

I. Background information

Yi County Funding the Poor Cooperative (Yi Cooperative), a non-profit social society in compliance with relevant rules and laws of China, was established in Oct 1993, with the approval of Yi County People's Government. It obtained social entity legal registration certificate YMSZ No. 017 issued by Yi County Civil Administration Bureau. The legal representative is Zhou XueRen, and the registered capital is RMB 50,000.00.

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

5. Loan loss provision

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

6. Consumables

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

7. Fixed assets and depreciation

7.1 Valuation

Fixed assets register should be kept. Tangible assets held by Yi 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 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. Interest 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 short loan vary from 3 to 9 months and the interest rate is 8%. Interest income of short loan is collected monthly and should be repaid totally when principle is due.

9. Group fund and compulsive savings

Upon every periodical loan issuance, group fund is withheld in terms of 5% of the total disbursed loan. Every client of periodical loan should deposit 5% of the repaid capital each week as compulsive savings at current deposit rate. The clients earn the interest income of the savings. The deposits of clients will be returned to clients after they repaid total loan capital and interest. The seasonal loan doesn't have clients' deposit.

III. Breakdown of the accounts

1. Cash

As of Dec 31, 2007 the closing balance of cash is RMB 105,033.83.

Item	Opening balance	Closing balance
Cash on hand	909.34	917.24
Cash in bank	135,020.61	104,116.59
Total	135,929.95	105,033.83

2. Loan portfolio and loan loss provision

As of Dec 31, 2007 the closing balance of loan is RMB 8,072,284.38, loan loss provision is RMB100, 206.00 and the net loan outstanding is RMB 7,972,078.38.

Loan

Item	Opening balance	Closing balance
Current loans	6,422,165.00	7,400,065.00
Past due loans	2,011,721.03	672,219.38
Total	8,433,886.03	8,072,284.38

Loan loss provision

Item	Opening balance	Closing balance
Loan loss provision	570,584.57	100,206.00
Net Loans outstanding	7,863,301.46	7,972,078.38

3. Other current assets:

As of Dec 31, 2007 the closing balance of other current assets is RMB 1,794,969.10, and RMB1, 037,351.10 when offsetting the intra transactions.

Item	Opening balance	Closing balance
Town project	897,000.00	920,500.00
‘Happy Project’ fees	80,000.00	80,000.00
Management fee of branches	35,488.72	
Management fee (town)		2,349.00
FPC office	10,000.00	10,000.00
XiLing service office	10,000.00	10,000.00
Credit station	500.00	
Personnel communication		6,000.00
Litigation fees	5,910.00	890.00

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Item	<u>Opening balance</u>	<u>Closing balance</u>
Building and land occupation fees	2,000.00	2,000.00
Zhou XueRen	8,808.10	3,808.10
Cui LiHua (errors in Cash in bank and Cash shortages)		1,604.00
Zhao ZhiGang (living costs during his custody)	200.00	200.00
Temporary account	1,000.00	
Total other current assets	<u>1,050,906.82</u>	<u>1,037,351.10</u>

4. Prepaid expenses

As of Dec 31, 2007 the closing balance of prepaid expenses is RMB 5,936.75.

Item	<u>Opening balance</u>	<u>Increase for the year</u>	<u>Decrease in the year</u>	<u>Closing balance</u>
Car insurance	1,932.00	4,269.00	3,716.00	2,485.00
Building and land occupation fees(rents) Heating fees (coal procurement)	1,490.00	10,000.00	9,330.00	2,160.00
Printing fees	665.00	1,206.00	1,871.00	1,291.75
Total	<u>5,088.00</u>	<u>20,312.00</u>	<u>19,463.25</u>	<u>5,936.75</u>

5. Consumables

As of Dec 31, 2007 the closing balance of consumables is RMB 943.10.

