



July 2008

Dear Shareholders,

The year 2007 brought us just the right amount of successes and challenges -- enough successes to reward our hard work over the past years and enough challenges to keep us on our toes. Each department manager effectively balanced creative problem-solving with cost containment and, where appropriate, innovative approaches to revenue enhancement to make 2007 a gratifying year for Chinaberry Inc.

Perhaps the most far-reaching issue facing the company was, and continues to be, space in the building we now occupy. As the company continues to grow, we have had to decide whether to actively encourage that growth and consequently endure a very expensive move to another location or to keep growth in check for at least 3 years and concentrate our resources on wise usage of space. The decision to stay where we are affected every department in the company. The following summaries of our various departments will reflect some of these space challenges.

- Since space is the tightest in our warehouse, our Purchasing Department identified over 300 low-stock items, which we liquidated through our phone center, the websites, and package flyers, thus creating more room.

As Isabella and Chinaberry products become more diverse, so do the vendors that we work with. Purchasing works hard to both maintain a good relationship with our vendors and ensure that the products meet the agreed upon specifications. Additionally, our improved cash flow from consecutive profitable years has allowed Purchasing to order more unique products with longer turn-around times, which supports our growth.

- Our Receiving Department, also in the warehouse, suffers seasonally from overcrowding when inventory arrives just prior to catalog mailings. Thanks to our positive income for the last few years, we have had the cash available to order items on a more staggered basis, thus freeing up some of the tight conditions in Receiving. The results were far-reaching. Warehouse space was more evenly used with less time spent moving inventory around. We were able to keep more trained staff since we could keep them occupied, which helped reduce errors and back orders and improve customer service. We were able to work with some of our more artistic vendors to ship us their items early, allowing us time to trouble-shoot before the catalogs mailed. This also helped reduce backorders and improve customer service. Although this change did have many benefits, it also reduced our inventory turns, which left us with some inventory at the end of the year that we might not have ordinarily had.

- Our Shipping Department faced the challenges of adjusting to the way the web has changed how orders need to be processed. We handled a 12% increase in sales and orders while maintaining our exemplary rate of less than 1 error per 1,000 orders.

Shipping has developed such a positive culture in the warehouse that seasonal employees want to come back whenever possible. Having seasonal employees who are already trained working during the busy seasons is a big boost to production and reducing errors.

- The Merchandising Department continues to refine its understanding of our customers' needs and wants. Chinaberry's content is now approximately 50% books and 50% non-books, diversification that has evolved from the impact discount booksellers have had on independent booksellers. The Holiday 2007 concerns about toys from China likely resulted in some unexpected sales for Chinaberry, as a good percentage of our non-book items were sourced from other countries.

Isabella's strongest section continues to be Health and Well-Being, with our skin care items being the "stars." Our estheticians devote a truly remarkable amount of time to researching the efficacy and safety of each of these products, and because of this attention to detail, Isabella is recognized as a leader in the catalog industry.

In general, the Chinaberry and Isabella catalogs continue to gain respect from others in the industry for our product selection and thorough catalog copy. This past year we attracted the attention of George Little Management (GLM), the largest producer and marketer of consumer product tradeshow in North America, who provided our merchandisers with hotel accommodations at three gift shows we normally would not have attended: San Francisco, Portland, and Seattle. These off-the-beaten-trail trips have proven to be profitable, as we have discovered new vendors that give us a more varied, unique product mix.

- The Web Department continues to show remarkable progress with our web sites. Our web relaunch in April 2006 is still paying off as we build upon its solid web marketing platform. In 2007 total web sales exceeded \$5 million dollars, and \$1.6 million of these web sales were incremental to our catalog marketing. As a percentage of total sales, web sales rose to 44.2% in 2007, compared with 40.0% in 2006. More visitors to our websites now place orders. In the 4th quarter of 2007, website conversion was 5.9%, compared with 5.0% in the 4th quarter of 2006. (In the 4th quarter of 2005, before our relaunch, conversion had been 3.1%.) This improvement in conversion was largely the result of more cross-sell opportunities on our websites.
- The Accounting Department continues to maintain a good rating with Dun and Bradstreet even though they are working with more vendors than ever before. Additionally, this department was able to plan and execute the cash flow that supports our goal to stay in our current facilities. Accounting had only three people in the department in 2007 and is hoping to find the systems to handle the increased work load and maintain the same size department.

