



JAPAN CONSULTING INSTITUTE

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Date : 25 July 2008

Ref. No.: JCI-CDM-C-08-066

CDM Executive Board
c/o Mr. Kai-Uwe Barani Schmit
Manager CDM Section

Subject : DOE and Project Participants Response
on the Request for review for registration request
(Reference No.1601: Fujian Jiangle Gaotang Hydropower Project)

Dear Sirs,

Please find the attached document which shows JCI's response and the Project Participant's response on the request for review to the CDM project with the reference number 1601.

In case you have any further question or request, please let us know by phone call or Email.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'H. Sato', written over a horizontal line.

Hideyuki Sato

Manager of Assessment Group

JCI CDM Center

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Initial Response of DOE and Project Participants to Review Requests

Project title: Fujian Jiangle Gaotang Hydropower Project

Reference No.: No.1601

Project Participants: Fujian Jinhua Power Co. Ltd

Marubeni Corporation

(CDM consultant: Coway International TechTrans Co., Ltd.)

DOE: Japan Consulting Institute, JCI

Issue 1: The DOE shall confirm how it has validated the input values of the investment analysis as per the guidance of EB 38 paragraph 54.

Response of Project Participant:

We, Fujian Jinhua Power Co., Ltd., the project owner of Gaotang Hydropower Station Project, entrust Coway International TechTrans Co., Ltd. as our consulting company to apply for CDM project and meanwhile through Coway, we employ JCI of Japan as DOE for this project. The PDD of this project was completed on March 2007 and was submitted to DNA of China (National Development and Reform Committee) in the same month. On April 26 2007, the PDD was examined by DNA and passed on June 12, 2007. On July 27 2007, written LoA documents issued China government were sent out by NDRC (National Development and Reform Commission). The buyer of this project is Marubeni Japan. DOE made an on-site investigation in August 2007 and was submitted it to EB for registration in February 2008. On July 14, 2008, we received JCI's notification to response to the review request. Our answers are as follows:

The data in this PDD are all from the special report on economic evaluation which was completed by the design institute of this project – Fujian Provincial Investigation, Design and Research Institute of Water Conservancy and Hydropower in July 2006. The process of compiling this report, construction process of Gaotang Hydropower Station project and the process of thinking about CDM are as follows:

- On February 22, 2005, written approval of the feasibility study report on Gaotang Hydropower Station Project was issued.
- On June 19, 2005, the construction of this project started.
- On November 28, 2005, the bank suspended the loan due to financial problem about this project /Annex 1/.



- On December 2, 2005, this project had to be suspended /Annex 2/.

After the construction was stopped, we have to seek the financial support from outside through all possible channels. In that time, we heard the concept of CDM and get some information about it, then we contacted with the consulting company for more details. Compare with other way, it is feasible, low cost and meet our requirement of time.”

- On February 14, 2006, it was decided to seek support from CDM in the General Manager’s meeting /Annex 3/.
- On May 30, 2006, after the deep discussion and initial investigation on the project, project owner signed the consulting contract with the consulting company and Coway International TechTrans Co., Ltd. reviewed this project in June.
- In July 2006, design institute completed the special report on economic evaluation about this project. We started the discussion with the bank to resume the loan.
- On September 5, 2006, the loan was resumed and the construction of this project was resumed on September 6, 2006 / Annex 4/ /Annex 5/.

It is stipulated in the 10.1 of the Loan Agreement between bank and us that we cooperate with the bank to investigate, understand and supervise on its financial condition, and we support bank to participate in the review of budget calculation and engineering bidding etc.

We reported the bank with necessary information according to above Loan Agreement, which made the bank realize the financial internal rate of return of this project definitely could not reach 8% as estimated. The bank suspended the loan to the project owner on November 28, 2005 /Annex 1/. Consequently, the construction of this project was forced to be suspended on December 2, 2005 /Annex 2/.

