

CONFORMED COPY

LOAN NUMBER 3781 CHA

Project Agreement
(Liaoning Environment Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

PROVINCE OF LIAONING

Dated September 16, 1994

LOAN NUMBER 3781 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 16, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PROVINCE OF LIAONING (Liaoning).

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 available to the Borrower an amount in various currencies equivalent to one hundred ten million dollars (\$110,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Liaoning agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Liaoning, 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 and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Liaoning declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall (i) carry out Parts F(1) and H of the Project, (ii) cause, through Anshan, Part A thereof to be carried out by AWC, (iii) cause, through Fushun, Part B thereof to be carried out by FWC, (iv) cause, through Benxi, Parts C(1), C(2) and C(3) thereof to be carried out respectively, by BWC, BENGANG and BDHC, (v) cause, through Dalian, Parts D(1) and D(3) thereof to be carried out, respectively, by DWC and DSWC, (vi) carry out Part D(2) thereof through Dalian, (vii) cause, through Jinzhou, Parts E(1) and E(2) thereof to be carried out, respectively, by JWSC and JGPM, (viii) carry out Part F(2) thereof through Jinxi, and (ix) cause LEF to carry out Part G thereof, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility and environmental standards and practices, 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 Liaoning shall otherwise agree, Liaoning shall carry out the Project, or cause the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, (a) procurement of the goods, works and consultants' services required for Parts A, B, C, D, E, F and H of the Project and to be financed out of the proceeds of the Loan and (b) procurement of the goods, works and consultants' services required for Pollution Control Projects under Part G of the Project, regardless of the source of financing, shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. Liaoning shall carry 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 the Project.

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

(b) Liaoning 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 Liaoning of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) The Bank and Liaoning shall, from time to time, at the request of either party, exchange views with regard to Liaoning's policies in respect of charges for water supply, wastewater and solid waste disposal, and district heating services and its plans in respect of the overall development of the water supply, wastewater and solid waste disposal, and district heating services sub-sectors of its economy.

(b) Liaoning shall, as long as it exercises control over the setting of charges for the services provided by the Implementing Agencies, establish structures

and levels of charges for such services which would enable the Implementing Agencies, under conditions of efficient operation at reasonable levels of capacity utilization, to meet their respective financial obligations set forth in Annex 1 to Schedule 2 to this Agreement.

Section 3.02. (a) Liaoning shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of Liaoning responsible for carrying out the Project or any part thereof.

(b) Liaoning shall:

(i) have the records and accounts referred to in paragraph (a) of this Section 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; 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 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 Liaoning thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Liaoning 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, telegram, cable, telex or radiogram 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. The addresses so specified are:

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)

For Liaoning:

45, Beiling Avenue
Shenyang
Liaoning 110032
People's Republic of China

Telex:

80363 LUCRP CN

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 Liaoning may be taken or executed by the Vice Governor responsible for construction or such other person or persons as said Vice Governor shall designate in writing, and Liaoning 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas Hope

Acting Regional Vice President
East Asia and Pacific

PROVINCE OF LIAONING

By /s/ Yang Jiechi

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the

bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project, shall be used. Where no relevant standard bidding documents have been issued by the Bank, bidding documents based on other internationally recognized standard forms agreed with the Bank shall be used.

2. Bidders for contracts for (a) civil works estimated to cost more than the equivalent of \$6,000,000 per contract, (b) pipe materials estimated to cost more than the equivalent of \$500,000 per contract and (c) other goods (except for district heating equipment) estimated to cost more than the equivalent of \$1,000,000 per contract, shall be prequalified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for (a) civil works, shall be grouped into bid packages estimated to cost the equivalent of more than \$6,000,000, and (b) goods, shall be grouped into bid packages estimated to cost the equivalent of more than \$200,000.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, domestic contractors may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

Local Competitive Bidding

1. (a) Civil works (other than works under Part G of the Project) estimated to cost the equivalent of \$6,000,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$69,000,000 and (b) goods (other than goods under Part G of the Project) estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$2,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

Shopping

2. (a) Goods (other than goods under Part G of the Project) estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$600,000, and (b) goods and works under Part G of the Project, regardless of the cost thereof, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part E: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to (i) each contract for civil works estimated to cost the equivalent of more than \$6,000,000 and (ii) each contract for goods estimated to cost the equivalent of more than \$1,000,000, the procedures set forth in paragraphs 2 and 4

of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract, together with the other information required to be furnished to the Bank pursuant to said paragraph 3, shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Loan Agreement.

