Depreciation</u>	
	<u>Rate</u>	
Buildings	2 %	
Stationeries	20 %	
Furniture and Fixtures	10 % -20 %	
Renovation	20 %	
	<u>2006</u>	<u>2005</u>
	<u>L.E</u>	<u>L.E</u>
Fixed assets at cost	8,467,848	4,110, 667
Less: accumulated depreciation	(1,514,276)	(771,031)
	-----	-----
Net fixed assets	6,953,572	3,339,636
	=====	=====

e. Management plan for making loan loss provision

Loans are considered overdue if any payment has fallen due and remained unpaid beginning with the earliest such installment. The number of days for late payment is based on the due date of the earliest loan installment that has not been fully paid.

Lead Foundation depends on small loans given to many clients

Loans are considered at risk when more than 30 days late.

<u>Aging of outstanding balance</u>	<u>Provision required</u>
Current	--
1-30 days	--
31-60 days	10%
61-90 days	25%
91-120 days	50%
> 120 days	100%

The loan loss provision as of December 31,2006 amounted to L.E 14,300 as follows:

<u>Description</u>	<u>2006</u> <u>L.E</u>	<u>Rate</u>	<u>2005</u> <u>LE</u>	<u>Rate</u>
<u>Normal Loans</u>				
Current	25,876,366	99.07%	18,323,036	99.5%
1-30 days late	229,343	.88%	88,173	.5%
31-60 days late	--	--	--	--
61-90 days late	--	--	--	--
91-120 days late	500	--	--	--
> 120 days late	14,050	.05	--	--
<u>Rescheduled & refinanced loans</u>				
	--	--	--	--
Total loan portfolio	<u>26,120,259</u>	<u>100%</u>	<u>18,411,209</u>	<u>100%</u>

f. Write-off policy

Management writes off loans after one year from the date of the last unpaid installment to allow management to collect the overdue loan.

4. Net loan Portfolio (Principal)

Net loan portfolio (Principal) as of December 31, 2006 amounted to L.E 26,105,959 as follows:

<u>Description</u>	<u>2006</u> <u>L.E</u>	<u>2005</u> <u>L.E</u>
Individual lending -SME	15,481,147	12,018,505
Group lending -GL	10,639,112	6,392,704
	<u>26,120,259</u>	<u>18,411,209</u>
Less		
Provision for loan losses	(14,300)	--
Net loan portfolio (Principal)	<u>26,105,959</u>	<u>18,411,209</u>

5. Other assets

Other assets as of December 31, 2006, amounted L.E 279,031 as follows:-

<u>Description</u>	<u>2006</u> <u>L.E</u>	<u>2005</u> <u>L.E</u>
Petty cash	4000	4,000
Advances received	169,228	95,481
Deposits with others	50,203	43,225
Advance amounts (suppliers)	49,503	16,200
Other debit balances	1,503	124
Printing store	4,594	4,930
Total	279,031	163,960

6. Accruals

Accruals as of December 31, 2006 amounted to L.E 775,622 as follows:-

<u>Description</u>	<u>2006</u> <u>L.E</u>	<u>2005</u> <u>L.E</u>
Accrued expenses	187,802	212,399
Social Insurance Authority	66,047	445
Tax Authority (withholding tax)	19,355	2,932
Creditors of fixed assets purchasing	399,042	--
Deposits from others	76,491	--
Tax Authority (salary tax)	7,255	183
Tax Authority (stamp)	1	6
Penalties	19,629	14,504
Total	775,622	230,469

7- Interest cost & bank charges

Interest cost and bank charges as of December 31, 2006 amounted to L.E 2,078,576 as follows:-

<u>Description</u>	<u>2006</u> <u>L.E</u>	<u>2005</u> <u>L.E</u>
SME Cost of fund	1,418,373	959,453
GL cost of fund	650,225	331,873
Bank charges	9,978	11,369
Total	2,078,576	1,302,695

8. Personnel expenses

Personnel expenses as of December 31, 2006 amounted to L.E 5,489,444 as follows:

<u>Description</u>	<u>2006</u>	<u>2005</u>
	<u>L.E</u>	<u>L.E</u>
S.M.E employees' salaries and incentives	1,299,262	869,563
G.L employees' salaries and incentives	1,429,726	785,703
Other administrative salaries	2,746,278	1,867,086
Part time employees	14,178	12,184
Total	5,489,444	3,534,536

9. Other administrative expenses

Other administrative expenses as of December 31, 2006 amounted to L.E 1,556,630 as follows:

<u>Description</u>	<u>2006</u>	<u>2005</u>
	<u>L.E</u>	<u>L.E</u>
General administrative expenses (S.M.E)	205,970	76,893
General and Administrative expenses (G.L)	59,521	64,589
Transportation	56,397	41,287
Corporations	23,933	12,117
Stationeries	129,808	64,237
Rent	341,219	185,085
Maintenance and fixtures	175,285	136,115
Consulting fees	222,664	94,848
Stamps and other fees	2,704	1,352
Telephone and postage	100,261	76,117
Utilities	38,499	21,299
Hospitality	1,407	1,687
Advertisement	7,540	13,689
Insurance Premium	38,924	17,848
Transportation charges	27,044	--
Cleaning	44,118	47,437
Security	80,602	51,590
Other	734	2,038
Training	--	222,749
Total	1,556,630	1,130,977