From the time when the construction of this project started in June 2005, and up to November 2005, the investment on this project reached 36.3941 million RMB Yuan. The bank made a decision that the practical investment expenses on this project during the project implementation had exceeded the budget, and will continue its expansion, the project had risk and we were lack of repayment capacity.

These factors include:

1. From 2004 as a base year when the initial Feasibility Report was made, the expenses on building materials and manpower had been dramatically increased. The cost on purchasing equipment and transportation had been dramatically increased too. The engineering geological condition of this project was bad (this is also the main reason that Goatang power station is the last developed one



- among Jinxi nine cascade power stations.).The buried depth of the foundation rock was big and weathering of the foundation rock was serious. A large amount of dust and stone were dug from Gaotang Power station. A lot of concrete and reinforcing steel bar were used. The foundation treatment was complicated. Therefore, there were many factors that affected the expense rising.
2. The compensation for migration from reservoir area was rising. At the end of 2005, due to the adjustment on national policy, we had to make big modification on the budget of compensation after discussed with local government. All items in the original plan increased, some item increased more than 20 times.
 3. The electricity price employed in the PDD for GSP was 0.325 RMB Yuan/kWh that was assumed in the special report on economic evaluation. However, we employed 0.31 RMB Yuan/kWh in PDD for request registration as per "Clarification request" by JCI since it was the benchmark tariff in the Fujian Province and seemed to be the most probable tariff for the project. In general, hydro power stations similar to Gaotang Power Station have this price. We think it is credible to take 0.31 RMB Yuan /KW into the calculation of income

To sum up those backgrounds of financial situation informed by the project owner to bank, the construction expenses of Gaotang Hydropower Station was rising by the end of 2005, which exceeded the original investment estimate, on the other hand, sale income cannot reach the estimated value. This would cause the financial internal rate of return which was originally 8% to be lower and the financial status of the whole project got worse. If this problem could not be solved as soon as possible, the normal construction of Gaotang Hydropower Station would be affected and the project might be suspended.

Based on this judgment, the bank decided to suspend the loan /Annex 1/. They said the loan would be resumed after we offset the financial gap between investment and budget by ourselves. We could not get money from the other channels. We had many round of negotiation with the bank to resume the loan, but we failed. On December 2, 2005, the construction had to be suspended /Annex 2/.

Facing the serious fund shortage aroused by the rising expenses, we were seeking supports everywhere. As far as we knew, in accordance with "Kyoto Protocol" which had been taken effective since February 17 2005 and Clean Development mechanism (CDM) regulated in the protocol, provided Gaotang Hydropower Station could be registered successfully as CDM project, very preferable additional benefit would be acquired which should greatly improve the investment revenue. On February 14 2005, we held a General Manager's Working Meeting to discuss the feasibility and approved the proposal /Annex 3/. Then we asked the relevant departments to take action as soon as possible. Meanwhile we asked the relevant departments to understand CDM procedure and policy, start CDM development as soon as possible.



On May 30, 2006, we decided to sign contract with Coway International TechTrans Co., Ltd. for a CDM application after we knew some basic knowledge on CDM. Meanwhile, we invited the design institute to make an adjustment to the project investment budget based on the increased cost and compile adjustment report. The special report on economic evaluation of this project was completed in July, 2005. In this report, the total static investment was increased to 384.6768 million RMB Yuan after the design institute carefully calculated contributed capital, all types of price factors and optimized the original design to reduce investment.

We put forward the adjusted budget report as well as the proposal to apply for CDM to the bank and re-discuss with them on the loan issue. According to the plan, I.R.R. will be increased from 5.76% to 8.06% once the project obtains the capital support of CDM and this index is very convincing for the bank. They studied not only the proposed documentations but also the basic requirements of China Climate Change policy& coordinate committee on CDM project, Cases like Xiaogushan project as well as the cooperation documentations between Coway International TechTrans Co., Ltd and us. Finally they recognized our plan and recovered the loan to us /Annex 4/.

