

I. Background information

1. NanZhao County Funding the Poor Cooperative (NanZhao Cooperative), a non-profit social society in compliance with relevant rules and laws of China, was established in October 1995 by Poverty Research Center of CASS, with the approval of NanZhao County Civil Administration Bureau. It again obtained social entity legal registration certificate SZ No. 2753 issued by NanZhao County Civil Administration Bureau on January 6, 2003. The effective period is from January 10, 2007 to January 10, 2009. The legal representative is Gou ChangYuan, and the registered capital is RMB 4.5 million. The address is 4th floor, GongXiaoShe, NanZhao County.
2. The principal activities of the cooperative consist of helping poor people, especially women, to alleviate poverty, such as provide funds according to the relevant rules and laws of China.
3. The combined financial statements cover ChengGuan, XiaoDian, YunYang, and ShiMen sub-branches without the branch of NanZhao.

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.

5. Loan loss provision

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

6. Fixed assets and depreciation

6.1 Valuation

Fixed assets register should be kept. Tangible assets held by NanZhao Cooperative with over 1 useful year and over RMB500 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.

6.2 Classification of fixed assets and depreciation method

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

7. Financial income

Financial income consists of loan interest income, deposit interest income, and interest income of inter-branch borrowing. Nominal annual interest rate of loan is 8%. Interest income is withheld in terms of 4% of total loan upon the loan issuance. Another 4% of total loan will be collected after 51 weeks later than loan issuance. The interest income is recognized when actually received.

8. Group fund and compulsive savings

- a. Group fund includes security fund and center expense. Security fund is withheld in terms of 4% of total loan upon the loan issuance. The interest rate of security fund is as same as current deposit rate. The interest income will be calculated from the beginning of loan issuance and will be paid to clients. The center expense will be withheld in terms of 1% of total loan upon the loan issuance, which will be used for materials and to train the members, group leaders, and chief of the center.

- b. Compulsive savings: When every client repays the loan, they have to deposit RMB1 into cooperative each week in the first year, deposit RMB 2 each week in the second year and the following years.

The interest income of group fund and compulsive savings will be paid to clients in terms of current deposit interest rate.

III. Breakdown of the accounts

1. Cash and bank

As of Dec 31, 2007 the closing balance of cash is RMB 484,621.27.

Item	Opening balance	Closing balance
Cash on hand	5,234.09	5,027.57
Cash in bank	770,107.47	479,593.70
Total	775,341.56	484,621.27

2. Loan portfolio and loan loss provision

As of Dec 31, 2007 the closing balance of loan is RMB 6,844,341.00 and loan loss provision is RMB 448,503.00.

Loan

Item	Opening balance	Closing balance
Current loans	6,469,286.00	6,101,575.00
Overdue loans	751,781.00	742,766.00
Total	7,221,067.00	6,844,341.00

Loan loss provision

Item	Opening balance	Closing balance
Loan loss provision	500,648.00	448,503.00
Net Loans outstanding	6,720,419.00	6,395,838.00

3. Other current assets

As of Dec 31, 2007 the closing balance of other current assets is RMB 2,472,026.75.

Item	Opening balance	Closing balance
ChengGuan branch		
ATV screening	670.00	670.00
Deferred expenses	2,000.00	2,000.00

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Item	Opening balance	Closing balance
Receivables – NanZhao Cooperative	450,000.00	
Travel allowance	4,180.00	-
Motor bicycle allowance	2,000.00	-
Subtotal of ChengGuan Branch	458,850.00	2,670.00
YuYang Branch:		
NanZhao County Cooperative	250,000.00	400,000.00
ChengGuan Branch		30,000.00
Technique information fee	452.00	452.00
Yang Tao	4,000.00	4,000.00
Loan for Motor bicycle	3,500.00	3,000.00
Motor petrol and maintenance allowance	2,635.00	-
Subtotal of YunYang Branch	260,587.00	437,452.00
ShiMen Branch		
Loan for Motor bicycle	3,500.00	1,500.00
Employee bonus	5,400.00	7,200.00
Motor maintenance allowance	1,945.00	-
XiaoDian Branch		100,000.00
NanZhao County Branch		50,000.00
Subtotal of ShiMen Branch	10,845.00	158,700.00
XiaoDian Branch		
Chen Jincai	1,500.00	1,000.00
Feng Hui	500.00	-
NanZhao County Cooperative	469,120.00	469,120.00
Motor petrol and maintenance allowance	2,575.00	-
Subtotal of XiaoDian Branch	473,695.00	470,120.00
NanZhao County Cooperative:		
ChengGuan Branch	500,000.00	310,000.00
XiaoDian Branch	450,000.00	57,820.00
YunYang Branch	400,000.00	
Training Fee		8,000.00
Pei Feng	2,000.00	2,000.00
NanZhao Local Tax Office	129,560.75	129,560.75
The Court	-	10,904.00
Advanced payment of Office Building project	-	715,000.00
Economic Crime Investigation Group	8,000.00	12,000.00
YuCheng	-	150,000.00
Design Studio		4,000.00

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Item	Opening balance	Closing balance
Zhao Wei		3,800.00
Total of NanZhao County Cooperative	1,489,560.75	1,403,084.75
Total	<u>2,693,537.75</u>	<u>2,472,026.75</u>

4. Fixed assets and accumulated depreciation

The classification of fixed assets is as follows:

<u>Category</u>	<u>Opening balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Closing balance</u>
Building	651,087.00	11,300.00		662,387.00
Less: Accu. depreciation	<u>52,771.40</u>	1,330.60		<u>54,102.00</u>
Total fixed assets net value	<u>598,315.60</u>	9,969.40		<u>608,285.00</u>

5. Short-term loan

As of Dec 31, 2007 the closing balance of short-term debt is RMB 1,446,000.00.