<u>Item</u>	<u>Dec 31,2007</u>
Consumables	943.10
Total	<u>943.10</u>

6. Fixed assets and accumulated depreciation:

The classification of fixed assets is as follows:

<u>Category</u>	<u>Opening balance</u>	<u>Increase</u>	<u>Deduction</u>	<u>Closing balance</u>
Building	30,000.00			30,000.00

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Vehicle	88,000.00	129,295.00	88,000.00	129,295.00
Electrical equipment and instrument	80,470.00		1,860.00	78,610.00
Other equipment	32,630.80	1,375.00		34,005.80
Total Cost	231,100.80	130,670.00	89,860.00	271,910.80
Accu. depreciation	98,971.06	12,517.40	52,048.00	59,440.46
Net value	<u>132,129.74</u>	<u>118,152.60</u>	<u>37,812.00</u>	<u>212,470.34</u>

As of Dec 31, 2007 the closing balance of fixed assets cost is RMB 271,910.80. Among the fixed assets, Jetta vehicle has the valued of RMB 129,295.00. The car owner is Zhou XueRen on the vehicle certificate. The title of the car was not transferred to Yi Cooperative. The head office donated 4 computers, 1 duplicating machine and 1 laser printer which were not included in the accounts.

7. Group fund and compulsive savings:

As of Dec 31, 2007 the closing balance of Yi Cooperative group fund is RMB 671,848.00.

Item	Opening balance	Closing balance
Yi Cooperative	26,113.00	26,813.00
XiLing Branch	192,255.00	218,620.00
LiangGeZhuang Branch	147,015.00	193,320.00
QiaoTou Branch	134,225.00	159,575.00
BaiMa Branch	65,225.00	73,520.00
Total	<u>564,833.00</u>	<u>671,848.00</u>

As of Dec 31, 2007 the closing balance of Yi Cooperative compulsive savings is RMB 224,577.00.

Item	Opening balance	Closing balance
XiLing Branch	52,600.50	56,849.50
LiangGeZhuang Branch	54,993.50	80,275.50
QiaoTou Branch	55,432.00	62,680.00
Baima Branch	17,276.00	24,772.00
Total	<u>180,302.00</u>	<u>224,577.00</u>

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8. Other payable

As of Dec 31, 2007 the closing balance of Yi Cooperative other payables is RMB 966,755.32.

Item	Opening balance	Closing balance
Group fund interest	2,217.80	3,191.50
Member deposit interest	1,136.00	178.00
Australia immigration project training fees	752.00	1,136.00
Exchange fee	2,824.50	2,180.50
Audit fee	6,000.00	6,000.00
United office expenses	19,031.50	0.00
Individual risk premium	22,500.00	21,500.00
Risk premium interest	3,070.34	1,381.45
Insurance fees	4,543.20	0.00
Subsidy	22.80	20.70
Management fee (Yi Cooperative)	247,472.00	494,000.00
Management fee (Branches)	279,868.04	247,000.00
Interest of management fee and inter-bank loan	16,031.53	1,067.49
Farmer mutual fund	35,330.30	23,276.30
Farmer influence fund	2,254.00	1,000.00
Education fund for students who withdraw from school	119,829.55	160,616.49
Employee insurance	120.80	0.00
Staff fine	469.00	0.00
Prior staff salary payable	4,206.89	4,206.89
Others	378.00	
Total	768,058.25	966,755.32

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9. Accrued expenses

As of Dec 31, 2007 the closing balance of Yi Cooperative accrued expenses is RMB 106,110.88.

Item	Opening balance	Closing balance
Salaries	43,781.19	54,177.52
Bonus	3,188.89	5,427.55
Deposit interest	1,151.70	-
Center expenses	34,731.00	31,799.70
Operation cost	672.18	1,726.31
Welfare	-	6,204.00
Management fee	1,000.00	1,000.00
Travel fees	4,000.00	-
Business entertainment	1,522.00	1,500.00
Accident insurance	200.00	200.00
Energy charge	131.70	519.80
Telephone	150.00	150.00
Office expenses	-	210.00
Boiler labor cost	150.00	-
Winter coal allowance and labor cost	-	3,196.00
Total	90,678.66	106,110.88

10. Long-term liabilities

As of Dec 31, 2007 the closing balance of long-term liabilities—overseas debt is RMB 5,026,600.57.

