

July 14, 2009

The Commencement Update of Wangu Integrated School Project in Mingshan, Sichuan

Dear Donors of Chong Ren Foundation,

Subsequent to June 1st, 2009 Ground-Breaking Ceremony attended by Tom, Erwin and Mark, Dr. Erwin Schurtenberger, accompanied by Ms. Chen Li revisited Wangu Integrated Primary-Middle School Reconstruction Project Meeting in Mingshan on July 3, 2009. Ms. Li played a critical role in clarifying complex technical issues during the meeting while the Education Bureau participated by a team of specialists who were readily to answer all questions. (Exhibit A).

During our inspection, we did not find any negative surprises in terms of quality, costs and schedule. The implementation progress was largely in line with Chong Ren's expectations. The Education Bureau continues to do its best to ensure accurate procedures and efficient workflow; the construction company is showing excellent performance; and the supervision company does a solid job with daily checks on the site, as well as issuing daily inspection reports (material checks, work performance, etc.) which we've checked on a random basis.

This visit was well-timed with regards to the underground fortifications for the new classrooms/lab building. Following the ground breaking ceremony on June 1, just as the construction company is set to commence on the laying of the foundation, their technicians found that the soil is too weak, in their opinion, for a four-storey building. The Education Bureau responded without delay and ordered an immediate investigation by a specialized company (which involves a 15-meter assessment into the ground). Then based on the findings, they requested a piling construction plan (Exhibit B) to be submitted and a tendering process is subsequently initiated.

The discussion on the piling issue revealed that the Design Institute had in fact strongly recommended a piling for the whole of the new L-shaped building site prior to the tendering process and a written confirmation was issued to the Tendering Company. However, the latter failed to include the required piling in the tender proposal. Given its negligence, the Mingshan Government ordered the Tender Company to foot the bill for the underground and piling study, which was accepted, and the Mingshan Government will cover the costs for the piling work.

The discussion of the piling issue was open and constructive, both responsibilities and ensuing costs were allocated to relevant parties accordingly. Although the piling work will cause some delay, it appeared that there is no need for further improvement on the processes in place, which finally worked out to the benefit of all parties involved.

The discussion of the piling issue allowed a better understanding of the complex process for major school construction projects (for projects of above RMB 2 million), particularly ones in Sichuan and Mingshan. Please see the attached workflow chart prepared by Chen Li (Exhibit C).

Lastly, the discussion on July 3 was helpful in clarifying/confirming a number of issues:

1. Surface area of the classrooms and the lab building

As conflicting figures for the classrooms and the lab building appeared at different stages of the Wangu Project, the authorities confirmed the surfaces concerned as follows:

- The surface area of the classrooms and the lab building adds up to 3094m² (out of which 2343m² is for the integrated L-shaped classroom-lab building). Earlier figures did not include the 751m² for corridors, staircases, etc.
- In case other readers of this report are interested in the past changes during the project discussion: In our discussion of the project in November (proposal of Nov 15, 2008), the surface area of the classrooms was fixed at 1500m² and the lab building at 800m². In the contract we signed on January 22, 2009, surface area remained unchanged. However, in the February 19, 2009 progress report by the Design, it was stated that the provincial authorities had asked for an adjustment of the surface area to be made to 1512.35m² for classrooms and 831.56m² for the lab building, totaling 2343.91m², of which the 751m² surface area for corridors and staircases was included, amounting to 3094.91m² in total.

2. Seismic fortifications

Tom, surprised by the conflicting data during his communications with Mingshan, had raised the question of whether seismic fortifications in the Wangu School Project have to be made for earthquakes up to 7 grade of

the 8 grade Richter scale. The discussion with the specialists confirmed that two Central State Regulations, both issued on July 30, 2008 and in force since August 1, 2008, classified Mingshan country as Richter Scale 7 area (GB 50011-2008) and ordered that all educational buildings and hospitals in scale 7 areas must obtain fortifications to withstand an earthquake of up to 8 on Richter Scale (GB 50223-2208).