10. Grants [USAID] - and donations

Grants and donations as of December 31, 2006 amounted to L.E 12,657,691 as follows:

<u>Description</u>	<u>2006</u> <u>L.E</u>	<u>2005</u> <u>L.E</u>
<u>1- Grants [USAID]</u>		
-Grants for fixed assets and operating expenses	2,273,686	5,938,047
-Grants for training	--	180,446
-Grants for loans	10,326,680	15,945,864
<u>2- Donations (not earmarked)</u>		
Private individual donations	57325	246,589
International Finance Corporation (IFC)	--	133,689
T.C.A Company	--	20,000
Total	12,657,691	22,464,635

11. Types of operating revenues

There are no types of commissions or fees for services
Donations
Grants
Corporate companies
Revenues resulted from loans interests
Deposits interests

12. In-kind donations

No in-kind donations

13. Mandatory clients equity investment capital

Lead Foundation does not require clients to perform any equity investments.

14. Liabilities

- Suppliers of computers, equipment, furniture, construction and printed materials.
- Bank facilities:
Lead obtains bank facilities guaranteed by 95% of the dollars deposits
- Debt interest of 10.25% against bank facilities.
- Lead repays daily liabilities using the collection received from clients at banks or branches upon the due dates

15. Other services

Lead Foundation only provides financial services and no other activities are undertaken.

16. Internal loans

No loans have been made to board members, staff or their families

17. Client's deposit accounts

There are no type of deposits (obligatory /optional) tied to the client's ability to obtain loans.

18. Significant concentrations of assets and liabilities

There are no significant concentrations of assets and liabilities and of balance sheet items related to geographical areas, customers or industry groups.

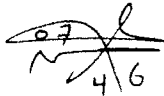
19. Added value

- Lead does not operate in a high inflationary economy and therefore it does not apply anti inflationary accounting methods.

Chairman Board of Directors

Financial Manager

Treasurer

Handwritten signature and date. The signature is written in black ink and appears to be 'M. J. L.'. Below the signature, the date '4/6' is written.

Ratios Which Converse the Activities of the Foundation
Year 2006

<u>Sustainability / Profitability</u>	
1-	Return on Equity (ROE) $\frac{\text{Net operating income –taxes}}{\text{Average equity}}$ = ----- = -.16%
2-	Return on assets (ROA) $\frac{\text{Net operating income –taxes}}{\text{Average assets}}$ = ----- = -.4%
3-	Operational Self Sufficiency $\frac{\text{Operating revenue}}{\text{Financial expense +loan-loss provision expense. +operating expense}}$ = ----- = 97%
4-	Profit Margin $\frac{\text{Net Operating Income}}{\text{Operating Revenue}}$ = ----- = - 2.7%

<u>Assets/Liability Management</u>	
1-	Yield on Gross Loan Portfolio $\frac{\text{Cash financial revenue from loan portfolio}}{\text{Average Gross Loan Portfolio}}$ = ----- = 11.5%
2-	Current Ratio $\frac{\text{Short term assets}}{\text{Short term liabilities}}$ = ----- = 263.5%
3-	Cost of Funding Ratio $\frac{\text{Interest and fee expenses on funding Liabilities}}{\text{Average Funding Liabilities}}$ = ----- = 5.3%

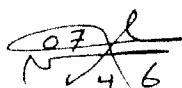
<u>Portfolio Quality</u>	
1-	P.A.R Ratio Portfolio at Risk $= \frac{\text{Portfolio at Risk}}{\text{Gross Loan Portfolio}}$ = .02 %
2-	Write – Off Ratio Value of Loans Written Off $= \frac{\text{Value of Loans Written Off}}{\text{Average Gross Loan Portfolio}}$ = 0 %
3-	Risk Coverage Ratio Loan Loss Reserve $= \frac{\text{Loan Loss Reserve}}{\text{Portfolio at Risk}}$ = 98%

<u>Efficiency /Productivity During December 2006</u>	
1-	Loan officer Productivity No of active borrowers $= \frac{\text{No of active borrowers}}{\text{No of loan officer}}$ = 283 borrowers
2-	Operating Expense Ratio Operating expense $= \frac{\text{Operating expense}}{\text{Average Gross Loan Portfolio}}$ = 12%
3-	Cost Per Borrower Operating Expense $= \frac{\text{Operating Expense}}{\text{Average Number of Active Borrowers}}$ = L.E 175
4-	Cost Per Client Operating Expense $= \frac{\text{Operating Expense}}{\text{Average Number of Clients}}$ = L.E 92
5-	Number of active clients Individual lending –SME 10,453 Group lending –GL 46,690 ----- Total 57,143 =====
6-	Number of branches 7 Number of Loan officers 202 Number of administrative staff 178

Chairman Board of Directors

Financial Manager

Treasurer


 07/12/06