Our company re-started the construction on Sep. 6th 2006 /Annex 5/.

Response of JCI:

The input values used in the investment analysis of the PDD were as below table that compared with those values used in the Special Report. The feasibility report based for investment decision of the project owner was the Special Report on economical evaluation about this project that was prepared and issued in July 2006 by the design institute as shown in the project participant's response.

Item	Parameters	Unit	Special Report	PDD
1	Installed Capacity	MW	42	42
2	Estimated annual grid-electricity	GWH	140.086	140.086
3	Project lifetime	Years	27	27
4	Static investment	Million RMB Yuan	384.6768	384.6768
5	Liquid Capital	Million RMB Yuan	1	1
6	Annual O&M cost	Million RMB Yuan	6.266	6.266
7	Prospective electricity tariff	RMB Yuan/kWh (include VAT)	0.325	0.31
8	Rate of VAT	%	17	17
9	Rate of Income Tax	%	33	33
10	Rate of Additional Tax	%	9	9



11	Crediting period	Year	-	7*3
12	Expected CERs price	US\$/tCO ₂ e	-	10

All of input values are same between Special Report and PDD except the prospective electricity tariff as shown in above table. In recent years, the electricity tariff in Fujian Province has been decreased such that the tariff in 2005 was around 0.325 RMB Yuan/kWh and the tariff in 2007 was 0.310 RMB Yuan/kWh. The relevant power grid company told JCI at interview of on-site assessment in July 2007 that 0.310 RMB Yuan/kWh would be specified in the Power Purchase Agreement of Gaotang Project. JCI judged in the Validation Report that 0.310 RMB Yuan/kWh was reasonable for this project, since it was most recent and reliable information about electricity tariff in Fujian Province and was actually adapted to some hydropower plants.

JCI judged regarding input data as follows according to the guidance of EB 38 paragraph 54 at present, though the request for registration was at the end of January 2008 when it was before issue of the guidance of EB38.

- (a) The project construction started originally at 19/06/2005. Due to some reasons reported in the Project Participant's response the total investment cost of this project was increased and then the bank suspended the loan to the project on 28/11/2005 /Annex 1/. And also the construction was stopped on 02/12/2005 /Annex 2/. The project owner decided to seek a help from CDM at the General Manager's Working Meeting at 14/02/2006 /Annex 3/ and started to prepare the Special Report on economic evaluation about this project. The Special Report was completed in July 2006 and was provided to the Bank. The final agreement between the project owner and the Bank was at 05/09/2006 /Annex 4/. And then the project owner decided to re-start construction on 06/09/2006 /Annex 5/. From above information JCI judged the investment decision was based on the Special Report and there was not time gap between the Report and investment decision.
- (b) The all values used in the PDD are fully consistent with the Special Report as shown above table except Prospective electricity tariff. As the above explanation, JCI judges in the Validation Report that 0.310 RMB Yuan/kWh of the prospective electricity tariff were reasonable and appropriate.
- (c) The all input values are confirmed by JCI. The Special Report was submitted to the Bank who investigated it. The Bank agreed with the Report and decided to resume the loan considering CDM application. Annex 4 is the certification from the bank to resume the loan. JCI thought the Bank possessed specific local and sectoral expertise ability on such investment study and financial estimation.



JCI considers that the all input values used in the PDD were reasonable and appropriate.

Issue 2: Further clarification is required on the time line of the investment(s) and duration of the suspension of the project construction, in particular whether investments made prior to the stop of construction have been included.

Response of Project Participant:

As mentioned in above response to Issue 1, the financial problem we encountered during the project resulted in the shut-down of the work. The construction was stopped on 2nd. December 2005 /Annex 2/. And before it, the construction had been processed according to the original plan for five months.

