

CONFORMED COPY

LOAN NUMBER 4045 CHA

Loan Agreement

(Chongqing Industrial Pollution Control and Reform Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 4, 1996

LOAN NUMBER 4045 CHA

LOAN AGREEMENT

AGREEMENT, dated December 4, 1996, 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) Parts A and D (1) of the Project will be carried out by Chongqing Municipality (Chongqing) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Chongqing the proceeds of the Loan as provided in this Agreement;

(C) Part B (1) of the Project will be carried out by Chongqing Special Steel Company (Group) Limited (CSSC) with the Borrower's assistance and, as part of such assistance, Chongqing will make available to CSSC a portion of the proceeds of the Loan as provided in this Agreement;

(D) Part B (2) of the Project will be carried out by Chongqing Iron and Steel Company (Group) Limited (CISGC) with the Borrower's assistance and, as part of such assistance, Chongqing will make available to CISGC a portion of the proceeds of the Loan as provided in this Agreement;

(E) Parts C and D (2) of the Project will be carried out by Agricultural Bank of China (ABC), Everbright Bank of China (EBBC) and China Merchants Bank (CMB) (collectively, the Financial Intermediaries) with the Borrower's assistance and, as part of such assistance, Chongqing will make available to the Financial Intermediaries a portion of the proceeds of the Loan as provided in this Agreement;

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 Chongqing Project Agreement of even date herewith between the Bank and Chongqing, the Financial Intermediaries Project Agreement of even date herewith between the Bank and the Financial Intermediaries, and the Steel Companies Project Agreement of even date herewith between the Bank and the Steel Companies;

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 for Single Currency Loans" of the Bank, dated May 30, 1995 with the following modification (the General Conditions) constitute an integral part of this Agreement, namely, the words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in Part A.5(c) of Schedule 1 to the Financial Intermediaries Project Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under Part A.5(a) or (b) of said Schedule; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower, terminate the right of the Financial Intermediaries to submit such applications or requests of the Borrower to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be canceled."

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

(a) "ABC" means the Agricultural Bank of China, established and operating as a bank under the laws of the Borrower and in accordance with the ABC Charter.

(b) "ABC Charter" means the Circular of the Borrower's State Council on the Restoration of the Agricultural Bank of China, dated February 23, 1979 (State Council Document No. (1979) 56) as such circular may be replaced in accordance with the provisions of the Banking Law of the Borrower with a charter acceptable to the Bank.

(c) "Category" means a withdrawal category set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(d) "Chongqing" means Chongqing Municipality, within the Borrower's Province of Sichuan.

(e) "Chongqing Project Agreement" means the agreement between the Bank and Chongqing 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 Chongqing Project Agreement.

(f) "CISGC" means the Chongqing Iron and Steel Group Company (Group) Limited, a limited liability company established and operating under the laws of the Borrower and the CISGC Charter.

(g) "CISGC Charter" means the Charter of CISGC, dated June 27, 1995.

(h) "CISGC EIA" means the environmental impact assessment for Part B (2) of the Project dated September 1995, approved by the Borrower's National Environmental Protection Agency on October 24, 1995 and submitted to the Bank under cover of a letter dated October 31, 1995, and includes environmental mitigation measures as well as administrative and monitoring arrangements ensuring the implementation of said measures for said Part of the Project.

(i) "CISGC Feasibility Document" means the documents regarding the feasibility of the physical relocation and restructuring of CISGC production facilities, as referred to in a letter from CISGC to the Bank dated April 26, 1996.

(j) "CMB" means China Merchants Bank, established and operating as a commercial bank under the laws of the Borrower and in accordance with CMB Charter.

(k) "CMB Charter" means the Articles of Association of CMB, approved by the People's Bank of China in Document No. 12, 1989.

(l) "CSSC" means the Chongqing Special Steel Company (Group) Limited, a limited liability company established and operating under the laws of the Borrower and the CSSC Charter.

(m) "CSSC Charter" means the Articles of CSSC, dated March 20, 1996.

(n) "CSSC EIA" means the environmental impact assessment for Part B (1) of the Project dated September 1995, approved by the Borrower's National Environmental Protection Agency on October 15, 1995 and submitted to the Bank under cover of a letter dated November 5, 1995, and includes environmental mitigation measures as well as administrative and monitoring arrangements ensuring the implementation of said measures for said Part of the Project.