(c) The provisions of the preceding sub-paragraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981. For complex, time-based assignments, such consultants shall be employed under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms agreed with the Bank shall be used.

SCHEDULE 2

Implementation Program

For purposes of Section 2.01 (b) of this Agreement, the Implementation Program shall consist of the following.

A. Project Management

In order to ensure the proper carrying out of the Project, Liaoning shall:

1. continue to maintain a provincial project office, with terms of reference, staffing and other resources satisfactory to the Bank, to be responsible for the overall coordination and supervision of Project execution, the supervision of the procurement of goods and services thereunder, the overall assessment of quality and impact of the Project and the preparation and furnishing to the Bank of reports and other information thereon; and

2. ensure that the Project Municipalities and Jinxi shall each continue to maintain a municipal project office with terms of reference, staffing and other resources satisfactory to the Bank, to be responsible for the coordination and supervision of the execution of its respective Part of the Project and for the liaison between the provincial project office referred to in paragraph 1 of this Part and the Implementing Agencies responsible for the carrying out of its respective Part of the Project, the supervision of the procurement of goods and services under its respective Part of the Project, and the preparation and furnishing to the provincial project office referred to in paragraph 1 of this Part of reports and other information thereon.

B. Allocation of Loan Proceeds to Project Municipalities and Jinxi

Liaoning shall allocate to each Project Municipality and to Jinxi, respectively, an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, terms whereby:

1. the principal amount thereof which shall be recovered from said Project Municipality, or from Jinxi, as the case may be, shall be equal to 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 said Project Municipality's respective part of the Project, or Jinxi's respective part of the Project, as the case may be, to be financed out of the proceeds of the Loan;

2. said principal amount shall be recovered from said Project Municipality or Jinxi, as the case may be, over a period of 15 years, inclusive of a grace period of 5 years;

3. interest shall be charged on said principal amount 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 the Loan Agreement; and

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

C. On-lending of Loan Proceeds to Implementing Agencies

1. For the purpose of carrying out Parts A, B, C, D and E of the Project, Liaoning shall ensure that each Project Municipality shall relend a portion of the amount of the Loan allocated to it pursuant to Part B of this Schedule, to its respective Implementing Agencies, under a subsidiary loan agreement to be entered into between said Project Municipality and each of its respective Implementing Agencies, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Annex 1 to this Schedule.

2. Liaoning shall ensure that each Project Municipality shall:

(a) (i) cause each of its respective Implementing Agencies to perform, in accordance with the provisions of the Subsidiary Loan Agreement to which said Implementing Agency is a party, all of the obligations of said Implementing Agency therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Implementing Agency to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) exercise its rights under each Subsidiary Loan Agreement to which it is a party in such manner as to protect the interests of the Borrower, the Bank, Liaoning 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.

D. Resettlement and Land Acquisition

Liaoning shall:

1. take and shall ensure that the Project Municipalities shall take all measures necessary to ensure that all persons displaced as a result of the Project shall be resettled in accordance with a resettlement plan, acceptable to the Bank, designed to improve the living standards of such persons;

2. (a) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Bank, the carrying out of the resettlement plan referred to in paragraph (1) hereof; (b) prepare and furnish to the Bank not later than January 1 in each year during which resettlement activities are carried out, a report, of such scope and in such detail as the Bank shall reasonably request, on the monitoring and evaluation activities carried out pursuant to sub-paragraph (a) hereof, together with any revisions proposed to be made to said resettlement plan; and (c) promptly introduce any such revisions to said resettlement plan as shall have been approved by the Bank, and

3. ensure that the Project Municipalities shall acquire all land, and rights in

respect thereof, required for them to carry out their respective parts of the Project, in accordance with a time-bound action plan acceptable to the Bank.

