

To: THE STOCKHOLDERS OF GOVIIN EKHLEL Co., LTD

Subject: Auditor's report

We have audited the financial statements of Goviin Ekhlel Co., LTD NBF1 for the year ended December 31, 2001. Financial statements preparation and submission is the responsibility of the company management. Our responsibility is to express an opinion on the financial statements based on our auditing.

Our auditing was conducted according to the International Standards on Auditing and pre-planned auditing program in the framework of Auditing and Accounting Laws of Mongolia, rules issued by Mongolbank, and other effective legislation. We performed the auditing procedures to obtain reasonable evidence that the financial statements are free from material misstatements, we also evaluated the accounting policies, principles, and internal control systems used to prepare the statements. In addition to we considered management decisions, their implementation and examined significant estimates on a test basis. We hope that auditors' findings and checked amounts could become a reasonable basis to express an opinion on the above-mentioned financial statements and we are expressing our opinion as follows.

The financial statements of Goviin Ekhlel Co., LTD Non-Bank Financial Institution present fairly, in all material respects, financial position, operating results, changes in financial position, and cash flows of the company for the year ended December 31, 2001 in accordance with the accounting standards followed in Mongolia and rules issued by Mongolbank.

NIMM Audit Co., LTD

GOVIN EKHLEL Co., LTD
NON-BANK FINANCIAL INSTITUTION
BALANCE SHEET
As December 31, 2000 and 2001
(In togrogs)

	Note	Dec,31,2000	Dec,31,2001
Assets			
Cash and cash equivalents	4	496,346,927.36	8,834,367.84
Loans \net\	5	174,817,249.92	-
Fixed assets \ net\	6	102,398,766.43	-
Long terms investment	7	-	2,799,568,300.00
Other assets	8	13,593,070.49	8,100,631.00
Total assets		787,156,014.20	2,816,503,298.84
Liabilities			
Long term liabilities	9	-	376,868,300.00
Other liabilities	10	4,691,916.36	16,878,805.00
Total liabilities		4,691,916.36	393,747,105.00
Equity			
Share capital	11	882,986,611.51	2,279,754,000.00
Reserve fund		-	100,000,097.84
Retained earnings		(100,522,513.67)	43,002,096.00
Total equity		782,464,097.84	2,422,756,193.84
Total liabilities and equity		787,156,014.20	2,816,503,298.84

GOVIIN EKHLEL Co., LTD
NON-BANK FINANCIAL INSTITUTION
STATEMENTS OF PROFIT AND LOSS
For the years ended December 31, 2000 and 2001
(In togrogs)

	Note	Dec 31, 2000	Dec 31, 2001
Interest income		60,458,613.43	235,324,419.02
Interest expenses		-	-
Net interest income	12	60,458,613.43	235,324,419.02
Gain \loss\ on foreign currency trading and exchange rate difference	13	123,867.15	(984,569.94)
Other operating income		612,402.23	3,919,650.25
Total other income		736,269.38	2,935,080.31
Operating income		61,194,882.81	238,259,499.33
Operating expenses	14	(159,951,566.40)	(178,814,903.33)
Income before provisions for contingent loss		(98,756,683.59)	59,444,596.00
Provision for loan loss		(1,765,830.08)	(4,058,300.00)
Income before income tax		(100,522,513.67)	55,386,296.00
Income tax expense	15	-	(12,384,200.00)

Net income

(100,522,513.67)

43,002,096.00

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GOVIIN EKHLEL Co.,LTD
NON BANK FINANCIAL INSTITUTION
STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2000 and 2001
(In togrogs)

	Share capital	Reserve fund	Retained earnings	Total equity
As beginning balance sheet	700,000,000.00	-	-	700,000,000.00
Increase in share capital	182,986,611.51			182,986,611.51
Decrease in share capital			-	-
Net income (or loss) for the period			(100,522,513.67)	(100,522,513.67)
			-	-
Balances as December 31, 2000	882,986,611.51		(100,522,513.67)	782,464,097.84
Increase in share capital	1,497,289,902.16			1,497,289,902.16
Increase in reserve fund		100,000,097.84	-	100,000,097.84
Allocation of retained loss	(100,522,513.67)		100,522,513.67	-
			-	-
Net income for the current period			43,002,096.00	43,002,096.00
			-	-
Balances as December 31, 2001	2,279,754,000.00	100,000,097.84	43,002,096.00	2,422,756,193.84

GOVIIN EKHLEL Co.,LTD
NON BANK FINANCIAL INSTITUTION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2001
(In togros)