(o) "CSSC Feasibility Document" means the documents regarding the feasibility of the physical relocation and restructuring of CSSC production facilities as referred to in a letter from CSSC to the Bank dated April 26, 1996. (p) "CSSC RAP" dated October 1995 means the land acquisition, removal and resettlement action plan for Part B (1) of the Project, dated December 1995 furnished to the Bank under cover of a letter dated October 26, 1995, and includes procedures governing land acquisition, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with the said plan, for said Part of the Project.

(q) "EBBC" means Everbright Bank of China, established and operating as a commercial bank under the laws of the Borrower and in accordance with the EBBC Charter.

(r) "EBBC Charter" means the Articles of Association of EBBC, approved by People's Bank of China on February 17, 1994.

(s) "Environmental Impact Assessments", means collectively the CSSC EIA, the CISGC EIA and the Sub-project EIAs (as hereinafter defined);

(t) "Financial Intermediaries" means, collectively, ABC, EBBC and CMB, and "Financial Intermediary" means any of the Financial Intermediaries.

(u) "Financial Intermediaries Project Agreement" means the agreement between the Bank and ABC, CMB and EBBC 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 Financial Intermediaries Project Agreement.

(v) "Financial Intermediary Subsidiary Loan Agreements" means the agreements to be entered into between Chongqing and each of ABC, CMB and EBBC pursuant to Section 2.02 (b) of the Chongqing Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the Financial Intermediary Subsidiary Loan Agreements; "Financial Intermediary Subsidiary Loan Agreement" means any of the Financial Intermediary Subsidiary Loan Agreements; and "Financial Intermediary Subsidiary Loan" means the loan provided under a Financial Intermediary Subsidiary Loan Agreement.

(w) "foreign currency" means any currency other than the currency of the Borrower.

(x) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of Part A 4 (b) of Schedule 1 to the Financial Intermediaries Project Agreement.

(y) "Investment Enterprise" means an SOE or NSOE (as hereinafter defined) to which a Financial Intermediary proposes to make or has made a Sub-loan.

(z) "Investment Project" means a specific development project to be carried out by an Investment Enterprise under Part C of the Project utilizing the proceeds of a Sub-loan.

(aa) "NSOE" means any legal entity duly established and operating under the laws of the Borrower which is not an SOE.

(bb) "Renminbi" means the currency of the Borrower.

(cc) "Resettlement Action Plans" means, collectively, the CSSC RAP and the Sub-project RAPs.

(dd) "Respective Part of the Project" means: for Chongqing, Parts A and D (1) of the Project; for CISGC, Part B (2) of the Project; for CSSC, Part B (1) of the Project; for the Financial Intermediaries, Parts C and D (2) of the Project.

(ee) "SOE" means any legal entity duly established and operating under the laws of the Borrower of which at least 51% of its capital is under ownership by the whole people or by one or more legal entities of which at least 51% of said legal entity's capital is under ownership by the whole people.

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

(gg) "Steel Companies" means, collectively, CSSC and CISGC, and "Steel Company" means any of the Steel Companies.

(hh) "Steel Companies Project Agreement" means the agreement between the Bank and CSSC and CISGC 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 Steel Companies Project Agreement.

(ii) "Steel Company Subsidiary Loan Agreements" means the agreements to be entered into between Chongqing and each of the Steel Companies pursuant to Section 2.02 (a) of the Chongqing Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the Steel Company Subsidiary Loan Agreement; "Steel Company Subsidiary Loan Agreement" means either of the Steel Company Subsidiary Loan Agreements; and "Steel Company Subsidiary Loan" means the loan provided under a Steel Company Subsidiary Loan Agreement.

(jj) "Sub-loan" means a loan made or proposed to be made by a Financial Intermediary out of the proceeds of the Loan to an Investment Enterprise for an Investment Project.

(kk) "Sub-project EIA" means any environmental action plan prepared pursuant to Part A 2 (d) of Schedule 1 to the Financial Intermediaries Project Agreement, and "Sub-project EIAs" means, collectively, all Sub-project EIAs.

(ll) "Sub-project RAP" means any resettlement action plan prepared pursuant to Part A 2 (h) of Schedule 1 to the Financial Intermediaries Project Agreement, and "Sub-project RAPs" means, collectively, all Sub-project RAPs.

(mm) "Subsidiary" means any company of which a majority of the outstanding voting stock or other proprietary interest is owned or effectively controlled by a Financial Intermediary or by any one or more Subsidiaries of said Financial Intermediary or by said Financial Intermediary and any one or more of its Subsidiaries.