E. Sewerage Connections in Anshan, Benxi, Dalian and Fushun

In order to ensure the proper operation of the sewerage systems constructed under the Project, Liaoning shall ensure that Anshan, Benxi, Dalian and Fushun shall each connect to its municipal sewerage system, including the facilities constructed under its respective Part of the Project, all the buildings, septic tanks and nightsoil facilities located within 100 meters of said system, in accordance with a time-bound action plan acceptable to the Bank.

F. Part B of the Project

In furtherance of the objectives of Part B of the Project to improve the quality of Fushun's water supply, Liaoning shall ensure that Fushun shall carry out, through its bureau responsible for environmental protection, a time-bound action plan, acceptable to the Bank, for the upgrading of the production processes of, and the construction of pre-treatment facilities for, selected industrial facilities which discharge into Fushun's waterways wastewater not treated by the facilities to be constructed under said Part B, designed to ensure that all wastewater discharged into Fushun's waterways, including wastewater not treated by the facilities to be constructed under said Part B, shall be treated in such a manner as to ensure that it meets the National Wastewater Discharge Standards applicable thereto.

G. Part C of the Project

Liaoning shall ensure that Benxi shall:

1. carry out a program of river-training and other works, acceptable to the Bank, designed adequately to protect the wastewater interceptor culvert to be constructed under Part C of the Project from flood damage;
2. cause its municipal gas distribution network to be expanded in accordance with a time-bound action plan acceptable to the Bank, so as to allow for the distribution to, and utilization by, households, promptly upon the completion of the upgrading of the blast furnaces under Part C(2) of the Project, of the additional gas which shall be generated by the operation of said furnaces, as so upgraded; and
3. in furtherance of the objectives of Part C of the Project to improve the quality of Benxi's water supply, carry out, through its bureau responsible for environmental protection, a time-bound action plan, acceptable to the Bank, for the upgrading of the production processes of, and the construction of pre-treatment facilities for, selected industrial facilities which discharge into Benxi's waterways wastewater not treated by the facilities to be constructed under said Part C, designed to ensure that wastewater discharged into Benxi's waterways, including wastewater not treated by the facilities to be constructed under said Part C, shall be treated in such a manner as to ensure that it meets the National Wastewater Discharge Standards applicable thereto.

H. Part G of the Project

1. For the purpose of carrying out Part G of the Project, Liaoning shall:

(a) under arrangements satisfactory to the Bank, establish, and thereafter at all times maintain, an environmental fund, as a legally independent state-owned entity under the laws of the Borrower, with financial and managerial autonomy, to undertake responsibility for making loans to enterprises for activities designed to protect the environment in Liaoning;

(b) relend to LEF the amount of the Loan referred to in Part A.1 of Annex 2 to this Agreement, under a subsidiary financing agreement to be entered into between Liaoning and LEF, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Annex 2 to this Schedule; and

(c) through the LEPB: (i) make available to LEF Yuan 2,000,000 not later

than December 31 in each of Fiscal Years 1994 and 1995, and Yuan 10,000,000, in each Fiscal Year thereafter, all under arrangements satisfactory to the Bank; (ii) carry out a time-bound action plan, acceptable to the Bank, designed to achieve an annual rate of collection of Pollution Charges equal at least to 80% of the total amount of said Pollution Charges which shall be due and outstanding at the end of each Fiscal Year; (iii) maintain operational procedures adequate to enable LEPB to monitor and evaluate, in accordance with indicators acceptable to the Bank, the carrying out of the action plan referred to in sub-paragraph (ii) hereof and the achievement of the collection rate referred to in said sub-paragraph; (iv) prepare and furnish to the Bank, not later than June 30 of each Fiscal Year, a report, of such scope and in such detail as the Bank shall reasonably request, on the results of the monitoring and evaluation activities carried out pursuant to sub-paragraph (iii) hereof, together with any additional actions indicated by said activities in order to achieve the collection rate referred to in sub-paragraph (ii) hereof; and (v) thereafter, promptly take such additional actions as shall have been agreed with the Bank in order to achieve said collection rate.

2. Liaoning shall:

(a) (i) cause LEF to perform, in accordance with the provisions of the LEF Subsidiary Financing Agreement all of the obligations of LEF therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable LEF to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) exercise its rights under the LEF Subsidiary Financing Agreement in such manner as to protect the interests of the Borrower, the Bank and Liaoning and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the LEF Subsidiary Financing Agreement or any provision thereof.