The specialists from the Design institute demonstrated convincingly, on the drawing map, how the fortifications will be reinforced at the Wangu School and the construction company confirmed that the implementation will be strictly in line with the new regulations.

3. Adjusted schedule for the construction

Given the size and relative complexity of the Wangu Project, stage-by-stage completion appears most appropriate, so that school life for the students and teachers can remain as uninterrupted as possible. As a result, the Education Bureau schedules the completion of the Wangu School Project in three stages:

- i. The construction of the L-shaped building comprising the areas for classrooms (1512.35m²), the lab tract (831.56m²) and 751m² for corridors and staircases (amounting to 3094m² in total), will begin as soon as the piling is finished and is expected to finish by April 2010. A revised schedule of Phase 1 is attached (Exhibit D).
- ii. The dormitory for girls (1135m²) and boys (1135m²) as well as the canteen (513m²) will be built during Phase 2 (second stage), starting as soon as the Phase 1 is completed.
- iii. The sports ground that will be fully financed by the authorities themselves will commence in Phase 3 (third stage).

4. Cost adjustments

As there had been no item for piling in the original project, the budget approved in November 2008 did not foresee any expenses for it. The additional costs, resulting from piling, have been allocated as mentioned earlier, the Tendering Company who excluded the piling from the tender project needs to pay for the soil investigation (15 meters down into the ground) and for the piling construction design. The Mingshan authority will cover the piling construction plan and the piling itself from its general budget. Chong

Ren and CS will not need to contribute to this endeavor. The Education Bureau expressed its sincere regrets for the delay and appreciates the donors' understanding of its priority for "safety first".

5. Involvement of the local communities

Our desire to see as much as possible the local communities involved in such a major school project, has been duly taken into consideration. Quality requirements and price considerations had to be duly observed. As result, an appreciable supply of basic construction materials such as stones, sand, bricks are coming from local sources, less so for more sophisticated items such as construction steel, window and electrical materials. Non-skilled workers were also considered to some extent. For cleaning work before and after the construction, noticeable free labor will be offered by teachers, students and villagers of the Wangu area. Moreover, teachers and villagers will be represented throughout the whole construction period by a representative appointed by themselves, to supervise the construction in tandem with the government supervisor.

6. Later extension of the Wangu ground

The discussion with the neighbors to acquire some of their land (6 mu or 6/15 ha altogether) has been stopped for the time being, due to reduced urgency.

7. Payment schedule

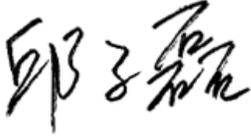
The first payment installment was made shortly after we signed the contract with Mingshan Government. Although the next installment is due in September 2009 based on our contract, with the delay in construction this payment will now due in early 2010, namely after our mid-term review of Phase 1 (classrooms/lab building) and the with your approval of such report.

8. The plate in memory of the sponsors

The Education Bureau accepts the joint suggestion by Chong Ren and CS not to insert the two sponsors names on the official plate of the Wangu School and welcomes the idea of duly stating on a special plate that Chong Ren together with CS charity Fund has rebuilt the school for the

youths of Wangu (exact wording to be defined by you and CS, and the place of the plate to be suggested by Mingshan).

