

CONFORMED COPY

LOAN NUMBER 3781 CHA

Loan Agreement

(Liaoning Environment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 16, 1994

LOAN NUMBER 3781 CHA

LOAN AGREEMENT

AGREEMENT, dated September 16, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Province of Liaoning (Liaoning) shall carry out the Project, or cause the Project to be carried out, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Liaoning the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and

Liaoning;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "ANGANG" means the Anshan Iron and Steel Company, a state-owned enterprise established with the approval of the Borrower's State Council and operating pursuant to Business License No. 24-24142001 dated August 10, 1993, issued by the Anshan Bureau of Commerce and Industry.

(b) "Anshan" means the Municipality of Anshan, in Liaoning.

(c) "AWC" means the Anshan Wastewater Company, a state-owned enterprise established with the approval of the Anshan Municipal Planning Committee and operating pursuant to its Charter approved on August 10, 1993 by the Anshan Municipal Bureau of Urban Construction, and to Business License No. 11887158 dated March 30, 1993, issued by the Anshan Bureau of Commerce and Industry.

(d) "AWC Subsidiary Loan Agreement" means the agreement to be entered into between Anshan and AWC pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the AWC Subsidiary Loan Agreement.

(e) "Basic Documents" means the Charters and Rules referred to in paragraphs (c), (f), (h), (k), (o), (q), (v), (aa) and (ee) of this Section.

(f) "BDHC" means the Benxi District Heating Center, a state-owned enterprise established and operating pursuant to its Charter approved on March 28, 1994 by the Benxi Municipal Planning Committee, and to Business License No. 11966751 dated July 3, 1993, issued by the Benxi Bureau of Commerce and Industry.

(g) "BDHC Subsidiary Loan Agreement" means the agreement to be entered into between Benxi and BDHC pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the BDHC Subsidiary Loan Agreement.

(h) "BENGANG" means the Benxi Iron and Steel Company, a state-owned enterprise established and operating pursuant to its Charter dated October 1992, and to Business License No. 11966000 dated August 15, 1989, issued by the Benxi Bureau of Commerce and Industry.

(i) "BENGANG Subsidiary Loan Agreement" means the agreement to be entered into between Benxi and BENGANG pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the BENGANG Subsidiary Loan Agreement.

- (j) "Benxi" means the Municipality of Benxi, in Liaoning.
- (k) "BWC" means the Benxi Wastewater Company, a state-owned enterprise established with the approval of the Benxi Municipal Planning Committee and operating pursuant to its Charter approved on November 10, 1993 by the Benxi Municipal Bureau of Urban Construction, and to Business License No. 11966839 dated November 13, 1993, issued by the Benxi Bureau of Commerce and Industry.
- (l) "BWC Subsidiary Loan Agreement" means the agreement to be entered into between Benxi and BWC pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the BWC Subsidiary Loan Agreement.
- (m) "Category" means a withdrawal category set forth in the table in paragraph 1 of Schedule 1 to this Agreement.
- (n) "Dalian" means the Municipality of Dalian, in Liaoning.
- (o) "DSWC" means the Dalian Solid Waste Company, a state-owned enterprise established and operating pursuant to its Charter approved on April 6, 1994 by the Dalian Municipal Bureau of Urban Construction Administration, and to Business License No. 24319449-5 dated November 10, 1993, issued by the Dalian Gan Jing Zi District Bureau of Commerce and Industry.
- (p) "DSWC Subsidiary Loan Agreement" means the agreement to be entered into between Dalian and DSWC pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the DSWC Subsidiary Loan Agreement.
- (q) "DWC" means the Dalian Wastewater Company, a state-owned enterprise established and operating pursuant to its Charter approved on April 6, 1994 by the Dalian Municipal Bureau of Urban Construction Administration, and to Business License No. 24113183-7 dated April 6, 1993, issued by the Dalian Shahekou District Bureau of Commerce and Industry.
- (r) "DWC Subsidiary Loan Agreement" means the agreement to be entered into between Dalian and DWC pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the DWC Subsidiary Loan Agreement.
- (s) "Financial Agency Agreement" means the agreement to be entered into pursuant to the provisions of Part A.3(a)(ii)(D) of Annex 2 to Schedule 2 to the Project Agreement, between LEF and the commercial bank referred to in said Part.
- (t) "Fiscal Year" means a calendar year commencing on January 1 and ending on December 31.
- (u) "Fushun" means the Municipality of Fushun, in Liaoning.
- (v) "FWC" means the Fushun Wastewater Company, a state-owned enterprise established with the approval of the Fushun Municipal Planning Committee and operating pursuant to its Charter dated November 2, 1993, and to Business License No. 11925199-1 dated November 10, 1993, issued by the Fushun Bureau of Commerce and Industry.
- (w) "FWC Subsidiary Loan Agreement" means the agreement to be entered into between Fushun and FWC pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the FWC Subsidiary Loan Agreement.
- (x) "Implementing Agencies" means, collectively, AWC, FWC, BWC, BENGANG, BDHC, DWC, DSWC, JWSC and JGPM; and "Implementing Agency" means any of the Implementing Agencies.
- (y) "its respective Implementing Agencies" means, in respect of: (i) Anshan, AWC; (ii) Fushun, FWC; (iii) Benxi, BWC, BDHC and BENGANG; (iv) Dalian, DWC and DSWC; and (v) Jinzhou, JGPM and JWSC.