(nn) "Subsidiary Loan Agreements" means, collectively, the Steel Company Subsidiary Loan Agreements, and the Financial Intermediaries Subsidiary Loan Agreements; "Subsidiary Loan Agreement" means any one of the Subsidiary Loan Agreements; and "Subsidiary Loan" means the loan provided under a Subsidiary Loan Agreement.

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, an amount equal to one hundred seventy million dollars (\$170,000,000).

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 and D of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan;

(ii) amounts paid (or, if the Bank shall so agree, to be paid) by a Financial Intermediary on account of withdrawals made by an Investment Enterprise under a Sub-loan (under Part C of the Project) to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; and

(iii) interest and other charges on the Steel Company Subsidiary Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank and 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 December 31, 2002, 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or

above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually in arrears on March 15 and September 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; Use of the Proceeds of the Loan

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 limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause Chongqing, the Steel Companies and the Financial Intermediaries to perform all their respective obligations set forth in the Chongqing Project Agreement, the Steel Companies Project Agreement and the Financial Intermediaries Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Chongqing, the Steel Companies and the Financial Intermediaries 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 Chongqing the proceeds of the Loan on the following principal terms:

(i) the principal amount so made available to Chongqing shall be denominated and repaid in dollars;

(ii) the Borrower shall recover such principal amount over a period of twenty years, inclusive of a grace period of five years;

(iii) the Borrower shall charge interest on such principal amount withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement; and

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods 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 Chongqing Project Agreement (for Parts A and D (1) of the Project), Schedule 1 to the

Steel Companies Project Agreement (for Part B of the Project) and Schedule 2 to the Financial Intermediaries Project Agreement (for Parts C and D (2) of the Project).

Section 3.03.(a) 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):

(i) in respect of Parts A and D (1) of the Project shall be carried out by Chongqing pursuant to Section 2.04 of the Chongqing Project Agreement;

(ii) in respect of Part B of the Project shall be carried out by the Steel Companies pursuant to Section 2.03 of the Steel Companies Project Agreement; and

(iii) in respect of Parts C and D (2) of the Project shall be carried out by the Financial Intermediaries pursuant to Section 2.03 of the Financial Intermediaries Project Agreement.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

#### 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) Chongqing, either Steel Company or any Financial Intermediary shall have failed to perform any of its obligations under the Chongqing Project Agreement, Steel Companies Project Agreement, or Financial Intermediaries Project Agreement, respectively.

(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 Chongqing, either Steel Company or any Financial Intermediary will be able to perform its obligations under the Chongqing Project Agreement, Steel Companies Project Agreement or Financial Intermediaries Project Agreement, respectively.

(c) The ABC Charter, CISGC Charter, CMB Charter, CSSC Charter or EBBC Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of either Steel Company, or any Financial Intermediary or its ability to carry out any of its respective obligations under the Steel Companies Project Agreement or the Financial Intermediaries Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of either Steel Company or any Financial Intermediary or for the suspension of its 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) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (c) or (d) 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:

(a) Chongqing has adopted a plan acceptable to the Bank for the implementation of a sulfur dioxide levy system; and

(b) the Subsidiary Loan Agreements have been executed on behalf of each 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 Chongqing Project Agreement has been duly authorized or ratified by Chongqing and is legally binding upon Chongqing in accordance with its terms;



(b) that the Steel Companies Project Agreement has been duly authorized or ratified by each Steel Company and is legally binding upon each Steel Company in accordance with its terms;

(c) that the Financial Intermediaries Project Agreement has been duly authorized or ratified by each Financial Intermediary and is legally binding upon each Financial Intermediary in accordance with its terms; and

(d) that the Subsidiary Loan Agreements have been duly authorized or ratified by each of the parties thereto and are legally binding upon said parties, in accordance with their respective 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 100820  
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 (MCI) or  
64145 (MCI)

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/ Li Daoyu

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug

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 Dollars)	% of Expenditures to be Financed
(1) Goods:		
(a) under Part B (1) of the Project	55,600,000 ) )	100% of foreign expenditures, 100%
and	)	local expenditures (ex-factory cost)
(b) under Part B (2) of the Project	38,000,000 ) )	75% of local expenditures for
other	)	items procured
locally	)	
(c) under Part D of the Project	5,000,000 )	
(2) Sub-loans:		
(a) to SOEs	45,000,000 )	100% of amounts ) paid
by Financial		
(b) to NSOEs	5,000,000 )	Intermediary
(3) Interest and other charges on the Steel Section	) )	Amounts capitalized pursuant to
Company Subsidiary	)	2.02 (a) (v) of the
Loans accrued on or	)	Chongqing Project
before June 30, 2001:	)	Agreement
(a) for CSSC	6,400,000 ) )	
(b) for CISGC	4,000,000 )	
(4) Consultants' services and training under Parts A, B and D of the Project	1,000,000	100%

