(Translation of No.1604)

Dear members of Executive Board,

As the project owner of Xiafu Power Station project, we entrust Coway International TechTrans Co., Ltd to apply for CDM project as our consulting company and meanwhile through Coway, we employ JCI of Japan as DOE for this project.

The PDD of the project was completed on March 6th 2007 and was proposed to DNA of China (National Development and Reform Committee) in the same month.

Apr. 26th 2007	PDD was accredited by DNA.
June 12th 2007	Xiafu project was approval to be a CDM project by DNA.
July 20th 2007	LoA was issued by National Development and Reform Committee. The buyer is Marubeni Japan.
Aug. 2007	DOE made the on-site investigation by in August 2007
Feb. 2008	The project was submitted to EB for registration.

On May 16th 2008, we received JCI's notification to respond to the Review Requests. Followings are our answer:

Brief introduction of the construction of Xiafu Power Station as well as CDM consideration during the course:

June 2003	The preliminary design of Xiafu Power Station project was approved.
Sep 29th 2003	The construction started.
Early 2005	The bank suspended the loan and capital problem occurred for the construction.
March 15th 2005	The construction was forced to stop (Please refer to the evidence that JCI send separately)
March 25th 2005	The board made the resolution to seek CDM support.
May 9th 2005	The design institute completed the budget adjustment report of the project.
May 2005	The project owner began to negotiate with the consultation company in order to enter into cooperation on CDM application. Same time, we began to discuss with the bank for re-opening the loan.
Aug 19th 2005	The project acquired the loan and the construction was recovered. (Please

refer to the evidence that JCI send separately)

Here, I would like to detail explain the serious capital difficulties encountered by us which result in the suspension of the construction in early 2005:

The construction of the project started in September 2003 but the cost of construction material and labor was increased very much since 2004 which made the project owner and share holders of the company collected more money by themselves to settle the problem and ensure smooth construction of the project. The proportion the self-prepare capital to credit capital is about 2:3. The project got over the capital difficulty temporarily as the effort made by the owner, but the shortage of the capital is still very serious and must fully depended on the bank loan.

In early 2005, the bank reinforced the validation to this project for the price was dramatically increased since 2004.

The bank expressed that the real investment of the project during the implementation exceeded the budget which makes the expected income not be achieved and brings risk to the project. They got this conclusion for several factors such like price of construction materials increased very much, compensation for immigrant and inundated increased. But, the most important reasons why bank suspend the loan are:

1, Tax loss is about 5.26 million Yuan/y.

Firstly, the tax bureau didn't approve the application of project owner for a tax preference and collect the enterprise VAT by 17% rather than the planned 6%, this number 6% was considered in the original preliminary design for the IRR calculation.

2, Loss of sales price decreased is 1.8389 million Yuan/y.

Secondly, during the negotiation with the Power Grid Company, the grid company only accepted the tariff of 0.26yuan/KWh rather than the estimated 0.27yuan/Kwh designer used in the original preliminary design.

It is estimated that six million Yuan income of the enterprise will be reduced per year due to the above two unexpected changes.

Based the judgement of the bank, they decided to suspend the loan to the project and demand the project owner to propose the new adjusted budget report, re-assess the project and make out the new scheme.

On March 15th 2005, the construction stopped because a great amount of self raised money had been put into the construction and the bank suspended loan, no capital can be invested into the construction of Xiafu hydropower. Around this time, the company was collecting money all the time including collecting money from the share holders by the means of increasing capital and enlarging share and bringing forward a proposal to the Board to apply CDM for capital. On March 25th 2005, the board agreed the proposal and demanded the relevant department to hurry up to transact the CDM application preparation work.

We finally decide to collaborate with Coway International TechTrans Co., Ltd through our overall investigation and our understanding of CDM.

At the same time, we ask the design institute to make an adjustment to the project investment budget and let them composed adjustment report after considering all factors above.

Then,we discussed the loan issue with the bank again and put in our proposal of CDM to the bank, according to this proposal, with the financing support from CDM, the IRR will has big improvement from 6.41% to 8.68% as we described in the part B.5 of PDD, this number is persuasion for us to convince the bank. After studying the basic requirements issued by National Coordination Committee on Climate Change and analyzing cases like Xiaohushan project as well as the cooperation documentation between Coway International Tech Trans Co., Ltd and us, the bank concluded that plan to apply a CDM was feasible so they recovered the loan to us.

The construction of the project was recovered on Aug 19th 2005.

By March 2005 when the construction stopped, it is about one year and seven months since the construction started on 2003/9/17, schedule of construction was generally followed according to the three year plan of the preliminary design. Almost 50% of the construction of the main body including diversion dam and ship lock, 40% of the plant including water-retaining, less than 1% of the installation of the power generation equipments had been completed by March 2005.

We have invested on by that time:

1, Cost for the main building of the project including dam, power plant, ship lock, road,

2, breaker for the power pant, prepay part of electricity generator and transformer substation of plant.

3, temporary construction
4, compensation for immigrant and inundated
5, construction for environment protection
6, construction for soild and water protection
7, interest for loan and others

As I said above, the shortage of the capital is still very serious and the must fully depended on the bank loan.

At that time, we encountered a very serious funding shortfall. All the self-prepared capital was put into the construction and the project were fully depending on the bank loan. Provided the loan hadn't been continued, the construction would have to be stopped. But at last we got into this bad situation which we all didn't hope to happen. If we cannot get the capital support from CDM, bank cannot continue the credit to us and it is also impossible to recover the construction any more.