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**LOAN NUMBER 4751-CHA**

# **Project Agreement**

**(Hunan Urban Development Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**HUNAN PROVINCE**

**Dated October 18, 2004**

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**LOAN NUMBER 4751-CHA**

**PROJECT AGREEMENT**

AGREEMENT, dated October 18, 2004, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HUNAN PROVINCE (Hunan).

WHEREAS by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of one hundred seventy-two million Dollars (\$172,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Hunan agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Hunan, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**Definitions**

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

**ARTICLE II**

**Execution of the Project**

Section 2.01. (a) Hunan declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out, and shall cause to be carried out by the Project Municipalities and the Project Companies, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and social and environment standards acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Hunan shall otherwise agree, Hunan shall carry out, and shall cause to be carried out, the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Hunan shall carry out, and shall cause to be carried out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Hunan shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Hunan, a plan for the continued achievement of the objectives of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Hunan on said plan.

Section 2.04 (a) Hunan shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) Hunan shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by Hunan of its obligations under this Agreement.

### **ARTICLE III**

#### **Financial Covenants**

Section 3.01. (a) Hunan shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) Hunan shall:
  - (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
  - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
  - (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 3.02. (a) Without limitation upon Hunan's progress reporting obligations set out in paragraph 10 of Schedule 2 to this Agreement, Hunan shall prepare and furnish to the Bank financial monitoring reports, in form and substance satisfactory to the Bank, which set forth sources and uses of funds for the Project, both cumulatively and for the period covered by each said report, showing separately funds provided under the Loan, and explain variances between the actual and planned uses of such funds.

(b) The first such financial management report shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each financial management report shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

#### **ARTICLE IV**

##### **Effective Date; Termination; Cancellation and Suspension**

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Hunan thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Hunan thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

## ARTICLE V

### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

For Hunan:

CZT Economic Integration Office  
Hunan Provincial Development and Reform Commission  
69 Wuyi Zhong Road  
Changsha  
Hunan 410011  
People's Republic of China

Facsimile:

(86) 731 221 3384

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Hunan may be taken or executed by its Governor or a Vice Governor or such other person or persons as said Governor or Vice Governor shall designate in writing, and Hunan shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By: /s/ David Dollar

Authorized Representative

HUNAN PROVINCE

By: /s/ Zhou Bohua

Authorized Representative

## **SCHEDULE 1**

### **Procurement**

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) The following may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines: (a) works estimated to cost less than \$15,000,000 equivalent per contract, up to an aggregate amount not to exceed \$223,500,000 equivalent; and (b) goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$2,250,000 equivalent.

(b) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:

- (i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in China and such advertisement shall be made in sufficient time for prospective

bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.

- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders shall be required to provide security in an amount sufficient to protect the Borrower, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower.
- (vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.
- (viii) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.



Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for: (a) works estimated to cost the equivalent of \$3,000,000 or more; and (b) goods estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for the Project that are estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

(a) The procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the following: (i) the first two (2) contracts for the employment of consulting firms, regardless of cost; and (ii) thereafter, each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more.

(b) With respect to: (i) the first contract for the employment of individual consultants, regardless of cost; and (ii) thereafter, each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 2**

### **Implementation Program**

#### Project Management

1. Hunan shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:

(a) The Provincial Leading Group, which is composed of the Governor and Vice-Governors of Hunan, the mayor of each Project Municipality and representatives from various provincial government agencies, bureaus and commissions, responsible for organizing and implementing activities under the Project.

(b) The Changsha-Zhuzhou-Xiangtan Economic Integration Office (“CZT EIO”), established within the Hunan Provincial Development and Reform Commission and responsible for the overall coordination and management of Project implementation.

(c) The Hunan Provincial Project Management Office, created within CZT EIO and headed by a director, responsible for coordinating, among the Project Municipalities and their Respective Project Companies, the implementation of the Project including, activities related to the management, environment, resettlement, finance and administration.

(d) The respective municipal level Project Leading Group, which is composed of Mayor and Vice-Mayors of the municipality and representatives of various municipal agencies, responsible for organizing and implementing activities under the Project within their respective jurisdiction.