	Subtotal	Total
Income before income tax		55,386,296
Adjustment:		
Fixed asset depreciation	12,700,016	
Provision for loan loss	4,058,300	
Interest income	(235,324,419)	
Interest expense	-	(218,566,103)
Operating profit before working capital changes		(163,179,807)
Increase \decrease\ in operating assets		
Loans	176,583,080	
Other assets	3,334,356	179,917,436
Increase \decrease\ in operating liabilities		
Other liabilities	4,485,589	4,485,589
Cash flows from operating activities		21,223,218
Interest received	241,205,986	
Payment of income tax	(4,682,900)	236,523,086
Net cash flows provided by operating activities		257,746,305
Cash flows from investing activities		
Purchase of fixed assets	(108,416,410)	
Price of disposed fixed assets	289,090,060	
Purchase of long term investment	(2,799,568,300)	
Net cash flows used in investing activities		(2,618,894,650)
Cash flows from financing activities		
Increase in share capital	1,396,767,388	
Increase in reserve fund	100,000,098	
Increase in long terms liabilities	376,868,300	

Net cash flows provided by financing activities	1,873,635,786
Net cash flows	(487,512,559)
Cash and cash equivalents, beginning of the year	496,346,927
Cash and cash equivalents, ending of the year	8,834,368

GOVIIN EKHLEL Co., LTD
NON-BANK FINANCIAL INSTITUTION
Disclosure to the financial statements
As December 31, 2001
(in thousand togrogs)

1. ORGANIZATION AND OPERATION

Goviin Ekhlel Co., LTD was established under the resolution of the Mercy Corps International Corporation dated on the 26th of January 2001. Then it received the license of establishment of a wholly-owned foreign investment company on the 31st of March 2000 by the decree A-161 of the Director of Foreign Investment and Trade Agency.

The company was given permission to establish a non-bank financial institution and to conduct lending operations on the 21st of March 2000 by the decree (number 142) of the President of Mongolbank and it started operations with the initial share capital amounts of 700,0 million togrogs.

The company is rendering lending services to individuals and legal entities and conducting other operations in accordance with the Company law, Foreign Investment law, Banking law and other legislation of Mongolia.

Goviin Ekhlel Co., LTD and its shareholder merged with X.A.C. Co., LTD and established a holding company named XAC-GE Group Ltd.,. Further the company decided to establish XacBank with 100 percent investment and concluded a Letter of Intent on the 20th of August 2001 and a Merger Agreement on the 1st of October 2001.

According to the Merger Agreement, Goviin Ekhlel Co., LTD transferred its all assets and liabilities to X.A.C. Co., LTD, and was reorganized as XAC-GE Group Ltd., to conduct operations such as investment, financial and investment consulting, and lending.

XAC-GE Group Ltd., was given permission to establish a bank, and its subsidiary XacBank Ltd., was given permission to conduct banking operations and a Banking certificate (number 24) by the Decree No. 610 of the President of Mongolbank dated December 27, 2001. As a result, it was newly registered at the

State Registration and the beginning balance sheet of XAC-GE Group Ltd., was prepared as December 31, 2001.

2. MAIN FINANCIAL REPORTING PRINCIPLES

The financial statements are prepared in accordance with the accounting principles followed in Mongolia and the accounting rules of non-bank financial institutions approved by Mongolbank.

Disclosure to the financial statements-continued
(in thousand togrogs)

3. CORE ACCOUNTING POLICIES

The following accounting policies are followed in preparation of the financial statements:

a) Interest income and expense

Interest income and expense are recorded on the accrual basis of accounting.

b) Service charges and fees

Service charges and fees are recognized when cash is paid.

c) Loans

Loans are expressed in the financial statements at the net amount subtracting the reserve for contingent loan loss from the loans given to business entities and individuals.

The reserve for contingent loan losses is estimated for each category of loans according to the “Procedure for the asset’s categorizing, creating reserve for contingent loss and its disposition” approved by Mongolbank as follows;

Classification	Criteria	Percent
Standard loan	-	1%
Non accrual loans		
Overdue loan	1-90 days	1%
Abnormal loan	91-180 days	25%
Doubtful loan	181-360 days	50%
Bad loan	over 360 days	100%

d) Fixed assets

Fixed assets are reported in the financial statements at the amount, which is the historical cost less accumulated depreciation. The cost of assets is recorded at the sum total of the purchase price, other incidental expenses incurred for the acquisition of the asset and the cost of capital improvement on the fixed asset.