(z) "its respective Part of the Project" means, in respect of: (i) Anshan, Part A of the Project; (ii) AWC, Part A thereof; (iii) Fushun, Part B thereof; (iv) FWC, Part B thereof; (v) Benxi, Part C thereof; (vi) BWC, Part C(1) thereof; (vii) BENGANG, Part C(2) thereof; (viii) BDHC, Part C(3) thereof; (ix) Dalian, Part D thereof; (x) DWC, Part D(1) thereof; (xi) DSWC, Part D(3) thereof; (xii) Jinzhou, Part E thereof; (xiii) JWSC, Part E(1) thereof; (xiv) JGPM, Part E(2) thereof; and (xv) Jinxi, Part F(2) thereof.

(aa) "JGPM" means the Jincheng General Paper Mill, a state-owned enterprise established with the approval of the Committee for the Restructuring of the Economic System of Liaoning Province and operating pursuant to its Charter dated July 1, 1993, and to Business License No. 24203000 dated August 24, 1993, issued by the Jinzhou Bureau of Commerce and Industry.

(bb) "JGPM Subsidiary Loan Agreement" means the agreement to be entered into between Jinzhou and JGPM pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the JWSC Subsidiary Loan Agreement.

(cc) "Jinxi" means the Municipality of Jinxi, in Liaoning.

(dd) "Jinzhou" means the Municipality of Jinzhou, in Liaoning.

(ee) "JWSC" means the Jinzhou Water Supply Company, a state-owned enterprise established and operating pursuant to its Management Rules approved on April 10, 1992 by the Jinzhou Municipal Construction Commission, and to Business License No. 12053696 dated January 15, 1993, issued by the Jinzhou Bureau of Commerce and Industry.

(ff) "JWSC Subsidiary Loan Agreement" means the agreement to be entered into between Jinzhou and JWSC pursuant to Part C.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the JWSC Subsidiary Loan Agreement.

(gg) "LEF" means the environmental fund, to be established by Liaoning pursuant to Part H.1(a) of Schedule 2 to the Project Agreement.

(hh) "LEF Subsidiary Financing Agreement" means the agreement to be entered into between Liaoning and LEF pursuant to Part H.1(b) of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the LEF Subsidiary Financing Agreement; and "LEF Subsidiary Finance" means the loan provided for under the LEF Subsidiary Financing Agreement.

(ii) "LEPB" means the Environmental Protection Bureau of Liaoning.

(jj) "Liaoning" means the Province of Liaoning, a political sub-division of the Borrower.

(kk) "National Wastewater Discharge Standards" means the Integrated Standards for Discharge of Wastewater, No. GB8978-88 issued by the Borrower's National Environmental Protection Agency.

(ll) "Participating Enterprise" means an enterprise to which LEF proposes to make, or has made, a Pollution Control Sub-loan.

(mm) "Pollution Charges" means fees for wastewater discharges established by the Decision on Collection of Fees for Wastewater Discharge No. [1993]87 issued jointly by the LEPB, the Liaoning Price Bureau and Liaoning Finance Bureau and effective as of July 1, 1993, as said decision may be amended from time to time.

(nn) "Pollution Control Project" means a specific development project under Part G of the Project to be carried out by a Participating Enterprise utilizing the proceeds of a Pollution Control Sub-loan.

(oo) "Pollution Control Sub-loan" means a loan made or proposed to be made by LEF, in part out of the proceeds of the Loan made available to LEF under the LEF Subsidiary Financing Agreement, to a Participating Enterprise for a Pollution Control

Project

(pp) "Project Agreement" means the agreement between the Bank and Liaoning of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(qq) "Project Municipalities" means collectively, Anshan, Benxi, Dalian, Fushun and Jinzhou; and "Project Municipality" means any of the Project Municipalities.

(rr) "Subsidiary Loan Agreements" means, collectively, the AWC, BDHC, BENGANG, BWC, DSWC, DWC, FWC, JGPM and JWSC Subsidiary Loan Agreements; "Subsidiary Loan Agreement" means any of the Subsidiary Loan Agreements; and "Subsidiary Loan" means the loan provided for under a Subsidiary Loan Agreement.

