

I. Background information

LaiShui County Funding the Poor Cooperative (LaiShui Cooperative), a non-profit social society in compliance with relevant rules and laws of China, was established in May 2003, with the approval of LaiShui County People's Government. It obtained social entity legal registration certificate LMSZ No. 012 issued by LaiShui County Civil Administration Bureau in October 2003. The effective period is from May 2007 to May 2010. The legal representative is Liu Jiaxin, and the registered capital is RMB 300,000.

The principal activities of the cooperative consist of introduction and acceptance of funds from home and aboard to help poverty alleviation, and development of funding the poor.

II. Summary of significant accounting policies

1. Accounting year

The Cooperative's accounting year follows the calendar year from January 1 to December 31.

2. Accounting system

The financial statements have been prepared in conformity with Accounting Manual regulated by Poverty Research Center of CAAS regarding the "Funding the Poor Cooperative", a microfinance project.

3. Reporting currency

RMB is adopted as reporting currency.

4. Accounting basis and valuation

The Cooperative adopts the accrual accounting basis and historical cost valuation method. Interest income of loan is recognized when actually received.

5. Loan loss provision

Loan loss provision is provided in terms of 1‰ of total loan monthly closing balance.

6. Consumables

50% of consumables are expensed right after the purchase and the left 50% is expensed only when it is used.

7. Fixed assets and depreciation

7.1 Valuation

Fixed assets register should be kept. Tangible assets held by LaiShui Cooperative with over 1 useful year and over RMB500.00 are treated as fixed assets. The fixed assets are recorded at the actual cost. Donated fixed assets are recorded at the appraised value upon receipt.

7.2 Classification of fixed assets and depreciation method

A: The residual value rate of fixed assets is 3%.

B: Fixed assets are depreciated on a straight-line basis. The estimated useful lives and classification of fixed assets are as follows:

Category	Useful lives
Building	20 years
Laboratorial equipment and instrument	9 years
Vehicle	8 years
Administrative vehicle	10 years
Computer	4 years
TV	7 years
Copy machine	5 years
Word processing machine	5 years
Refrigerator	6 years

8. Financial income

Upon each periodical loan disbursement, center fund should be collected at 1% of loan disbursement and added into category of interest income of the financial income. The longest period of the periodical loan is 12-month period and the interest rate is 8%. The 50% of the interest income should be withheld upon the loan disbursement firstly. The rest 50% should be collected after the total loan principle is repaid. The periods of the seasonal loan vary from 3 to 9 months and the monthly interest rate is 1.5%. Interest income of seasonal loan is collected monthly and should be repaid totally when principle is due.

9. Compulsive savings

Group fund is 5% of total loan upon the loan issuance and will be returned to the

borrower when the loan is clear. And the borrower should deposit 5% of the loan weekly in FPC as compulsive savings with current interest rate. The savings will be returned to the borrowers after they pay off the principal and interest of their loans. Client deposit is not needed for seasonal loan.

III. Breakdown of the accounts

1. Cash and bank

As of Dec 31, 2007 the closing balance of cash is RMB 235,768.08.

<u>Item</u>	<u>Opening balance</u>	<u>Closing balance</u>
Cash on hand	7,110.18	5,257.18
Cash in bank	181,695.43	230,510.90
Total	<u>188,805.61</u>	<u>235,768.08</u>

2. Loan portfolio and loan loss provision

As of Dec 31, 2007 the closing balance of loan is RMB3, 279,440.00 and loan loss provision is RMB78, 748.21, and the net loan outstanding is RMB200, 691.79.

Loan

<u>Item</u>	<u>Opening balance</u>	<u>Closing balance</u>
Current loans	2,682,960.00	3,252,760.00
Past due loans		26,680.00
Total	<u>2,682,960.00</u>	<u>3,279,440.00</u>

Loan loss provision

<u>Item</u>	<u>Opening balance</u>	<u>Closing balance</u>
Loan loss provision	44,546.71	78,748.21
Net Loans outstanding	<u>2,638,413.29</u>	<u>3,200,691.79</u>

3. Other current assets

As of Dec 31, 2007 the closing balance of other current assets is RMB 10,326.40.

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Item	Opening balance	Closing balance
Liu JiaXin		3,786.00
Wang HaiOu		562.00
Individuals (Health insurance)		5,978.40
Total		10,326.40

4. Fixed assets and accumulated depreciation

The classification of fixed assets is as follows:

Category	Opening balance	Increase	Decrease	Closing balance
Office furniture	1,800.00			1,800.00
Electrical equipment and instrument	21,612.00	1,950.00		23,562.00
Total fixed assets cost	23,412.00	1,950.00		25,362.00
Accumulated depreciation	11,108.40	8,261.27		19,369.67
Total fixed assets net value	12,303.60			5,992.33

5. Short loan

As of Dec 31, 2007 the closing balance of short loan is RMB 700,000.00.

Item	Opening balance	Closing balance
Beijing Head office	200,000.00	700,000.00
Total	200,000.00	700,000.00

6. Group fund and compulsive savings

As of Dec 31, 2007 the closing balance of LaiShui Cooperative group fund is RMB 0.00 and compulsive savings is RMB140, 043.00.

Item	Opening balance	Closing balance
compulsive savings	123,461.00	140,043.00
Total	123,461.00	140,043.00

7. Accounts payable

As of Dec 31, 2007 the closing balance of accounts payable is RMB 79,779.53.

Item	Opening balance	Closing balance
Head office interest	39,121.00	73,090.00
Head office education fund	7,101.53	6,689.53
Head office others	500.00	
Total	46,722.53	79,779.53

8. Long-term liabilities

As of Dec 31, 2007 the closing balance of long-term liabilities is RMB 2,512,800.00.

Item	Opening balance	Closing balance
Beijing head office	2,512,800.00	2,512,800.00
Total	2,512,800.00	2,512,800.00

9. Donated assets (Equipments)

As of Dec 31, 2007 the closing balance of donated assets (equipments) is RMB16,380.00.

Item	Opening balance	Closing balance
Two computers	13,780.00	13,780.00
One printer	2,600.00	2,600.00
Total	16,380.00	16,380.00

10. Financial income

Item	Year 2007
Interest income of current and overdue loan	424,024.60
Interest income of bank deposit	2,997.57
Management fee	53,410.00
Penalty on overdue loan	
Total	480,432.17

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11. Financial cost

<u>Item</u>	<u>Year 2007</u>
Interest paid on Inter-bank loan	56,969.00
Interest paid to head office	
Interest paid on deposits	530.50
Total	<u>57,499.50</u>

12. Loan loss provision

<u>Item</u>	<u>Year 2007</u>
Loan loss provision	34,201.50
Total	<u>34,201.50</u>

13. Operating expenses

<u>Item</u>	<u>Year 2007</u>
Wages and bonus	197,147.50
Employee insurance	40,804.80
Management expense	39,119.00
Center expenses	2,623.00
Travel expenses	9,700.00
Business entertainment	18,628.50
Training expenses	200.00
Consumables amortization	870.00
Depreciation	8,261.27
Other expenses	7,760.00
Total	<u>325,114.07</u>

Laishui Cooperative: (Stamp)

July 15, 2008