We invested partial capital to following fields in accordance with the schedule, including main building like dam, plant, ship lock and communications, some temporary project such as closing dam, compensation for immigrants and land submerge.

	incurred before stopping construction [thousand RMB]	ratio to the total investment [%]	remarks
(1) Building	4,828.8	1.26	
(2) Installation of metal structure	0	0	
(3) Equipment	6,429.3	1.67	
(4) Others	2,504.3*	0.65	*: includes research & reconnaissance (1,474.2)
(5) Compensation for immigration and inundate area	12,325.6	3.20	
(6) Temporary construction	10,306.1	2.68	
(7) Reserve/prepare fund	0	0	
Total	36,394.1	9.46	

Total investment	384,676.8	100	
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Investment costs incurred prior to re-start of the construction was 36.3941 million RMB Yuan that is 9.46% of total investment of the Project.

As per recent view on the issue of CDM-EB, such costs shall not be taken into account in the financial analysis employed to demonstrate of the additionality of the CDM project.

We do believe that all the costs incurred prior to re-starting construction may not be assumed as the sunk costs of the project. However, even if such costs were eliminated from the total investment costs that were estimated in the special report, project IRR could be calculated as 6.74%. In the sensitivity analysis, most favorable combination of the parameters gives 7.92% that is still below the benchmark of 8%.

In conclusion, there was a great capital scarcity at that time, all self-financing was put into the construction and we must completely depend on the bank loan to continue the project. The work had to be shut down during to the suspended loan. Provided we cannot get the support of CDM, we would not persuade the bank to release the loan to us.

Response of JCI:

According to the Project Participant's response the cost incurred before shut down of construction at December 2005 was 36.3941 million RMB Yuan that was 9.46% of the total Static Investment. The financial analysis including sensitivity analysis in the PDD used the total Static Investment of 384.6768 million RMB Yuan which included the cost incurred before shut down.

Generally, the financial performance of a specific part of the project may be individually evaluated if investment and return from the respective part of the product can be clearly separated. Otherwise the financial performance of a project is to be evaluated at any point of time during construction phase on the basis of the total investment cost that is necessary to complete overall project construction. In this specific case, the revenue from the sales of electricity cannot be separated for each part, i.e. initial construction phase and the remaining phase.

Some project cases include soft expense of prior phase in the project cost such as expenses for research, business and estimation works. These soft expenses are considered as sunk cost that does not impact the final decision to proceed or not with a project activity. In this specific case the soft expenses are 1,474.2 thousand RMB Yuan that is 0.38% of the total investment and only a few portion.

Therefore the financial performance of this specific Project shall be evaluated on the basis of the total static investment that is necessary for both initial phase and the remaining phase.

JCI considers that the scheme of evaluation of the financial performance of the Project employed in



the PDD is reasonable.

Issue 3: Further details regarding the common practice should be provided in accordance with the requirements of the additionality tool and clarification should be provided on the selection of the installed capacity of plants considered comparable and the basis for considering projects that started construction after 2002.

Response of Project Participant:

The geographical domain to select the similar project in the common practice analysis is limited to the Fujian Province since the investment environment such as taxation and loan policy and electricity tariff as well is different by province by province in China.

The power sector in China was reformed as of 2002 and China State Power Corporation who was responsible to both power generation and power distribution was diversified and power distribution services in China were divided into five regional grids (*). Due to such restructuring of the power sector, tariff and the policy for purchasing power from IPP were also changed. Such reform also affected the existing electricity tariff mechanisms (**). Investment climate of the power plant changed accordingly. Reflecting such context, hydropower plant that started constructing after 2002 was employed to select the similar projects.

Hydropower plants having less than 50 MW are categorized as “Small Hydropower Plant” in China and are encouraged to invest in its construction. Regarding the capacity of the project, we limited those in between 25 MW and 50 MW to cover the capacity of the Project of 42 MW.

Under the criteria above, the list of similar activities provided in Table 8 in PDD will be revised as:

Yongan Fenghai: capacity 30MW, began on 2002/9, finished on 2008/5/30. Total investment is 215.27 million and annual operation hour is 4525h, much better than proposed project.