(ss) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(tt) "Yuan" means the currency unit of the Borrower.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred ten million dollars (\$110,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A, B, C, D, E, F, and H of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by LEF on account of withdrawals made by a Participating Enterprise under a Pollution Control Sub-loan to meet the reasonable cost of goods and services required for the Pollution Control Project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars, a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Liaoning to perform in accordance with the provisions of the Project Agreement all the obligations of Liaoning therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Liaoning to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available to Liaoning the proceeds of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, terms whereby (i) the principal amount thereof which shall be recovered from Liaoning shall be the equivalent in Dollars (determined on the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services for the Project to be financed out of the proceeds of the Loan, (ii) the principal amount so made available shall be recovered over a period of 15 years, inclusive of a grace period of 5 years, (iii) interest shall be charged on the

principal amount so made available and withdrawn and remaining unrecovered from time to time, at a rate equal to 70% of the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, and (iv) a commitment charge shall be charged on the principal amount so made available and not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

Section 3.02. In furtherance of the objectives of the Project, the Borrower shall take all action necessary to ensure that ANGANG shall carry out a time-bound action plan, acceptable to the Bank, designed to upgrade its production processes so as to improve the efficiency of its utilization of water and reduce the levels and concentrations of effluents discharged by its facilities into the air and water.

Section 3.03. 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 the Project Agreement.

Section 3.04. The Bank and the Borrower hereby agree that 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) shall be carried out by Liaoning pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a)(i) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, 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 the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Liaoning shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Liaoning will be able to perform its obligations under the Project Agreement.

(c) Either party to the LEF Financial Agency Agreement or any of the parties to any of the Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

(d) The Basic Documents shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any of the Implementing Agencies to perform any of its obligations under its respective Subsidiary Loan Agreement.

(e) The Borrower, Liaoning or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any of the Implementing Agencies or for the suspension of said entity's operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraph (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Subsidiary Loan Agreements shall have been executed on behalf of each of the parties thereto.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by Liaoning, and is legally binding upon Liaoning in accordance with its terms; and

(b) that each of the Subsidiary Loan Agreements has been duly authorized or ratified by the parties thereto and is legally binding upon said parties in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Yang Jiechi

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
----------	--	--

(1)	Civil works	23,000,000	20%
(2)	Goods	68,000,000	100% of foreign expenditures and 65% of local expenditures
(3)	Consultants' services and training	11,000,000	100% of foreign expenditures
(4)	Pollution Control Sub-loans	4,000,000	95%
(5)	Unallocated	4,000,000	
		<hr/>	
	TOTAL	110,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) under Category (4) until the Bank shall have received evidence satisfactory to it that (i) the LEF has been established in accordance with the provisions of Part H.1(a) of Schedule 2 to the Project Agreement and (ii) the LEF Financial Agency Agreement has been executed on behalf of the parties thereto and is legally binding upon said parties in accordance with its terms;

(b) under Category (4) in respect of a Pollution Control Sub-loan unless the Pollution Control Sub-loan has been made in accordance with the provisions of Annex 2 to Schedule 2 to the Project Agreement; and

(c) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$11,000,000, may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after September 1, 1993.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for (a) expenditures under Category (4), (b) expenditures for training, and (c) other expenditures under contracts for goods, works and services not exceeding \$300,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in (1) protecting the quality of water resources in Liaoning, so as to allow for their sustained economic and safe use for drinking, industrial and agricultural purposes, (2) strengthening pricing policies and institutional capabilities in respect of environmental management of water and air resources in Liaoning and (3) strengthening institutional capabilities in respect of the management of Liaoning's cultural heritage.

The Project consists of the following parts, subject to such modifications

thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Anshan

Construction and upgrading by AWC of sewers, wastewater treatment and effluent reuse facilities in Anshan.

Part B: Fushun

Construction and upgrading by FWC of sewers, pump stations and wastewater treatment facilities in Fushun.

Part C: Benxi

(1) Construction and upgrading by BWC of sewers, pump stations and wastewater treatment facilities in Benxi.

(2) Carrying out by BENGANG of a program to improve air quality in Benxi, consisting of the provision and installation of equipment and facilities designed to reduce emissions from two blast furnaces and three coke ovens and to increase their energy efficiency.

(3) Carrying out of a program by BDHC to provide district heating to approximately 20,000 households over an area of approximately 300 hectares in Benxi, consisting of the provision and installation of boilers, heat exchangers, distribution pipes and auxiliary equipment and facilities and utility services.

Part D: Dalian

(1) Construction and rehabilitation by DWC of sewers, pump stations, wastewater treatment facilities and effluent reuse facilities in Dalian.