I. Part H of the Project

Liaoning shall carry out Part H of the Project in accordance with a time-bound action plan acceptable to the Bank.

ANNEX 1
TO
SCHEDULE 2

Principal Terms and Conditions
of the
Subsidiary Loan Agreements

The principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of Part C.1 of Schedule 2 to this Agreement.

A. General

1. The principal amount of each Subsidiary Loan made to an Implementing Agency shall be the equivalent in Dollars (determined as of 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 goods and services for said Implementing Agency's respective Part of the Project to be financed out of the proceeds of the Loan.

2. Each Subsidiary Loan made to:

(a) AWC, FWC, BHDC, BWC, DSWC, DWC and JWSC shall be: (i) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate equal to the rate applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement; and (ii) made for a period not exceeding 15 years, inclusive of a grace period not exceeding 5 years; and

(b) BENGANG and JGPM shall be: (i) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate equal to the rate

applicable from time to time pursuant to Section 2.05 of the Loan Agreement, plus 1.5%; and (ii) made for a period not exceeding 10 years, inclusive of a grace period not exceeding 3 years.

3. Each Subsidiary Loan made to an Implementing Agency shall be charged a commitment charge on the principal amount thereof not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

4. The Subsidiary Loan Agreements shall be made on conditions whereby:

(a) each Implementing Agency shall undertake to:

(i) (A) carry out its respective Part of the Project with due diligence and efficiency and in accordance with (1) appropriate technical, financial, engineering and (as applicable) public utility practices and (2) appropriate health, safety 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, (1) take all measures necessary to ensure that all persons displaced as a result of its respective Part of the Project shall be resettled in accordance with the resettlement plan referred to in Part D.1 of Schedule 2 to this Agreement and (2) acquire all land, and rights in respect thereof, required for it to carry out its respective Part of the Project, in accordance with a time-bound action plan acceptable to the Bank;

(ii) procure the goods and 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 and services exclusively in the carrying out of its respective Part of the Project;

(iii) enable the Bank, Liaoning and the Participating Municipality making the Subsidiary Loan to said Implementing Agency to inspect such goods and the sites and works included in its respective Part of the Project, the operation thereof, and any relevant records and documents;

(iv) 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 by the Implementing Agency to replace or repair such goods; and

(v) (A) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition;

(B) have its 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 and the Participating Municipality making the Subsidiary Loan to said Implementing Agency;

(C) furnish to the Bank and the Participating Municipality making the Subsidiary Loan to said Implementing Agency, as soon as available, but in any case not later than six months after the end of each such year, (1) certified copies of said financial statements and accounts for such year as so audited and (2) the report of such audit by said auditors in such scope and detail as the Bank and/or said Participating Municipality shall have reasonably requested; and

(D) prepare and furnish to the Bank and the Participating Municipality making the Subsidiary Loan to said Implementing Agency, all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank and/or said Participating Municipality shall reasonably request; and

(b) each Participating Municipality shall have the right to suspend or terminate the right of each Implementing Agency to which it has made a Subsidiary Loan to the use of the proceeds of said Implementing Agency's respective Subsidiary Loan upon failure by said Implementing Agency to perform its obligations under its respective Subsidiary Loan Agreement.

B. JWSC Subsidiary Loan Agreement

The JWSC Subsidiary Loan Agreement shall be made on further conditions whereby JWSC shall undertake to:

1. produce for Fiscal Year 1995 and each Fiscal Year thereafter, total operating revenues equivalent to not less than the sum of: (a) its total operating expenses less depreciation; (b) its increases in working capital; (c) its debt service requirements; and (d) 30% of its three years' average investments;

2. review, before September 30 in each Fiscal Year, and on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in paragraph 1 hereof in respect of such year and the next following Fiscal Year and furnish to the Bank the results of such review upon its completion; and

3. if any such review shows that it would not meet said requirements for the Fiscal Years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its charges) in order to meet such requirements.