(e) The respective municipal level CZT Economic Integration Office, established within the Municipal Development and Reform Commission of each Project Municipality to be responsible for the overall coordination and management of Project implementation within said municipality.

(f) The respective municipal level Project Management Office, created within the Municipal Development and Reform Commission of each Project Municipality, to provide coordination between each Project Municipality and its Respective Project Companies for the implementation of the Project within said municipality, including activities related to the management, environment, resettlement, finance and administration.

Resettlement and Environment Protection

2. Hunan shall:

(a) take, and shall cause the Project Municipalities and their Respective Project Companies to take, all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently in carrying out the Project;

(b) for this purpose, implement, and cause the Project Municipalities and their Respective Project Companies to implement the Respective Resettlement Action Plans and the Resettlement Policy Framework, in a manner satisfactory to the Bank;

(c) provide, and cause the Project Municipalities and their Respective Project Companies to provide, to the Bank for its prior concurrence any proposed modification or waiver of any of the Respective Resettlement Action Plans and the Resettlement Policy Framework, prior to putting into effect such modification or waiver; and

(d) cause Xiangtan, prior to carrying out any works on Dongsi Road: (i) to prepare and furnish to the Bank for review and approval, a resettlement action plan ("Linked Project RAP") for said road, prepared in accordance with the principles and procedures set forth in the Resettlement Policy Framework; and (ii) to adopt and implement the Linked Project RAP that has been approved by the Bank.

3. Hunan shall implement, and shall cause the Project Municipalities and their Respective Project Companies, and HZCCC to implement, the Environmental Management Plan in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards.

4. Hunan shall, and shall cause the Project Municipalities and their Respective Project Companies, and HZCCC to:

(a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the Environmental Management Plan, the Respective Resettlement Action Plans, the Resettlement Policy Framework (including, the Shaoyaogang EMP and Shaoyaogang RAP defined in paragraph 6 of Section II in Schedule 3 to this Agreement and the Linked Project RAP as defined in paragraph 2(d) of this Schedule), the achievement of the objectives of said Plans and Framework, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by March 31 of each year, commencing in 2005, annual reports of the results of

such monitoring and evaluation activities, together with any revisions proposed to be introduced into such Plans in order to achieve their respective objectives; and

(c) introduce such revisions into such Plans as shall have been agreed with the Bank.

#### Financial Arrangements

5. Hunan shall allocate to each Project Municipality and HZCCC an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms.

(a) Hunan shall make available the principal amount, which has been allocated to each Project Municipality and HZCCC in Dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of each Respective Project Companies' Respective Parts of the Project and on account of HZCCC's Respective Parts of the Project.

(b) (i) Except for HZCCC, Hunan shall recover: (A) such principal amount so made available; and (B) an amount equal to one percent, or such other percentage as may be determined by the Bank from time to time pursuant to Section 2.04 of the Loan Agreement, of such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years.

(ii) With respect to HZCCC, Hunan shall recover: (A) such principal amount so made available to HZCCC; and (B) an amount equal to one percent, or such other percentage as may be determined by the Bank from time to time pursuant to Section 2.04 of the Loan Agreement, of such principal amount over a period of not less than five (5) years, inclusive of a grace period of not less than three (3) years.

(c) (i) Except for HZCCC, Hunan shall charge interest on such principal amount, withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.06 of the Loan Agreement.

(ii) With respect to HZCCC, Hunan shall charge interest on such principal amount, withdrawn by HZCCC and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.06 of the Loan Agreement, plus a maximum spread of two percent (2%).

(d) Hunan shall charge a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

Subsidiary Loan Agreements

6. Hunan shall

(a) Lend the portion of the proceeds of the Loan, which was allocated to HZCCC pursuant to paragraph 5 of this Schedule for the purpose of carrying HZCCC's Respective Parts of the Project under a subsidiary loan agreement to be entered into between Hunan and HZCCC ("HZCCC Subsidiary Loan Agreement"): (i) on the principal terms set forth in paragraph 5 of this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Section II of Schedule 3 to this Agreement.