- Customer Service continues to be a shining star in the catalog world. We maintained our high standards of excellence and received hundreds of letters and emails from happy customers. Our cross sell/up sell efforts, which now include Midco, our off-site call center, enabled us to liquidate over \$195,000 in aged inventory. Topping off this noteworthy performance is the good news that while sales were up, the cost of labor-to-sales was down.

While not directly related to what you would normally find in a company's annual report, we wanted to include a few things that we are proud to provide our staff.

- For years, we dreamed of having a nap room available for our employees. There's nothing like a restorative 10- to 20-minute nap to help you return to work with renewed energy, clarity, and productivity. More and more companies are setting up nap rooms -- British Airways, Nike, and Pizza Hut International -- and they've all reported increased productivity as a result. Chinaberry employees now can join the likes of Da Vinci, Einstein, and Churchill, as they experience the rich benefits that quick naps can bring!
- With all the talk about the spiraling cost of health insurance to smaller companies, we are proud to be able to continue to provide paid health benefits for our staff. In addition, we believe that flexible schedules support work/life balance and health as well. We do all we can to provide that flexibility, for which our staff is hugely appreciative.

It's impossible for us to revisit 2007 without recalling the devastating fires that devoured so much of our area and came frighteningly close to lapping at our warehouse doors. While life is back to normal for most of us, the memories of late October still make us catch our breath or give us chills as we deeply hope that the dry Santa Ana winds of 2008 spare us and our neighbors from a replay of that horrible destruction. Such an experience often shines light on the courage and goodness of people. In our case, employees living nearby came in the dead of a very eerie, smoke-filled night to put tarps over inventory (to protect from smoke damage as well as water, should the overhead sprinklers go on from the heat), to remove our computer server, personnel files, and a complete library of all Chinaberry and Isabella catalogs since the beginning of time. They simply did this on their own. No one asked them to.

I believe that if you walked into our building and stayed for a few moments (don't forget we have an outlet store!), you would notice a difference between our workplace and most others. I can't imagine a better group of employees. Their commitment to Chinaberry, as well as their spirit of cooperation, permeates the very air in the building, making the company a very special one. Couple this employee group with our devoted and enthusiastic customers, and it is not a surprise that we have withstood the trials to which many catalogs have fallen victim, and that we are poised to address the challenges that continue to come our way.

Sincerely,

Ann S. Ruethling
Founder, Chinaberry Inc.



CHINABERRY INC.

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July 2008

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Dear Shareholder,

Enclosed you will find our 2007 Annual Report, including financial statements (unless you have opted to receive the Annual Report through our website at www.Chinaberryinc.com), a Proxy Instruction Sheet, your Proxy and our Notice of Annual Meeting.

We encourage you to attend our annual shareholders' meeting scheduled to take place at our offices on September 4, 2008. Please RSVP by August 29, 2008 to Investor Relations so we may better organize our event.

If you do not attend the meeting, you may vote through a representative. The enclosed Proxy permits you to designate a representative to cast your votes. The representative you designate must be in attendance at the meeting and you must fill out the Proxy so as to identify him or her as your representative for voting purposes. The Proxy must be delivered to Chinaberry Inc. by your representative. Alternatively, you may designate me to vote your shares by circling my name on the Proxy and mailing it to Chinaberry Inc. in advance of the meeting.

If you would like to receive future correspondence from Chinaberry electronically, please send your email address to investorrelations@chinaberry.net. Please also let us know if you would like to receive information about special sales via email.

If you have any questions regarding our annual report or the annual shareholder meeting scheduled for September 4, 2008, please contact us at 619-670-5200 x3990 or e-mail Investor Relations at the email address above.