C. AWC, FWC, BWC, BDHC, DWC and DSWC Subsidiary Loan Agreements

The AWC, FWC, BWC, BDHC, DWC and DSWC Subsidiary Loan Agreements shall be made on further conditions whereby each Implementing Agency which is a party to one of said Subsidiary Loan Agreements shall undertake:

1. to: (a) produce for Fiscal Year 1995 and each Fiscal Year thereafter, total operating revenues equivalent to not less than the sum of (i) its total operating expenses; and (ii) the amount by which debt service requirements exceeds the provision for depreciation;

(b) review, before September 30 in each Fiscal Year, and on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in sub-paragraph (a) hereof, in respect of such year and the next following Fiscal Year and furnish to the Bank the results of such review upon its completion; and

(c) if any such review shows that it would not meet the requirements set forth in sub-paragraph (a) hereof for the Fiscal Years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its charges) in order to meet such requirements; and

2. not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.3 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred.

D. BENGANG Subsidiary Loan Agreement

The BENGANG Subsidiary Loan Agreement shall be made on further conditions whereby BENGANG shall undertake to:

1. maintain a ratio of current assets to current liabilities of not less than 1.0 for Fiscal Year 1995, 1.3 for Fiscal Year 1996 and 1.5 for Fiscal Year 1997 and each

Fiscal Year thereafter;

2. review, before September 30 in each of its Fiscal Years and on the basis of forecasts prepared by BENGANG and satisfactory to the Bank, whether it would meet the requirements set forth in paragraph 1 hereof in respect of such year and the next following Fiscal Year and furnish to the Bank the results of such review upon its completion; and

3. if any such review shows that BENGANG would not meet the requirements set forth in paragraph 1 hereof for the Fiscal Years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

E. JGPM Subsidiary Loan Agreement

The JGPM Subsidiary Loan Agreement shall be made on further conditions whereby JGPM shall undertake to:

1. maintain a ratio of current assets to current liabilities of not less than 1.5 for Fiscal Year 1995 and each Fiscal Year thereafter;

2. review, before September 30 in each of its Fiscal Years and on the basis of forecasts prepared by JGPM and satisfactory to the Bank, whether it would meet the requirements set forth in paragraph 1 hereof in respect of such year and the next following Fiscal Year and furnish to the Bank the results of such review upon its completion; and

3. if any such review shows that JGPM would not meet the requirements set forth in paragraph 1 hereof for the Fiscal Years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

F. Definitions

1. For purposes of Parts B, C, D, and E of this Annex:

(a) The term "total operating revenues" means revenues from all sources related to operations.

(b) 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 3.3% per annum of the average current gross value of the Implementing Agency's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(c) The average current gross value of the Implementing Agency's fixed assets in operation shall be calculated as one half of the sum of the gross value of its 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.

(d) The term "increases in working capital" means the amount by which (i) the difference between current assets and current liabilities at the end of the Fiscal Year under review exceeds (ii) the difference between current assets and current liabilities at the end of the Fiscal Year preceding the Fiscal Year under review.

(e) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(f) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(g) 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.

(h) The three years' average investments shall be calculated by taking the average of: (i) the total amount of expenditures incurred during the Fiscal Year preceding the Fiscal Year under review on account of fixed assets related to operations; (ii) the total amount of expenditures incurred or planned to be incurred during the Fiscal Year under review on account of fixed assets related to operations; and (iii) the projected amount of expenditures projected to be incurred during the Fiscal Year following the Fiscal Year under review on account of fixed assets related to operations.

(i) The term "debt" means any indebtedness of Liaoning maturing by its terms more than one year after the date on which it is originally incurred.

(j) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(k) The term "net revenues" means the difference between:

(i) the sum of revenues from all sources related to operations and net non-operating income; and

(ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(l) The term "net non-operating income" means the difference between:

(i) revenues from all sources other than those related to operations; and

(ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.

(m) The term "reasonable forecast" means a forecast prepared by an Implementing Agency not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and said Implementing Agency accept as reasonable and as to which the Bank has notified said Implementing Agency of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of said Implementing Agency.

2. Whenever, for the purposes of this Annex, it shall be necessary to value, in terms of the currency of the Borrower, 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.

ANNEX 2
TO
SCHEDULE 2

Principal Terms and Conditions
of the
LEF Subsidiary Financing Agreement

The principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of Part H.1(b) of Schedule 2 to this Agreement.