(b) Cause each Project Municipality to relend the portions of the proceeds of the Loan, which was allocated to it pursuant to paragraph 5 of this Schedule for the purposes of carrying out its Respective Project Companies' Respective Parts of the Project, to its Respective Project Companies under a subsidiary loan agreement to be entered into between said Project Municipality and each of its Respective Project Companies: (i) on the principal terms set forth in Section I of Schedule 3 to this Agreement; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Section II of Schedule 3 to this Agreement.

7. (a) Hunan shall:

(i) Cause HZCCC to: (A) perform, in accordance with the provisions of the HZCCC Subsidiary Loan Agreement all of the obligations of HZCCC therein set forth; (B) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable HZCCC to perform such obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance.

(ii) Ensure that each Project Municipality causes each of its Respective Project Companies to: (A) perform, in accordance with the provisions of the Subsidiary Loan Agreement to which said Project Company is a party, all of the obligations of said Project Company therein set forth; (B) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Company to perform such obligations; and (C) not take

or permit to be taken any action which would prevent or interfere with such performance.

- (b) Hunan shall:
- (i) Exercise its rights under the HZCCC Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Bank and Hunan, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive said Subsidiary Loan Agreement or any provision thereof.
  - (ii) Cause each Project Municipality to exercise, its rights under each Subsidiary Loan Agreement to which said Project Municipality is a party, in such manner as to protect the interests of the Borrower, the Bank, Hunan and said Project Municipality, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Loan Agreement to which said Project Municipality is a party or any provision thereof.

#### CMDC Revenue Requirements

8. With respect to CMDC's revenue requirements set forth in paragraph 7 of Section II in Schedule 3 to this Agreement, in the event that any review carried out under said paragraph 7 shows that CMDC would not meet said requirements, Hunan shall take, and shall cause Changsha to take, all necessary measures to enable CMDC to meet said requirements, including without limitation, adjustments of the structure or levels of CMDC's wastewater charges and budgetary allocations from Changsha to CMDC to cover CMDC's operating expenses and depreciation related to CMDC's drainage assets.

#### Operations and Maintenance Plans

9. By October 1, 2008, or such later as agreed with the Bank, Hunan shall cause each Project Municipality to furnish to the Bank a plan, prepared in accordance with terms of reference acceptable to the Bank, for the operation and maintenance of the structures and facilities improved or constructed by each Project Company under Part A of the Project; and thereafter, implement, or cause to be implemented, said plan taking into account the Bank's comments thereon.



Monitoring and Reporting

10. Hunan shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about February 15 and August 15 of each year, commencing in February 15, 2005, a semi-annual report, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph (integrating the report furnished by the Project Companies pursuant to paragraph 5(e) of Section II in Schedule 3 to this Agreement), each such report to: (i) set out physical progress in the implementation of the Project, both cumulatively, and in respect of the preceding calendar semester, and explain variances between the actual and planned Project implementation; and (ii) set forth the status of procurement under the Project as at the end of the period covered by said report;

(c) prepare, under terms of reference satisfactory to the Bank and furnish to the Bank on or about August 15, 2007, a mid-term report on the progress achieved in the carrying out of the Project during the period preceding such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Bank by October 15, 2007, or such later date as the Bank shall request, the mid-term report referred to in sub-paragraph (c) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

### **SCHEDULE 3**

#### **Principal Terms and Conditions of the Subsidiary Loan Agreements**

For the purposes of paragraph 6 of Schedule 2 to this Agreement: (a) except for the HZCCC Subsidiary Loan Agreement, the terms of availability of the Loan proceeds shall be those set forth in Section I of this Schedule 3; and (b) the Subsidiary Loan Agreements shall be entered into on the conditions set forth in Section II of this Schedule 3.

#### Section I. Terms of Availability

1. The principal amount of each Subsidiary Loan made by a Project Municipality to each of its Respective Project Companies, shall be the amount equivalent in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of its Project Company's Respective Part of the Project.
2. Each Project Company shall repay: (a) such principal amount; and (b) an amount equal to one percent, or such other percentage as may be determined by the Bank from time to time pursuant to Section 2.04 of the Loan Agreement, of such principal amount, over a period of not more than twenty (20) years, inclusive of a grace period of five (5) years.
3. Each Project Company shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.06 of the Loan Agreement.
4. Each Project Company shall pay a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

#### Section II. Conditions

The Subsidiary Loan Agreements shall include the following principal conditions.