Sincerely,



Mark Qiu
Chong Ren Foundation



Erwin Schurtenberger
Chong Ren Foundation

Exhibit A
Piling Discussion Meeting on July 3, 2009

万古乡九年一贯制学校教学综合楼地基 CFG 桩技术
交流会签到单

| 姓名 | 工作单位 | 职务或技术职称 | 联系电话 |
|-----|---------------------|---------|-------------|
| 马晓云 | 中法工程地质研究所 总院有限公司 | 经理, 工程师 | 13096353536 |
| 王正华 | 四川建设咨询有限公司 | 总工程师 | 13018248307 |
| 杨成明 | 四川中投工程咨询有限公司 | 部门经理 | 13980563377 |
| 张宗云 | 眉山印务管理公司 | 总监 | 13540568161 |
| 陈永新 | 万古初中 | 现场代表 | |
| 刘峰 | 成都北南建设基桩公司 | | 13981442699 |
| 戴军 | 中国建筑勘察设计研究院 有限公司 | | 13882088593 |
| 陆伟 | 总校-校长 | | 13568772649 |
| 刘心铭 | 四川华峰建设公司 | 现场负责人 | 13908167658 |
| 杨成明 | 四川华峰建设公司 | 现场管理人员 | 15881048669 |
| 代强安 | 四川华峰建设公司 | 现场管理人员 | 13547477913 |
| 何光新 | 县教育局 | 工作人员 | 13981620859 |

2009年7月3日星期五



Exhibit B
Piling Construction Plan



The construction work was halted, as soon as the technicians of the construction company discovered the weak ground at the beginning of their work at Wangu



Exhibit C
Construction Project Flow Chart
By Chen Li

1. 立项，由政府部门的发改局（发展改革局）负责
Project set up by Development & Reform Bureau
WanGu Project: done
2. 地勘部门进行地质勘探，并出具地勘报告
Geological survey performed and survey report issued
WanGu Project: done
3. 公开招标选择有资质的设计单位
Public Bid for qualified Design Institute
WanGu Project: done
Southeast Design Institute (中国建筑西南设计研究院) win the bid
4. 中标的设计单位根据地勘报告和项目要求进行设计，并出具设计图纸
The selected design institute by bid makes the school design based on the geological survey and school requirements, and delivers the design drawings.
WanGu Project: done
Southeast Design Institute (中国建筑西南设计研究院) stated clearly on the drawing that CFG piling foundation is necessary for this project
5. 另一家有资质的设计单位对设计图纸进行审核，并出具审核报告
Another qualified design company has to examine and verify the design drawings based on the design stipulations, and issue verification report.
WanGu Project: done
6. 发改局根据规定的程序选择招标中介（只针对超过二/三百万的建设项目）
Development & Reform Bureau selects the tendering agency for construction company (only applied for the project over investment of RMB 2 or 3 million)
WanGu Project: done,
Zhongheng Engineering Cost Audit Company (中恒工程造价审计事务所) win the bid
7. 招标中介根据工程量进行造价预算，编制招标技术要求，并组织招标
Tendering company study the construction budget based on the project scale and workload, compose the bid technical specifications and organize the bid to select a qualified construction company.
WanGu Project: done
Zhongheng Engineering Cost Audit Company (中恒工程造价审计事务所) did not check the design drawings carefully and neglected the necessity for a CFG piling

foundation, therefore they did not put this job into the bid documentation for the Wangu school project.

8. 中标的施工单位进场进行施工工作，同时监理单位进行监理并进行每日工作日志

The selected construction company by bid start to work on site, and meanwhile supervisory company start to work on site and make daily record.

WanGu Project: Sichuan Huafeng Construction Company (四川华丰建筑公司) won the bid for building construction. When they started the work on site and checked the drawings with Southeast Design Institute, it noticed that the CFG piling foundation was missing. It reported this surprising fact without delay to the Education Bureau. Construction has been suspended.

As a consequence, the Tendering company, ie. Zhongheng Engineering Cost Audit Company (中恒工程造价审计事务所) realized their mistake and asked a specialized foundation company, the Chengdu Surveying Geotechnical Research Institute Co. (中冶成都勘察研究总院有限公司) to do the proper foundation design.

Furthermore, they selected a specialized foundation construction company, Chengdu Beinan Construction Exploration Company (成都北南建设勘探公司) to start the piling work without delay; liekyl to start on July 4, 2009.

9. 工程完工时由城建局（城市建设局）进行工程质量验收，由审计局进行工程费用审计

After the completion of the construction, the quality check and acceptance tests will be done by the City Construction Bureau, the verification of the accounts, (checking once more all project expenses) will be done by the City Audit Bureau of Mingshan.