Sincerely,

Edward J. Ruethling, President

Enclosures:
2007 Annual Report
Notice of Annual Meeting of Shareholders
Proxy Statement Instructions
Proxy Statement
Dividend Announcement
Discount Coupon



CHINABERRY INC. CATALOGS



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March 31, 2008

Certificate of Corporate Officers

To the Shareholders of
Chinaberry Inc.
Spring Valley, California

We have completed the accompanying balance sheet of Chinaberry Inc. as of December 31, 2007 and 2006 and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended.

We, Edward J. Ruethling, President and Mary Jo R. Ray, Controller certify that the attached financial statements for fiscal year 2007 and 2006 were prepared without audit from the books and records of the corporation.

Edward J. Ruethling
President

Mary Jo R. Ray
Controller

Balance Sheet
Chinaberry Inc.

December 31,

2007 **2006**

Assets

Current assets:

Cash and cash equivalents	\$ 951,482	\$ 1,101,562
Accounts receivable	3,271	4,440
Inventory	1,338,551	1,077,509
Prepaid expenses and other current assets	106,840	95,435
Direct response advertising costs	466,447	455,861

Total current assets	2,866,591	2,734,807
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Property and equipment (see footnote #2)	25,918	25,359
Certificates of Deposit (Maturing by September 2008)	400,000	300,000
Other assets (see footnote #2)	62,696	92,163

Total assets	\$ 3,355,205	\$ 3,152,329
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Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued expenses	\$ 1,182,349	\$ 1,281,692
Unearned revenue	90,656	80,294
Other current liabilities	78,486	66,911

Total current liabilities	1,351,491	1,428,897
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Deferred taxes	15,243	22,257
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Total liabilities	1,366,734	1,451,154
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Shareholders' equity:

Common stock, no par value: 10,000,000 shares authorized; 1,850,186 shares issued and outstanding	\$ 649,758	\$ 649,758
Paid-in capital	594,585	594,585
Accumulated retained earnings	744,128	456,832

Total shareholders' equity	1,988,471	1,701,175
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Total liabilities and shareholders' equity	\$ 3,355,205	\$ 3,152,329
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See accompanying notes

Statement of Income
Chinaberry Inc.

Years ended December 31,
2007 2006

Revenues	\$ 12,764,612	\$ 11,455,753
Cost of sales	4,870,219	4,398,198
	Gross profit	7,894,394 7,057,555
	Profit Margin	61.85% 61.61%
Fulfillment	2,660,963	2,332,534
Marketing	2,993,550	2,561,383
	Production Expenses	5,654,513 4,893,917
Administrative expenses:		
Salaries, wages, and related benefits	1,309,411	1,238,964
Rent, maintenance, telephone, and utilities	283,178	265,473
Depreciation and amortization	51,167	85,968
Insurance	31,699	50,130
Outside services	76,649	65,302
Office expenses	101,893	87,688
Other	31,104	27,586
	Total administrative expenses	1,885,100 1,821,111
	Income (loss) from operations	354,780 342,527
Other income (expense):		
Mailing list rentals	103,421	115,938
Interest income	28,075	8,761
Interest expense	(5,300)	(2,493)
	Total other income	126,196 122,206
	Net income (loss) before provision for income taxes	480,977 464,733
Provision for income taxes	(193,681)	(204,072)
	Net income (loss)	287,296 260,661
Accumulated earnings/(deficit) at the beginning of the year	\$ 456,832	\$ 196,171
	Accumulated retained earnings at the end of the year	\$ 744,128 \$ 456,832

See accompanying notes

Statement of Cash Flows
Chinaberry Inc.