Yongan Ximen: capacity 30MW, began on 2003/1, finished on 2005/12, total investment is 215.54 million.

Jiangle Dayan: capacity 32MW, began on 2002/9, finished on 2005/11. Annual operation hour 4066h, total investment is 240.77 million.

JiangleHuangtan: capacity 30MW, began on 2003/9, total investment is 238.46 million.

Youxi Banmian: capacity 50MW, began on 2004/10, total investment is 244 million.

Through comparison with Gaotang Power Station, it's not difficult to find that the similar-scaled hydropower stations have superior water conditions or constructed earlier than proposed project. That is, it can be concluded that the all of these listed projects have better financial performance than the



proposed project. (If proposed project were decided to be registered with correction, we can materialize more detailed reasons to referenciate the project.)

*: China Electricity Council, “Electricity Sector in China, and Policy, Regulation and Reform”, 21st-22nd Sept, 2004.

** : Electricity tariff was made up according to local demands and grid structure and is divided into tariff of electricity to grid, transmission tariff, distribution tariff and sales tariff. Sections 17-22, China Electric Power Yearbook 2003, Page 11-12.

Response of JCI:

The common practice analysis is limited to the provincial level as the investment environment for each province differs (e.g. with regards to taxes, loan policy and electricity tariffs). Five (5) similar small hydropower projects with the installed capacity between 25 and 50MW and constructed in Sanming city, Fujian Province after 2002 are selected for the common practice analysis.

The selection criteria that the projects which started construction before 2002 should be excluded are considered to be proper, because Chinese Power Network System was greatly reorganized in 2002 to result in a change of investment environment. The Chinese classification of hydropower projects defines small-scale projects as all projects up to a capacity of 50 MW, which face a similar environment with respect to financing. Thus the selection criteria of capacity are also considered to be proper.

The projects listed in the project participant’s response from the quoted public reference and it means the projects listed are not subjectively chosen. These projects listed are shown better financial performance than the proposed project. Therefore, the proposed project is not common in Fujian Province and the existing similar projects cannot bring any influence on the additionality of the project.

It was confirmed that the common practice was properly analyzed and JCI judges the proposed project will not be implemented without CDM due to bad financial situation of higher investment cost.

Issue 4: The start date of the project activity should be as per the CDM Glossary of terms.

Response of Project Participant:

The CDM Glossary of terms shows that “the starting date of a CDM project activity is the earliest date at which either the implementation or construction or real action of a project activity begins”.



As shown in the response to Issue 1 the first action of the project owner regarding CDM was the decision of CDM application in the General Manager's Working Meeting held in 14/02/2006 /Annex 3/. After that, the project owner began a discussion with a consultant company on 30/05/2006, and the design institute started preparing the Special Report on economic evaluation about this project which completed in July 2006. Then the project owner began a discussion with the bank to resume the loan and the bank decided to resume the loan on 05/09/2006 /Annex 4/. From the decision of the bank the project owner restarted a construction of the project on 06/09/2006 /Annex 5/.

In these the topics the most proper date was the re-start of construction to meet above CDM Glossary of terms. The PDD will be revised the stating date of the project activity to 06/09/2006 when the project owner restarted a construction of the project.

Response of JCI:

In the Validation Report JCI judged that 05/09/2008 was appropriate date for the starting date of the project activity, since the Bank as third party proved the CDM activity of the project owner. The evidence for starting date of project activity was the Loan Contract that the Bank recognized this project and the project owner decided to re-start a construction of the project as CDM project activity. But it might not meet to the CDM Glossary of terms

The project participant considers that the date of construction re-start was most suitable to the CDM Glossary of terms. It was the earliest date of CDM project activity. JCI judged that 06/09/2006 of construction re-start /Annex 5/ was appropriate date for the starting date of the project activity. The revised Validation Report will be submitted latter.

