

I. Background information

YuCheng County Funding the Poor Cooperative (YuCheng Cooperative), a non-profit organization in compliance with relevant rules and laws of China, approved by YuCheng County People's Government, was established in August, 1995. The social entity legal registration certificate at SZ No. 08 was issued by YuCheng County Civil Administration Bureau, with the period of validity from August 3, 2005 to August 3, 2008. The legal representative is Cheng Gang, the registered capital is RMB 2 million, and the location of the cooperative is No.282, West Shengli Road, and YuCheng County.

The principal activities of the Cooperative include providing MFI for members to develop production and improve life standards and providing fund, material, technology and information service.

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 accordance 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 and historical cost valuation method.

5. Loan loss reserve

Loan loss reserve is accrued by the 1% of the monthly balance of the loan.

6. Fixed assets and depreciation

6.1 Valuation

The fixed assets should be registered and managed by the Cooperative. And the assets with over 1 useful year and over RMB 500 are to be 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 Fixed assets are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

<u>Category</u>	<u>Depreciable Life</u>
Buildings	20 years
Laboratorial equipment and instrument	9 years
Vehicle	8 years
Administrative Vehicles	10 years
Computers	4 years
TVs	7 years
Printers	5 years
Processor for Characters	5 years
Refrigerator	6 years

7. Financial income

Financial income included the interest income of the loan, interest income of the deposit, and management income. The nominal interest rate is 8% of the loan disbursement. But the 4% of the loan will be withheld as interest income when the loan is disbursed, and after 51 weeks, another 4% of the loan will be charged as the income. The interest income is recognized when actually received. When the loan is fully repaid, 1% of the loan will be charged as the management income.

8. Group fund and the compulsive savings

5% of the loan is charged as the group fund when the loan is disbursed, and will be return to the clients when the loan is clear. The clients must deposit 1% of the total loan when clients repay the loan weekly as compulsive savings. 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

As of December 31, 2007 the closing balance of cash is 168,587.652 Yuan.

Item	Opening balance	Closing balance
Cash on hand	3,213.99	19,544.41
Cash in bank	63,992.14	149,043.24
Total	67,206.13	168,587.65

2. Loan and loan loss reserve

As of December 31, 2007 the closing balance of loan is 2,471,156.95 Yuan and loan loss reserve is RMB 0.00 Yuan.

Loan

Item	Opening balance	Closing balance
Current loans	1,521,280.00	2,471,156.95
Overdue loans	336,580.00	
Rescheduled loan	911,915.91	
Total loan	2,769,775.91	2,471,156.95

Loan Loss Reserve

Item	Opening balance	Closing balance
Loan loss reserve	203,397.40	
Net loans outstanding	2,566,378.51	2,471,156.95

3. Consumable supplies

As of Dec 31, 2007 the closing balance of other Consumable supplies is 465.00 Yuan.

4. Prepaid expenses

As of December 31, 2007 the closing balance of prepaid expenses is 3,846.00 Yuan, and the details are as following:

Item	Opening balance	Closing balance
Administrative expenses	2,824.00	1,544.00
Other expenses		1,200.00

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Travel expenses		832.00
Hospitalization insurance		270.00
Total	2,824.00	3,846.00

5. Other current assets

As of Dec 31, 2007 the closing balance of other current assets is 152,282.69 Yuan, which are other receivables from branches with details as follows:

Item	Opening balance	Closing balance
Zhao JiHua	4,014.0	4,014.00
Cao YuMei	285.0	285.00
Yuan SiYun	731.0	731.00
Xin ChangLi	200.0	200.00
LiuDian Township Government	1,215.0	1,215.00
Liu QingShan	131.5	131.50
Ren HongLiang	100.0	100.00
Yang YanQiu	1,500.0	1,500.00
Li QingMei	1,182.10	1,182.10
Hu ZunKuan	600.00	600.00
Borrowing	1,700.00	
International Conference	32,498.19	32,498.19
DianJi Service department	-406.50	-406.50
Business entertainment for The national economy and trade commission	1,347.00	1,347.00
Passport and visa application fees	7,416.90	7,416.90
Travel expenses to Bengali	880.30	880.30
Business entertainment for Bengalese guests	3,852.00	3,852.00
CCTV fees	2,722.00	2,722.00
Asia-Pacific Funding the Poor Company	1,116.30	1,116.30
Fees for U.N. auditors	616.50	616.50
Inspection work from head office	1,620.00	1,620.00

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Item	Opening balance	Closing balance
XiaoWei	716.00	716.00
The Court	853.60	853.60
GuShu Township Government	1,480.00	1,480.00
Liu YuJin	1,286.80	1,286.80
Fees for litigation	2,500.00	2,500.00
Ma YinShan	425.00	425.00
Yu JunJie	400.00	400.00
WenJi Branch	83,800.00	83,000.00
Total	154,782.69	152,282.69

Notes: Other receivables--WenJi branch of 83,000.00 Yuan is inter-branch borrowing between DianJi Branch and WenJi Branch, which was not eliminated when preparing the combined financial statements.

6. Fixed assets and depreciation

The classification of fixed assets is as follows:

Item	Opening balance	Increase	Decrease	Closing balance
Original value	92,899.75			92,899.75
Accumulated depreciation	41,839.95	12,311.66		54,151.61
Net value of fixed assets	51,059.80		12,311.66	38,748.14

7. Accounts payable

As of December 31, 2007 the closing balance of accounts payable is 94,672.54 Yuan with details as follows:

Item	Opening balance	Closing balance
Group Fund	26,439.34	43,039.34
Compulsive savings	39,045.70	52,083.20
Deposit from members	-450.00	-450.00
Total	65,035.04	94,672.54

8. Other payables (insurance and head office interests)

As of December 31, 2007 the closing balance of other payables is 477,677.18 Yuan with details as follows:

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Item	Opening balance	Closing balance
Loan interest to head office	265,152.93	320,049.46
Employee insurance	29,944.92	33,582.92
Risk premium	1,156.70	1,156.70
Center fund	22,338.92	36,261.42
Welfare payables	166.68	166.68
Loan payable	83,800.00	83,000.00
Rent	3,600.00	3,460.00
Head office training fee	9.42	
Total	406,169.57	477,677.18

9. Long-term Liability (soft loan rate)

As of December 31, 2007 the closing balance of long-term liability is 3,021,664.44 Yuan and the entire fund is provided by Mr. Yang Lin. Details as follow:

Item	Opening balance	Closing balance
DianJi	1,031,000.00	616,664.44
WenJi	1,480,000.00	1,480,000.00
Bolivian	469,000.00	925,000.00
Total	2,980,000.00	3,021,664.44

10. Donation assets

As of Dec 31, 2007 the closing balance of donation assets is 58,500.00 Yuan, which is the closing balance of WenJi Branch's assets.

11. Financial income

Items	2007
Interest of the loan and overdue loan	262,881.80
Interest income of investment	527.60
Management income	24,009.42
Total	287,418.82

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12. Financial cost

<u>Item</u>	<u>2007</u>
Interest paid on debt (paid to head office)	114,834.03
Interest paid on deposits	615.50
Total	<u>115,449.53</u>

13. Operating expenses

<u>Item</u>	<u>2007</u>
Salary and bonus	108,463.05
Employee insurance	18,982.00
Management expense	23,197.04
Travel expenses	4,905.75
Training expense	247.00
Business entertainment	5,664.50
Depreciation expenses	12,311.66
Other expenses	8,931.54
Total	<u>182,702.54</u>

YuCheng Cooperative :(Stamp)

July 15, 2008