Assets are depreciated under the straight-line method based on useful lives of assets. This method is consistent with the rules stipulated by the Corporate Income Tax Law of Mongolia.

Disclosure to the financial statements-continued
(in thousand togrogs)

Useful lives of fixed assets are as follows;

Category of fixed assets	Useful lives
Building	40
Furniture and fixtures	10
Computer	10
Vehicles	<u>10</u>

e) Other assets

Accrued interest receivables, prepaid expenses, advances to employees, prepayments, materials and supplies are classified and reported as other assets.

f) Rent expenses

Rent contract is an operating type of lease and rental expenses are recorded during the related period and shown in the statement of profit and loss as rental expense.

g) Foreign currency translation

Transactions in foreign currencies are recorded at that currency, and at the same time translated into Mongolian togrog using the exchange rate stated by Mongolbank on the date of the transaction.

Cash balances, receivables, and payables in foreign currencies are translated in Mongolian togrog using the official exchange rate on the balance sheet date.

Cash balances, receivables, and payables in foreign currencies are restated and translated each time when the official exchange rate is changed during the accounting period and related foreign currency translation gains and losses are recognized.

Gains and losses incurred from foreign currency purchases and sales or trading are reported as foreign currency trading loss and gain.

Disclosure to the financial statements-continued
(in thousand togrogs)

4. CASH

Categories of cash equivalents	Dec 31, 2000	Dec 31, 2001
A. Cash on hand		
In domestic currencies	5,182.5	-
In foreign currencies	1,547.9	-
Total	6,730.4	-
B. Current account at the commercial banks		
In domestic currencies	99,368.0	8,520.4
In foreign currencies	15,548.5	170.2
Total	114,916.5	8,690.6
C. Deposits at the commercial banks		
In domestic currencies	265,000.0	143.8
In foreign currencies	109,700.0	-
Total	374,700.0	143.8
Total cash	496,346.9	8,834.4

5. LOANS

Classification	Dec 31, 2000		Dec 31, 2001	
	Loan	PFL	Loan	PFL
Standard loan	176,583.1	(1,765.8)	-	-
Non-accrued loan	-	-	-	-
Total	176,583.1	(1,765.8)	-	-

6. FIXED ASSETS

<u>Classification</u>	Dec 31, 2000		Dec 31, 2001	
	Hist. cost	Acc depr	Hist. cost	Acc depr
Furniture & fixture	20,121.6	(1,307.0)	-	-
Computers	88,294.8	(4,710.6)	-	-
Total	108,416.4	(6,017.6)	-	-

7. INVESTMENT IN STOCKS

	Dec 31, 2001
XacBank LLC	2,704,000.0
NETMON LLC NBFII	95,568.3
Total	2,799,568.3

Disclosure to the financial statements-continued
(in thousand togrogs)

8. OTHER ASSETS

	Dec 31, 2000	Dec 31, 2001
Accounts receivable	986.0	1,967.3
Prepaid expenses	1,063.7	-
Prepayments	345.4	-
Inventory	2,906.6	-
Accrued interest receivables on notes	2,530.1	6,133.3
Accrued interest receivables on loans	5,761.3	-
Total	13,593.1	8,100.6

9. LONG TERM LIABILITIES

The agreement X-01 was signed by X.A.C. Co., LTD and Goviin Ekhlel Co., LTD on the 21st of November 2001 to issue stock in exchange for the transfer of UNDP Funding with its related conditions and obligations that had been recorded in the secondary payable account of X.A.C Co., LTD for stock ownership of employees according to the Merger Agreement (October 01, 2001), the Letter of Intent (August 20, 2001), and the Memorandum of Understanding (October 08, 2001) between UNDP and X.A.C. Co., LTD.

Relating to the merger, it was decided that the stock ownership of NETMON Co., LTD (76,868.3 thousand togrogs) was transferred to XAC-GE Group Ltd., with all related conditions and obligations. XAC-GE Group Ltd., will pay the amount to XacBank Ltd., .

According to the above agreements and resolutions, Goviin Ekhlel Co., LTD (XAC-GE Group Ltd.) recorded the funding amounts of 300,000.0 thousand togrogs which received from UNDP for employees stock ownership, and the stock ownership of NETMON Co., LTD amount of 76,868.3 thousand togrogs as long term liabilities.