Attachments;

- Annex 1 Evidence for Loan Suspension 28/11/2005
- Annex 2 Evidence for Stop Construction 02/12/2005
- Annex 3 Evidence for General Manager's Working Meeting 14/02/2006
- Annex 4 Evidence for Resuming Loan 05/09/2006
- Annex 5 Evidence for Resuming Construction 06/09/2006

通知

福建省金湖电力有限责任公司：

贵公司于 2005 年 4 月向我行申请贷款，用于高唐水电站项目开发。在贷款审核过程中，我认为，根据福建省水利水电勘测设计研究院 2004 年 3 月提交的可行性研究报告，该水电站项目财务内部收益率达到 8%，工程经济效益较好，具有一定的盈利能力，在财务上可行，所以决定给与贷款，并签署了贷款协议。

但在高唐水电站开工后的这几个月中，我们发现许多不利的客观因素，如建筑材料费用、设备制造费用、运输成本及人工成本大幅涨价，征地补偿政策调整造成投资增加，而目前省内的水电上网电价是 0.31 元/KWh，远低于可研中的 0.395 元/KWh 的估计值。我们认为项目实际内部收益率无法达到预期的数值，该项目的贷款偿还能力不足。

为此，根据贷款协议规定，我行决定从即日起暂时停止贵公司在我们的项目贷款资金。待贵公司自行解决超预算的建设资金缺口后再行解冻。



Notice

To Fujian Jinfu Power Co., Ltd.,

You applied for loan to us in 2005 for the development of Goatang Hydropower Plant. During the process of loan auditing, we decided to grant you the loan since we thought that the financial internal rate of return of this project could reach 8%, it had good economic benefit, certain profitability and feasibility in finance according to the feasibility study report submitted by Fujian Provincial Investigation, Design and Research Institute of Water Conservancy and Hydropower in March, 2004.

However, during the several months after the construction of Gaotang Hydropower Plant was started, we have found many bad external factor, such as the expenses on building materials, equipment manufacturing, cost on transportation and manpower have been increased a lot, the investment has been increased due to the adjustment about the policy on compensation for Land expropriation and requisition and the hydropower on-grid price currently implemented in Fujian Province is 0.31 RMB Yuan/ KWh which is quite lower than 0.395 RMB Yuan/ KWh stipulated in the feasibility study report. We think that it's impossible that the practical financial internal rate of return of this project could reach the expected figure, so the project is lack of repayment capacity.

You are herewith advised that we have decided to suspend the loan for this project from today on according to the Loan Agreement. The loan will be unfrozen after the construction financing gap beyond the budget is solved by yourself.

福建省金湖电力有限责任公司文件

金湖电力高唐[2005]143号

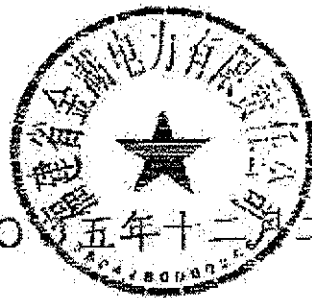
关于高唐水电站建设停工的通知

各有关单位：

自去年以来，建筑材料费、设备制造费、运输费和人工费大幅度增长，使我公司正在施工的高唐水电站项目受到了极大影响。此外，福建省的征地补偿政策进行了调整，提高了大中型水利水电工程建设移民前期补偿补助标准，并加大对大中型水库农村移民后期扶持力度。这些都造成了公司的资金紧张。

由于银行的贷款还未落实，公司决定暂停工程建设，机电设备的购买、安装也相应推迟，请各部门通知相关单位做好善后工作。

我们正积极和银行协商贷款事宜，并通过包括 CDM 等多种渠道进行融资，争取早日复工。



二〇〇五年十二月二日

Fujian Jinfu Power Co., Ltd.

Notice of Suspension

To all departments,

Whereas,

Since last year, the expenses on building materials and manpower have been increased a lot, which greatly impacts the construction of Gaotang Hydropower Plant. Besides, the policy on compensation for migration set up by China central government and Fujian Provincial government has been adjusted. According to the revised policy, the standard of early-stage compensation for the migration due to the construction of large and medium-sized hydraulic engineering should be increased and more later-stage support should be provided for the rural migration due to the construction of large and medium-sized reservoir. All of these caused our capital shortage.