(2) Carrying out of a water conservation program in Dalian, consisting of: (a) carrying out of a study of losses from the water supply system, provision of leak detection equipment, water meters, and pressure gauges and collection of data on water loss; (b) retrofitting of water supply systems; (c) provision of equipment and facilities designed to recover and recycle by-products from a brewery; and (d) provision and installation of a chiller plant and related facilities designed to improve the efficiency of water and energy use at a steel plant.

(3) Carrying out by DSWC of a program to (a) modernize the municipal solid waste collection and disposal systems in Dalian, including acquisition of collection vehicles, upgrading of a waste transfer station and development of a sanitary landfill site, and (b) provide for the collection and utilization of gas produced at the landfill site referred to in (a) above, including provision of equipment and materials required therefor.

Part E: Jinzhou

(1) Carrying out by JWSC of a program to develop groundwater resources in Jinzhou, consisting of (a) the construction of tubewells and related pipework, pumps and access roads, and provision of power utility connections, (b) construction of a booster pump station, (c) supply and installation of transmission lines, (d) upgrading of a water treatment plant, (e) construction of a concrete lined tunnel and (f) strengthening of water distribution systems.

(2) Carrying out by JGPM of a program to improve the efficiency of its use of water and recovery of by-products from pulping operations, consisting of the provision and installation of equipment and facilities required for extraction and evaporation of red liquor, recovery of talc, fiber and water and production of boiler fuel from waste fiber.

Part F: Cultural Properties

Carrying out of a program to protect and present cultural properties in Liaoning in a scientifically sound and financially efficient manner, consisting of:

(1) (a) renovation by Liaoning of its provincial museum in Shenyang, preparation of exhibits and publicity materials for said museum and provision of equipment required therefor, and installation and equipping of a center for the conservation of cultural properties and (b) conservation by Liaoning of excavated archeological sites in the Municipality of Niuheiliang and preparation of a plan for the protection, future excavation and provision of infrastructure for said sites and provision of equipment and materials required therefor; and

(2) (a) conservation by Jinxi of sections of the Great Wall at Jiumenkou and upgrading of facilities for visitors to said sections and preparation of site materials therefor and (b) investigation and conservation by Jinxi of archeological sites in Jieshi Gong.

Part G: Liaoning Environment Fund

The operation by LEF of a credit facility for the financing, through the provision of Pollution Control Sub-loans and other loans to industrial enterprises, of specific development projects to upgrade in-plant technology processes designed to further the objectives of the Project.

Part H: Institutional Development

Carrying out by Liaoning of programs to strengthen the institutional capabilities of the Project Municipalities and Implementing Agencies in respect of environmental, cultural property, financial and utility management, consisting of the:

(1) provision of technical assistance for the management and supervision of the Project implementation, including training in quality inspection of materials, operations of wastewater treatment facilities, solid waste management, project management, and wastewater investment planning;

(2) (a) development of accounting and management information systems to be applied by the Implementing Agencies, including provision of training in the utilization of said systems for the staff of the Implementing Agencies; (b) development of financial management curricula to be provided by Liaoning to its employees, and provision of equipment and materials required therefor; (c) carrying out of a program to strengthen Liaoning's financial management capabilities; and (d) carrying out of studies to develop and introduce suitable pricing policies for the management of wastewater, solid waste and cultural properties and the supply of water and district heating; and

(3) development and carrying out of a training program in environmental management, environmental economics, pollution control and environmental monitoring for staff involved at the county, municipal and provincial levels in environmental management, including provision of international study tours and equipment therefor; and

(4) carrying out of feasibility studies for future investment projects in environmental management.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 15, 2000	2,085,000
August 15, 2000	2,160,000
February 15, 2001	2,240,000
August 15, 2001	2,320,000
February 15, 2002	2,405,000
August 15, 2002	2,490,000
February 15, 2003	2,580,000

August 15, 2003	2,675,000
February 15, 2004	2,775,000
August 15, 2004	2,875,000
February 15, 2005	2,980,000
August 15, 2005	3,085,000
February 15, 2006	3,200,000
August 15, 2006	3,315,000
February 15, 2007	3,435,000
August 15, 2007	3,560,000
February 15, 2008	3,690,000
August 15, 2008	3,825,000
February 15, 2009	3,965,000
August 15, 2009	4,105,000
February 15, 2010	4,255,000
August 15, 2010	4,410,000
February 15, 2011	4,570,000
August 15, 2011	4,735,000
February 15, 2012	4,910,000
August 15, 2012	5,090,000
February 15, 2013	5,275,000
August 15, 2013	5,465,000
February 15, 2014	5,665,000
August 15, 2014	5,860,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4);

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of Part B.2(b) of Annex 2 to Schedule 2 to the Project Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$7,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the

Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