10. OTHER LIABILITIES

	Dec 31, 2000	Dec 31.,2001
Accounts payable	4,361.3	8,836.1
Social insurance payable	278.8	180.5
Income tax payable	-	7,701.3
Personal income tax payable	51.8	160.9
Total	4,691.9	16,878.8

Disclosure to the financial statements-continued
(in thousand togrogs)

11. SHARE CAPITAL

Transactions of share capital of Goviin Ekhlel Co., LTD are as follows for the year 2001:

	Share capital (in togrogs)
Balance, as January 01, 2001	882,986,611.51
Issued stock	1,396,767,388.49
Balance, as December 31, 2001	2,279,754,000.00

Followings are the ownership of share capital and number of shares as of December 31, 2001.

	Numbers of shares	Share Capital
Mercy Corps International	40000	1,071,565.0
Liberal Women 's Brain Pool	8010	214,581.0
Mongolian Woman 's Federation	7410	198,507.0
Mongolian Foundation for Open Society	9860	264,141.0
National Association of Mongolian Agricultural Cooperatives (NAMAC)	8010	214,581.0
Local Government Development Fund	6205	166,226.0

Ulaanbaatar - Rotary club	5605	150,153.0
Total	85100	2,279,754.0

12. NET INTEREST INCOME

	2000	2001
Interest income		
Interest on loans	13,336.2	182,259.4
Interest income from other banks & NBFIs	47,122.4	53,065.0
	<u>60,458.6</u>	<u>235,324.4</u>
Interest expenses	-	-
Net interest income	60,458.6	235,324.4

13. FOREIGN CURRENCY TRADING & EXCHANGE RATE DIFFERENCE

	2000	2001
Loss on trading of foreign currencies	(1.2)	(1,247.1)
Gain on foreign currency exchange rate	191.8	1,499.7
Loss on foreign currency exchange rate	(66.7)	(1,237.2)
Net gain (or loss) on trading and exchange rate difference	123.9	(984.6)

Disclosure to the financial statements-continued
(in thousand togrogs)

14. OPERATING EXPENSES

	2000	2001
Payroll expense	(63,011.4)	(64,999.4)
Social insurance expense	(11,226.4)	(16,029.7)
Training expenses	(5,211.9)	(144.3)
Business trip	(7,649.8)	(6,302.8)
Allowance	-	(19,734.3)
Finance charge	-	(271.1)
Auditing and consulting	(19,841.4)	-
Advertisement	(2,471.7)	(874.9)
Depreciation of fixed assets	(6,017.7)	(12,700.0)
Rental and utility expenses	(21,147.8)	(16,935.1)
Ordinary maintenance of fixed assets	(34.4)	(71.9)
Stationary expenses	(4,450.6)	(5,794.4)
Communication	(7,932.5)	(14,495.4)
Entertainment	(540.2)	(7,248.4)
Transportation and fuel supply	(3,848.1)	(6,643.1)

Subscriptions	(294.8)	(371.6)
Current expenses of automation	(2,172.6)	(1,493.3)
Sanitary expenses	(441.3)	(2,135.5)
Uniforms	(13.7)	(15.8)
Client training expense	(45.2)	(386.2)
Other	(3,600.1)	(2,167.7)
	<u>(159,951.6)</u>	<u>(178,814.9)</u>

15. INCOME TAX EXPENSES

According to the Mongolian tax legislation the company pays 15% income tax on the taxable income up to 100.0 million togrogs and 40% tax on the income in excess of that amount.

Taxable income of the company was 82,592.5 thousand togrogs and tax expense was 12,384.2 thousand togrogs for the year 2001.

16. FINANCIAL PERFORMANCE RATIOS

à) Quick ratio

As required by the Mongolbank a quick ratio should not be less than 10 percent. This ratio of the company was 9.27 percent in domestic and foreign currencies as December 31, 2001.

Disclosure to the financial statements-continued
(in thousand togrogs)

b) Capital adequacy

A risk weighted ratio of the first-class equity to total assets should not be less than 4 percent, a ratio of total equity to total assets should not be less than 8 percent as required by Mongolbank. These two ratios of the company are 85.6 percent as December 31, 2001.

c) Concentration risk ratio on loans

- The sum of the loans, guarantees, and letters of credit provided to a borrower and related parties must not exceed 20 percent of total equity according to the

requirement of Mongolbank. This ratio of the company was about 1.8 percent as December 31, 2001.

- The sum of loans, guarantees, and letters of credit provided to shareholders, employees, and their related parties must not exceed 20 percent of total equity, for a single person, it must not exceed 5 percent of the equity according to the requirement of Mongolbank. There are no loans and guarantees issued to related parties as of December 31, 2001.