	Years ended December 31,	
	2007	2006
Cash Flows from Operating Activities		
Net income (loss)	\$ 287,296	\$ 260,661
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	51,167	85,968
Changes in certain assets and liabilities:		
Accounts receivable	1,169	(1,537)
Inventory	(261,042)	(114,525)
Prepaid expenses and other current assets	(11,405)	(4,545)
Direct response advertising cost	(10,586)	(21,497)
Deposits	(2,746)	54,327
Deferred Taxes	(7,014)	5,102
Accounts payable and accrued expenses	(103,120)	91,889
Deferred revenue	10,362	17,143
Other current liabilities	15,352	14,618
	<u>(30,567)</u>	<u>387,604</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Cash paid for purchase of equipment and software	(19,513)	(9,791)
Cash paid for Certificates of Deposit	(100,000)	(300,000)
Loss on disposal of equipment and software	-	-
Cash paid for website development costs	-	(86,380)
	<u>(119,513)</u>	<u>(396,171)</u>
Net cash used by investing activities		
Cash Flows from Financing Activities		
Proceeds from borrowings on shareholder note payable		-
Principal payments on capital lease obligations		-
	<u>-</u>	<u>-</u>
Net cash used by financing activities		
Net increase in cash and cash equivalents	(150,080)	(8,567)
Cash and cash equivalents at the beginning of the year	1,101,562	1,110,129
	<u>\$ 951,482</u>	<u>\$ 1,101,562</u>
Cash and cash equivalents at the end of the year		

See accompanying notes

Statement of Changes in Shareholders' Equity
Chinaberry Inc.

	Common Stock	Paid In Capital	Retained Earnings	Total
Balance at December 31, 2005	\$ 649,758	\$ 594,585	\$ 196,171	\$ 1,440,514
Net income			260,661	260,661
Balance at December 31, 2006	\$ 649,758	\$ 594,585	\$ 456,832	\$ 1,701,175
Net income			287,296	287,296
Balance at December 31, 2007	\$ 649,758	\$ 594,585	\$ 744,128	\$ 1,988,471

See accompanying notes

Notes to Financial Statements

Chinaberry Inc.

1. Organization and significant accounting policies

A. Organization

Chinaberry Inc. (formerly known as Chinaberry Book Service, Inc.) was incorporated in March 1990. The Company markets to customers throughout the United States with its consumer catalogs and websites. The Chinaberry brand name is used for products that support parents in raising their children with love, honesty, joy, and respect. The Isabella brand name is used for products that nurture well-being, both physically and emotionally, and inspire deeper spiritual connections.

B. Use of estimates

Management uses estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used.

C. Inventories

Inventories consist of finished goods held for resale and parts used in assembling kits and are stated at cost, with cost being determined by the average cost method. Shipping and handling costs of \$1,406,000 and \$1,221,000 for 2007 and 2006, respectively, are reported as fulfillment expenses in the accompanying statements of income.

D. Advertising

Generally, advertising costs are expensed as incurred. Catalog production and postage costs related to direct-response advertising are capitalized and amortized over the life of a catalog, based on the ratio of current revenues to current and estimated future revenues. The amount of advertising costs reported as assets in the accompanying balance sheets totaled \$466,000 and \$456,000 for 2007 and 2006, respectively. The amount charged to advertising expense in the accompanying statements of income totaled \$2,994,000 and \$2,561,000 for 2007 and 2006, respectively.

E. Property and equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of equipment, furniture, and fixtures range

E. Property and equipment (continued)

from 3 to 7 years. The useful lives of building improvements have been estimated to be 15 years. Depreciation for 2007 and 2006 totaled \$19,000 and \$28,100, respectively.

F. Other assets

Costs incurred to modify purchased computer software to meet the Company's needs and to develop the Company's web sites are capitalized and amortized on a straight-line basis over three years. Amortization totaled \$32,200 and \$57,800 in 2007 and 2006, respectively.

G. Revenue recognition

The accompanying financial statements are prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles. Accordingly revenues are recorded as they are earned, and expenses as they are incurred. Deferred revenue represents gift certificates that were sold but not yet redeemed and credit slips that have been issued but are not yet redeemed. An allowance for returned sales in the subsequent period is recorded.