1. Each Project Company and HZCCC shall undertake to: (a) carry out their Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (b) without limitation on the foregoing, take all measures necessary to ensure that their Respective Parts of the

Project shall be implemented in accordance with their Respective Resettlement Action Plans and the Environmental Management Plan.

2. Each Project Company and HZCCC shall undertake to procure the goods, works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of their Respective Parts of the Project.

3. Each Project Company and HZCCC shall undertake to enable the Bank, Hunan and the Project Municipality concerned to inspect such goods and the sites and works included in their Respective Part of the Project, the operation thereof, and any relevant records and documents.

4. Each Project Company and HZCCC shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable to replace or repair such goods.

5. Each Project Company and HZCCC shall undertake to:

(a) Maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations and financial condition.

(b) Have their financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank.

(c) Furnish to the Bank, Hunan and the Project Municipality concerned, as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Bank, Hunan or the respective Project Municipality shall have reasonably requested; and all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Hunan or the respective Project Municipality shall reasonably request.

(d) Prepare and furnish to the Bank, Hunan and the Project Municipality concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Hunan, and/or said Project Municipality shall reasonably request.

- (e) Each Respective Project Company and HZCCC shall undertake to:
  - (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and to Hunan the carrying out of their Respective Parts of the Project and the achievement of the objectives thereof; and
  - (ii) prepare, under terms of reference satisfactory to the Bank, to Hunan and its respective Project Municipality, and furnish to Hunan for its review, consolidation and submission to the Bank in accordance with paragraph 10 of Schedule 2 to this Agreement on or about January 21 and July 21 of each year, commencing on January 21, 2005, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of their Respective Parts of the Project during the period preceding the date of each such report.

6. XUDIC shall undertake, prior to carrying out any works under Part A of the Project in the portion of the embankment from Shaoyaogang to Xiang Gang (“Shaoyaogang Section”): (a) to prepare and furnish to the Bank for review and approval, an environmental management plan (“Shaoyaogang EMP”) and a resettlement action plan (“Shaoyaogang RAP”) for the Shaoyaogang Section, prepared in accordance with the principles and procedures set forth in the Environmental Management Plan and Resettlement Policy Framework respectively; and (b) to adopt and implement the Shaoyaogang EMP and the Shaoyaogang RAP that has been approved by the Bank.

7. (a) Except as the Bank shall otherwise agree, CMDC shall undertake to produce for each of its fiscal years after its fiscal year ending on December 31, 2007, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciations.

(b) CMDC shall undertake, before October 31 of each of its fiscal years, commencing in 2007, on the basis of forecasts prepared by CMDC and satisfactory to the Bank, review with Hunan and Changsha as to whether CMDC would meet the requirements set forth in sub-paragraph (a) of this paragraph 7 in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that CMDC would not meet the requirements set forth in sub-paragraph (a) of this paragraph for CMDC’s fiscal years covered by such review, CMDC shall promptly take all necessary measures (including, without limitation,

adjustments of the structure or levels of its wastewater charges and budgetary allocations from Changsha to CMDC to cover CMDC's operating expenses and depreciation related to CMDC's drainage assets) in order to meet such requirements.

- (d) For purposes of this Section:
- (i) The term "total revenues" means the sum of total operating revenues and net non-operating income.
  - (ii) The term "total operating revenues" means revenues from all sources related to operations.
  - (iii) The term "net non-operating income" means the difference between:
    - (A) revenues from all sources other than those related to operations; and
    - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
  - (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 1.5% per annum of the average current gross value of CMDC's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
  - (v) The average current gross value of CMDC's fixed assets in operation shall be calculated as one half of the sum of the gross value of CMDC's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
  - (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
  - (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the People's Republic of China, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the

absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

8. Each Project Municipality shall have the right to suspend or terminate the right of its Project Company to the use of the proceeds of the loan made available under the Subsidiary Loan Agreement with said Project Company upon failure by such Project Company to perform its obligations under the agreement. With respect to the HZCCC Subsidiary Loan Agreement, Hunan shall have the right to suspend or terminate the right of HZCCC to the use of the proceeds of the loan made available under the said Subsidiary Loan Agreement upon failure by HZCCC to perform its obligations under the agreement.