Item	Opening balance	Closing balance
Germany	600,000.00	600,000.00
Yang Ling	3,093,378.00	2,886,600.57
Uni-president enterprise	840,000.00	840,000.00
Australia	700,000.00	700,000.00
Total	5,233,378.00	5,026,600.57

11. Loan capital

As of Dec 31, 2007 the closing balance of loan capital is RMB 881,578.18

Item	Opening balance	Closing balance
Bai Ennan	190,000.00	190,000.00

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Lin JunHua	151,800.00	151,800.00
Ford	248,000.00	248,000.00
Canada	30,000.00	30,000.00
Germany	261,778.18	261,778.18
Total	<u>881,578.18</u>	<u>881,578.18</u>

12. Donated assets (Equipments):

As of Dec 31, 2007 the closing balance of donated assets (equipments) is RMB61, 000.00.

Item	<u>Opening balance</u>	<u>Closing balance</u>
2 sets of computer and printer of county cooperative	36,000.00	36,000.00
Donations from head office (air conditioning and office furniture)	10,000.00	10,000.00
One computer and one printer of BaiMa Sub-branch	15,000.00	15,000.00
Total	<u>61,000.00</u>	<u>61,000.00</u>

13. Donation as operating use

As of Dec 31, 2007 the closing balance of Donation as operating use is RMB 35,618.30.

Item	<u>Opening balance</u>	<u>Closing balance</u>
Donation as operating use	<u>35,618.30</u>	<u>35,618.30</u>

14. Retained earning (loss)

Item	<u>Yi County</u>	<u>XiLing Branch</u>	<u>LiangGeZhuang Branch</u>
Returned profit b/f	69,430.41	452,870.52	346,901.43
Profit for the year	<u>-2,783.04</u>	<u>52,895.33</u>	<u>68,683.99</u>
Returned profit c/f	<u>66,647.37</u>	<u>505,765.85</u>	<u>415,585.42</u>

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15. Financial income

Item	For the year ended	
	Dec 31, 2007	Dec 31, 2006
Interest income of current and overdue loan	1,058,185.17	886,718.15
Interest income of bank deposit	1,906.32	3,343.96
Management fee	282,160.28	231,054.50
Penalty on deferred payment	275.20	291.00
Total	<u>1,342,526.97</u>	<u>1,121,407.61</u>

16. Financial cost

Item	For the year ended	
	Dec 31, 2007	Dec 31, 2006
Interest paid on debt (to head office)	323,643.65	326,496.97
Interest paid on debt (inter-bank lending interest)	43,191.56	25,446.17
Interest paid on deposits	1,105.09	1,106.06
Total	<u>367,940.30</u>	<u>353,049.20</u>

17. Loan loss provision

Item	For the year ended	
	Dec 31, 2007	Dec 31, 2006
Loan loss provision	<u>99,187.50</u>	<u>93,522.54</u>

18. Operating expenses

Details of operating expenses are as follows:

Item	For the year ended	
	Dec 31, 2007	Dec 31, 2006
Wages and bonus	377,951.28	306,544.06
Employee insurance	52,675.78	51,827.48
Management expense	87,246.32	70,180.82
Center expense	70,906.60	63,794.90
Travel expense	32,678.90	23,242.50
Business entertainment	15,437.42	12,263.00
Training expense	450.00	800.00
Amortization of consumables		580.00

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	For the year ended	
Depreciation	12,517.40	10,878.40
Other expenses	<u>9,593.30</u>	<u>8,250.75</u>
Total	<u><u>659,457.00</u></u>	<u><u>548,361.91</u></u>

Yi Cooperative :(Stamp)

July 15, 2008