H. Retirement plan

The Company has a 401(k) plan covering substantially all of its employees with three months of service. The Company has a discretionary match which the Board of Directors resumed in 2005. The plan is a Safe Harbor which is decided and announced in December for the following year. The match is a minimum of 100% of the first 3% of salary deferrals and a minimum of 50% match on the next 2%. The board decided to do a minimum in 2006, 2007 and 2008. There was \$41,000 and \$32,700 in contributions in 2007 and 2006, respectively.

I. Statements of cash flows

For the purpose of the statements of cash flows, the Company considers all highly liquid cash investments purchased with an original maturity of three months or less as cash equivalents.

Cash paid for interest totaled \$2,500 and \$5,300 for 2006 and 2007, respectively.

J. Credit risk

At December 31, 2007 and 2006, amount of cash on deposit in excess of federally insured limits totaled \$995,000 and \$1,462,000, respectively.

Notes to Financial Statements

Chinaberry Inc.

2. Property and equipment

Property and equipment consist of:

	2007		2006
Equipment	328,056	\$	313,294
Office furniture	16,526		16,526
Leasehold improvements	48,766		48,766
	393,348		378,586
Less: accumulated depreciation	(367,430)		(353,227)
Total property and equipment	\$ 25,918	\$	25,359

3. Other assets

Other assets are comprised of:

	2007		2006
Software	\$ 252,017	\$	256,767
Website development cost	92,742		92,742
Less: accumulated amortization	(312,318)		(284,855)
	32,441		64,654
Deferred Tax Receivable	17,155		17,155
Other deposits	13,100		10,354
Total other assets	\$ 62,696	\$	92,163

4. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of:

	2007		2006
Trade accounts payable	1,132,955	\$	1,246,815
Accrued Pension Contribution	3,778		-
Accrued wages (Wages paid bi-weekly.)	45,616		34,877
Other	\$ 1,182,349	\$	1,281,692

Notes to Financial Statements

Chinaberry Inc.

5. Line of credit

The Company has a revolving line of a maximum amount of \$500,000 due on demand or by November 2008. The line is secured by substantially all of the Company's assets and personal guarantees from the majority shareholders. Interest is at the bank's index rate plus a margin of 1.000%. There is no principal balance outstanding on the line of credit at either December 31, 2007 or December, 2006.

6. Operating leases

The Company leases its facilities under a three-year agreement expiring in January 2010. Total rent expense for 2007 and 2006 totaled \$212,000 and \$205,000, respectively. Future minimum rental payments required under this lease are approximately \$213,000 in 2008, \$218,000 in 2009, and \$18,000 in 2010. The lease was renewed in February 2007 for three years with an option to renew.

7. Income taxes

The provision for income taxes consists of current federal taxes of \$150,513 and current state taxes of \$43,168. Income taxes consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes), allowance for returns, and reserve for loss on inventory (deductible for financial statement purposes, but not for income tax purposes).

Certificate of Corporate Officer

I, Edward J. Ruethling, certify that I am the President of Chinaberry Inc. and that the attached financial statements for fiscal year 2007 were prepared without audit from the books and records of the corporation.

Edward J. Ruethling,
President



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Chinaberry Inc. Announces \$0.10 Per Share Dividend

It is with great pleasure that the Board of Directors of Chinaberry Inc. declares a \$0.10 per common share annual dividend for stockholders of record on July 11, 2008. The company will pay the dividend on July 30, 2008.

Due to the strong operating leverage Internet marketing has afforded us and the efforts of a tireless and innovative staff, we have achieved sustained earnings growth and a strong cash flow. The board is confident that free cash flow is sufficient to fund the annual dividend while also funding all capital investments required to support growth initiatives.

Since a management change in 2003, Chinaberry has consistently improved operational efficiency and paid down debt. The hard work of the past several years has produced a lean, focused organization with strong free cash flow despite such obstacles as incessant increases in postage, paper, and freight.

We are grateful to our shareholders for the support they have given us over the past several years and thankful that we can declare this dividend.