Item	Opening balance	Closing balance
NanZhao County Cooperative		-
ChengGuan Branch	200,000.00	-
XiaoDian Branch	463,120.00	-
YunYang Branch	250,000.00	400,000.00
Shimen Branch	-	150,000.00
Subtotal	913,120.00	550,000.00
ChengGuan branch:		
NanZhao Cooperative	750,000.00	340,000.00
Advance receipts for penalties	50,000.00	50,000.00
Subtotal	800,000.00	390,000.00
YunYang Branch		
NanZhao County Cooperative	400,000.00	-
Subtotal	400,000.00	-
XiaoDian Branch		
NanZhao County Cooperative	456,000.00	506,000.00
Subtotal	<u>456,000.00</u>	<u>506,000.00</u>
Total	<u>2,569,120.00</u>	<u>1,446,000.00</u>

6. Group fund and compulsive savings

As of Dec 31, 2007, the closing balance of group fund and compulsive savings is RMB 877,547.00.

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Item	Opening balance	Closing balance
Group fund		
ShiMen	46,475.00	43,190.00
XiaoDian	159,848.00	180,220.00
YunYang	166,932.00	136,630.00
ChengGuan	179,960.00	239,335.00
Sub-total	553,215.00	599,375.00
Compulsive savings		
ShiMen	21,390.00	16,650.00
XiaoDian	64,541.00	87,161.00
YunYang	64,310.00	62,550.00
ChengGuan	99,987.00	111,811.00
Sub-total	250,228.00	278,172.00
Total	803,443.00	877,547.00

7. Other accounts payable

As of Dec 31, 2007 the closing balance of other accounts payable is RMB 1,066,706.85.

Item	Opening balance	Closing balance
YunYang Branch:		
Head office interest	255,605.00	255,605.00
Employee pension	5,602.00	8,820.50
Motor allowance		1,000.00
Employee bonus	4,655.00	2,805.00
Subtotal of YunYang Branch	265,862.00	268,230.50
ShiMen Branch:		
Head office interest	70,080.00	70,120.00
Rent	900.00	
Pension	2,752.50	3,336.00
Centre fees		
Subtotal for ShiMen Branch	73,732.50	73,456.00
XiaoDian Branch:		
Short loan for Motor		500.00
Head office interest	144,000.00	128,500.00
Employee pension	20,020.76	15,797.26
Employee bonus	1,443.00	3,389.00
Subtotal of XiaoDian Branch	165,463.76	148,186.26
ChengGuan Branch:		

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Item	Opening balance	Closing balance
Head office interest	169,212.00	169,212.00
Employee bonus	580.00	3,116.00
Deposit	24,000.00	
Centre fees	34,890.00	
Government interest	2,148.00	2,148.00
Motor allowane	500.00	
Insurance	22,055.69	29,372.69
Subtotal of ChengGuan Branch	253,385.69	203,848.69
NanZhao County Cooperative		
Head office interest		176,800.00
Pension		183.50
Deposit		21,000.00
Exchange training fees	19,005.90	19,005.90
Pension Insurance	496.00	496.00
Audit fees	1,500.00	1,500.00
Bonus	4,000.00	4,000.00
Student funding	150,000.00	150,000.00
Subtotal of NanZhao County Cooperative	175,001.90	372,985.40
Total	933,445.85	1,066,706.85

8. Long-term liabilities: (soft loan interest rate) overseas

As of Dec 31, 2007 the closing balance of long-term liabilities is RMB5, 236,000.00. The long-term loan is from Bengal village bank trust, Taiwan Mr. Yang Lin, American village bank fund, and Australian development agency which entrusted Poverty Research Center of CASS to manage the loan.

Item	Opening balance	Closing balance
Bengal village bank trust	1,686,000.00	1,686,000.00
Taiwan Mr. Yang Lin	1,450,000.00	1,450,000.00
American village bank fund	1,400,000.00	1,400,000.00
Australian development agency	700,000.00	700,000.00
Total	5,236,000.00	5,236,000.00

9. Donated assets

As of Dec 31, 2007 the closing balance of donated assets is RMB 116,500.00, which are received by branches.

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10. Financial income

<u>Item</u>	<u>For the year ended Dec 31, 2007</u>
Interest income	901,034.00
Investment income	7,216.73
Management fee	294,661.00
Total	1,202,911.73

11. Financial cost

<u>Item</u>	<u>For the year ended Dec 31, 2007</u>
Debt interest for head office	261,340.00
Interest for Client deposit	5,292.50
Total	266,632.50

11. Operating expenses

<u>Item</u>	<u>For the year ended Dec 31, 2007</u>
Salary and bonus	417,002.40
Employee insurance	77,075.00
Management expense	280,335.16
Travel expenses	2,158.00
Business entertainment	2,045.00
Depreciation	1,390.20
Other expenses	18,530.00
Total	798,535.76

NanZhao Cooperative :(Stamp)

July 15, 2008