A. Terms and Conditions of the LEF Subsidiary Financing Agreement

1. The principal amount of the LEF Subsidiary Loan shall be the equivalent in Dollars (determined as of 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 goods and services for Part G of the Project to be financed out of the proceeds of the Loan.

2. The LEF Subsidiary Loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate equal to the rate applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement; (b) charged a commitment charge on the principal amount thereof not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum; and (b) made for a period not exceeding 15 years, inclusive of a grace period not exceeding 5 years.

3. The LEF Subsidiary Financing Agreement shall contain provisions pursuant to which:

(a) LEF shall undertake to:

(i) carry out Part G of the Project and conduct its operations and affairs with due diligence and efficiency and in accordance with (A) sound operational and financial policies and procedures acceptable to the Bank, (B) appropriate technical standards and practices and (C) appropriate health, safety and environmental standards acceptable to the Bank, with qualified management and staff in adequate numbers, and provide, promptly, as needed, the funds, facilities, services, staff and other resources required for the purpose;

(ii) (A) make loans, including Pollution Control Sub-loans, on the terms and conditions set forth or referred to in Part B of this Annex; (B) exercise its rights in relation to each Pollution Control Project in such manner as to protect the interests of the Bank, the Borrower, Liaoning and LEF, comply with its obligations under the LEF Subsidiary Financing Agreement and achieve the purposes of the Project; (C) not assign, amend, abrogate, waive any of its agreements providing for Pollution Control Sub-loans, or any provision therefor, without the prior approval of the Bank and Liaoning; (D) appraise Pollution Control Sub-projects and supervise, monitor and report on the carrying out by Participating Enterprises of Pollution Control Sub-projects, in accordance with procedures acceptable to the Bank and Liaoning, and to this end, enter into an agreement with a commercial bank, both acceptable to the Bank, whereby said commercial bank shall act as agent for LEF for purposes of the carrying out of the financial and technical appraisal of the Pollution Control Projects and for the disbursement of the proceeds of the Pollution Control Sub-Loans and the collection of amounts due thereunder; and (E) ensure that: (1) the total estimated cost of each Pollution Control Project (excluding the cost of land) shall not exceed \$1,000,000; and (2) the aggregate amount of all Pollution Control Sub-loans made (a) to any one Participating Enterprise shall not exceed the equivalent of \$400,000 and (b) for any one Pollution Control Project shall not exceed the lesser of (a) 50% of the total estimated cost (excluding the cost of land) of such Pollution Control Project or (b) \$400,000;

(iii) (A) exchange views with, and furnish all information to, the Bank and Liaoning, as may be reasonably requested by the Bank and/or Liaoning, with regard to the progress of Part G of the Project, the performance of its obligations under the LEF Subsidiary Financing Agreement and other matters relating to the purposes of the Loan; and (B) promptly inform the Bank and Liaoning of any condition which interferes or threatens to interfere with the progress of Part G of the Project;

(iv) (A) maintain procedures, records and accounts adequate to monitor

and record the progress of Part G of the Project and of each Pollution Control Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition; (B) have its 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 and Liaoning; (C) furnish to the Bank and Liaoning, as soon as available, but in any case not later than six months after the end of each such year, (1) certified copies of said financial statements and accounts for such year as so audited, and (2) the report of such audit by said auditors of such scope and in such detail as the Bank and/or Liaoning shall have reasonably requested; and (D) prepare and furnish to the Bank and Liaoning all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank and/or Liaoning shall from time to time reasonably request; and

(v) (A) open and thereafter maintain in the commercial bank referred to in sub-paragraph 3(ii)(D) of this Part, and on terms and conditions satisfactory to the Bank, a separate account to which it shall credit each payment of interest or other charges on, or repayment of principal under, a Pollution Control Sub-loan upon receipt thereof; and (B) utilize all amounts so credited to said separate account, to the extent they are not yet required to meet LEF's repayment obligations to Liaoning under the LEF Subsidiary Financing Agreement, exclusively to finance additional pollution control projects in accordance with guidelines acceptable to the Bank; and

(b) Liaoning shall have the right to suspend or terminate the right of LEF to the use of the proceeds of the LEF Subsidiary Loan upon failure by LEF to perform its obligations under the LEF Subsidiary Financing Agreement.