Because the loan from the bank has not been transferred to our account, you are herewith advised that we have decided to suspend the project construction and delay the purchase and installation of the electric and mechanical equipment. Please take measures to deal with problems arising from the suspension.

We will try to resume the construction by continuing the discussion with the bank about loans and raising funds from various channels, including developing CDM project etc.

Fujian Jinfu Power Co., Ltd.
December 2, 2005

总经理办公会会议纪要

福建省金湖电力有限责任公司

二〇〇六年二月十四日

会议时间：2006年2月14日

会议地点：公司本部四楼会议室

与会人员：邹宣永 车德平 黄沧海 卢相国 伍连洪 林长富
邱长贵 邹春文 张 芳

会议主持：邹宣永

会议内容：

高唐水电站建设目前遇到巨大的问题，现就高唐电站后续建设问题研究纪要如下。

1、 建筑材料费用和人工费用急剧增加。设备购买费用和运输成本大幅度增加。

2、 库区移民费用成本增加。由于省政府即将对征地补偿政策进行调整，加上全国土地市场全面整顿，高唐水电站项目的移民补偿费用将大幅度增加。

3、 根据省经贸委、省物价局的标杆电价政策，目前，已建成的与高唐水电站类似的电站得到批复的电价都是0.31元/KWh。因此，高唐水电站的上网电价不可能达到原可研中预测的0.395元/KWh，只能是0.31元/KWh。

由于以上财务问题，银行经测算后认为高唐的项目全投

资内部收益率低于 8% 的行业基准收益率。项目还贷能力存在问题，风险很大，因此银行于 2005 年底暂停了贷款，直接导致了项目停工。

从目前形势看，本项目的投资肯定会突破原 3.8 亿的概算，凭公司自己的力量是无法完成如此大项目的。我们必须设法弥补投资缺口，完善项目财务状况，从而说服银行恢复贷款。

经过几个方案的比较，公司认为通过申请 CDM（清洁发展机制）获得资金援助切实可行。如果高唐水电站能够注册成为 CDM 项目，其收益可以分摊一部分项目建设成本，极大提高项目的投资效益。对此，全体人员一致同意，在《京都议定书》和国家政策范围内，立即开展高唐水电项目的 CDM 申请，了解 CDM 项目开发的有关政策和程序，联系国内的 CDM 项目咨询机构，争取早日将本项目申请成为 CDM 项目，增加电站收益渠道。



二〇〇六年二月十四日

Decision by General Managers' Working Meeting

Time: February 14, 2006

Venue:

Participants:

Chair:

Topic:

Contents:

There are big problems and difficulties about Jiangle Gaotang Hydropower Plant invested by our company.

1. Expenses on building materials and manpower have been dramatically increased. Also, expenses on equipment purchase and transportation cost have been increased a lot.
2. Expenses on migration from reservoir area have been greatly increased. Due to the adjustment on national policy, national land market has to be reorganized. According to the documents, the expensed on compensation for migration of Gaotang Hydropower Plant will be dramatically increased.
3. The benchmarking power price in Fujian Province has been keeping 0.31RMB Yuan/KWh. The plants similar to Gaotang Hydropower Plant have the same price. From the result of our discussion with Grid Company, the on-grid price of Gaotang Hydropower Plant can not reach 0.395 RMB Yuan /KWh estimated in the original feasibility study report. The price has to be 0.31RMB Yuan/KWh.

Due to the above financial problems, after auditing and calculation, the bank thought that the internal rate of return on total investment of Gaotang Project was lower than the industrial benchmarking rate of return – 8%, which meant that we had difficulty to repay the loan and there was big risk for the bank. Therefore, the bank suspended the loan in 2005, which was the direct reason to suspend the project.

From the current situation, the investment on this project must exceed the original budgetary estimate of 0.42 billion RMB Yuan and we can not accomplish this huge project by our own. We have to try to persuade the bank to resume loan by offsetting the investment gap and improving our financial status.

Comparing several plans, we thought it was feasible to get financial support through applying for CDM project. If Gaotang Hydropower Plant project can be registered as CDM Project, the income generated by CDM project can be apportioned as part of construction cost, which could greatly increase the investment benefit of this project. Therefore, all staff agreed that within Kyoto Protocol and national policy, we should start CDM application, understand the policies and procedures related to CDM project development, try to register as CDM project as early as possible and increase the benefit of the power plant.

Participants' signature:

Fujian Jinfu Power Co., Ltd.

February 14, 2006

证 明

福建省金湖电力有限公司开发建设的将乐高唐水电站项目，经我行评估后认为该项目经济效益较好，并同意给予贷款。但是在电站建设过程中，由于多种客观因素，如库区移民补偿、建材价格、设备制造费用以及人工成本等价格攀升，其内部收益率无法达到原可行性研究报告的预计数值，影响到该项目的贷款偿还能力。对此，高唐水电站建设方金湖电力有限责任公司提出，该项目可以通过申请 CDM 项目，获得资金援助。经复核，我认为，该项目在得到 CDM 项目的资金援助后，可以降低建设风险，从而达到我行对贷款项目偿还能力的要求。因此，我行同意继续对高唐水电站建设项目给予贷款。

特此证明。



Certification

This is to certify that ICBC (INDUSTRIAL AND COMMERCIAL BANK OF CHINA) agreed to provide a loan to **Fujian Jinhua Power Co., Ltd.** for the **Fujian Jiangle Gaotang Hydropower Project**, which was expected to bring a good economic performance through our evaluation. However, during the construction of the hydroelectric power station, we found the IRR (Internal Rate of Return) of this project cannot reach to prospective value stated in the feasibility report due to certain external elements, such as increase of compensation to immigrants; rising cost of material, manufacturing and labor. And these reasons result in deficient of compensative ability of the project. The owner of **Fujian Jiangle Gaotang Hydropower Project** proposed to apply funds from CDM to settle the problem. We hereby deem that our requirements on loan reimbursement can be met and the risk can be reduced once the CDM fund is gained. So, ICBC agrees to carry over the loan for **Fujian Jiangle Gaotang Hydropower Project**.

Fujian Jiangle Branch of ICBC

Jiangle, Fujian province, China

Sep.5th 2006

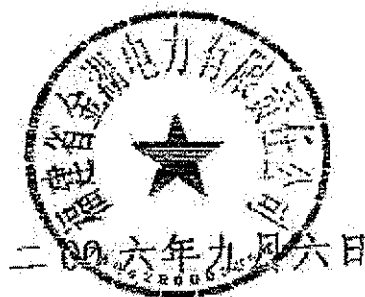
福建省金湖电力有限责任公司文件

金湖电力高唐[2006]125号

关于做好高唐水电站工程建设 恢复施工准备的通知

各有关单位:

由于受工程投资大幅度增加,资金制约问题,高唐水电站工程建设一度被迫停工,经公司多方努力,银行已经同意在我们提交的预算修正方案基础上恢复提供资金。所以公司决定马上恢复项目的施工建设。请各相关单位做好恢复施工的准备工
作,以确保工程施工顺利恢复。



Fujian Jinfu Power Co., Ltd.

Notice to Preparing for Resuming Construction

To all departments:

Whereas,

The construction of Gaotang Hydropower plant project was suspended due to the increase of project investment and lack of funds. Through great effort, the bank has agreed to resume providing fund for us based on the Budget Amendment Plan submitted by us.

You are herewith advised that we have decided to resume the construction. Please prepare for the resumption in order to ensure the construction can be resumed smoothly.

Fujian Jinfu Power Co., Ltd.
September 6, 2006