B. Terms and Conditions of Pollution Control Sub-loans and Other Loans made by LEF

The principal terms and conditions set forth or referred to in this Part B shall apply for the purposes of sub-paragraph 3(a)(ii) of Part A of this Annex.

1. Each Pollution Control Sub-loan shall be made only:

(a) to a Participating Enterprise which: (i) is an enterprise duly established and operating under the laws of the Borrower; (ii) shall have carried out, in accordance with guidelines satisfactory to the Bank, an environmental impact assessment of its operations and prepared and agreed to implement a program designed to solve any outstanding environmental problems associated with its operations as identified in the environmental impact assessment referred to above; and (iii) shall have established to the satisfaction of LEF on the basis of guidelines satisfactory to the Bank, that it is creditworthy and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations, including the Pollution Control Project; and

(b) for a Pollution Control Project which is determined to be technically feasible and financially and economically viable and designed in accordance with appropriate safety, health and environmental standards acceptable to the Bank; all as shall be determined on the basis on an appraisal, including the environmental impact assessment referred to above, carried out in accordance with guidelines satisfactory to the Bank.

2. No expenditures for goods or services required for a Pollution Control Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Pollution Control Sub-loan shall have been approved by the Bank and such expenditures shall have been made not earlier than 90 days prior to the date on which the Bank shall have received the application and information required under sub-paragraph 3(a) of this Part in respect of such Pollution Control Sub-loan; or

(b) the Pollution Control Sub-loan shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 90 days prior to the date on which the Bank shall have received the request and information required under sub-paragraph 3(b) of this Part in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Pollution Control Sub-loan for a Pollution Control Project (other than the first 5 Pollution Control Sub-loans made by LEF), in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$300,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Borrower and the Bank, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Pollution Control Project, the foregoing amounts being subject to change from time to time as determined by the Bank.

3. (a) Each application for approval by the Bank of a Pollution Control Sub-loan (other than a free-limit Sub-loan) shall be in form satisfactory to the Bank, and shall include (i) a description of the Participating Enterprise and an appraisal of the Pollution Control Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Pollution Control Sub-loan, including the schedule of amortization thereof; and (iii) such other information as the Bank shall reasonably request.

(b) Each request for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain (i) a summary description of the Participating Enterprise and the Pollution Control Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Pollution Control Sub-loan, including the schedule of amortization thereof.

4. The principal amount of the portion of each Pollution Control Sub-loan financed out of the proceeds of the Loan shall be the equivalent in Dollars (determined as of 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 goods and services for the Pollution Control Project for which said Pollution Control Sub-loan has been made, to be financed out of the proceeds of the Loan.

5. Each loan, including each Pollution Control Sub-loan, shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate equal to the rate applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement plus 1.5%; (b) charged a commitment fee on the principal amount of said loan not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum; and (c) made for a period not exceeding 5 years, inclusive of a grace period not exceeding 2 years.

6. Each Pollution Control Sub-loan shall be made on further terms whereby LEF shall obtain, by written contract with the Participating Enterprise, or by other appropriate legal means, rights adequate to protect the interests of the Bank and LEF, including:

(a) that the Participating Enterprise shall undertake to:

(i) carry out and operate the Pollution Control Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and appropriate safety, health and environmental standards satisfactory to the Bank, maintain adequate records and provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(ii) procure the goods and services required for the Pollution Control Project in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods and services exclusively in the carrying out of its Pollution Control Project;

(iii) enable the Bank, Liaoning and LEF to inspect such goods and the sites and works included in its Pollution Control Project, the operation thereof, and any relevant records and documents;

(iv) 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 required for the Pollution Control Project to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Participating Enterprise to replace or repair such goods; and

(v) prepare and furnish to LEF for forwarding to the Bank, if so requested by the Bank, all such information as the Bank or LEF shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Participating Enterprise and to the benefits to be derived from the Pollution Control Project; and

(b) provisions to ensure the right of LEF to suspend or terminate the right of the Participating Enterprise to the use of the proceeds of the Loan upon failure by such Participating Enterprise to perform its obligations under its contract providing for the Pollution Control Sub-loan.