(5) Unallocated	10,000,000
TOTAL	<u>170,000,000</u>
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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 in respect of:

(a) a Sub loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to the Financial Intermediaries Project Agreement;

(b) payments made for expenditures under Categories 1 (a) and 3 (a), until CSSC shall have established, in accordance with Section 2.01 (b) of the Steel Companies Project Agreement, that an aggregate amount equivalent to \$53,733,400 is available to CSSC as counterpart financing for the implementation of Part B.1 of the Project; and

(c) payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures:

(a) under contracts for goods: (i) for Part D of the Project not exceeding \$200,000 equivalent; and (ii) for Part B of the Project not exceeding \$500,000 equivalent;

(b) under contracts with consulting firms not exceeding \$100,000 and with individual consultants not exceeding \$50,000;

(c) for Sub-Loans;

(d) interest and other charges on Steel Company Subsidiary Loans; and

(e) for expenditures for training;

all 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 Chongqing in: (1) achieving a significant reduction in pollution generated by the iron and steel industry and restructuring of productive facilities in such industry; (2) developing a strategy and action plans for the reduction of pollution throughout the industrial sector; and (3) initiating a pilot program to assist industrial enterprises to modernize their operations in an environmentally sound manner.

The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Environmental Action Plans

Undertaking by Chongqing of a program of pollution control, including the development and implementation of action plans for:

(1) pollution control in the iron and steel sector, such plans to include priority pollution mitigation measures for steel plants so as to improve their compliance with environmental regulations governing air, water and solid waste management;

(2) overall pollution control in all industrial sectors, including the identification of the most serious industrial polluters on the basis of data collected pursuant to Part D (1) (a) of the Project, and the design of least cost pollution mitigation measures; and

(3) enforcement of environmental regulations governing, inter alia, environmental registration, environmental impact assessments and their implementation, environmental monitoring of air quality, compliance with air quality standards, and emission levies.

Part B: Industrial Relocation

Carrying out of a program of closure, physical relocation and restructuring of production facilities of CSSC and CISGC and their financial restructuring, consisting of:

(1) relocation of CSSC's steel production facilities in Chongqing's Shaping Ba district to Jinkou farm in the Shang Bei district; resettlement of about 3,000 persons residing in the vicinity of said farm; replacement of CSSC's production equipment with, inter alia, an electric arc furnace with a capacity of about 100 tons, a ladle metallurgy furnace with a vacuum degasser and continuous billet caster, and related equipment; and installation of environmental pollution control facilities for CSSC; and

(2) relocation of CISGC's steel production facilities in Chongqing's Jiangbei district to its steel complex in Chongqing's Dadukuo district; replacement of CISGC's existing production equipment with, inter alia, an electric arc furnace with a capacity of about 60 tons, a ladle metallurgy furnace with a vacuum degasser and continuous billet caster, and related equipment; and installation of environmental pollution control facilities for CISGC.

Part C: Line of Credit

Financing, through the provision of Sub-loans, by the Financial Intermediaries, of specific subprojects to upgrade the facilities and strengthen the organization, management and operations of SOEs and NSOEs, all so as to improve the efficient operation of such entities and ensure their compliance with applicable environmental laws and regulations.

Part D: Institutional Strengthening

(1) Strengthening of the institutional capabilities of Chongqing's agencies responsible for environmental management, surplus labor redeployment and state asset management, through:

(a) the provision to the Chongqing Environmental Protection Bureau of automatic and semi-automatic monitoring stations, source monitoring mobile equipment, a laboratory and related equipment to improve ambient and source air and water quality monitoring systems; the development by said Bureau of hazardous waste management and disposal plans; the establishment and operation within said Bureau of an environmental audit unit, and the establishment and operation of a data processing information center;

(b) the establishment and operation of a Surplus Labor Employment and Training Center to provide training and job placement services to redundant workers and enterprises, including the provision of equipment, training and the development of a unemployment insurance database and management system;

(c) the preparation and implementation of a plan to establish a model cross-sectoral industrial state asset operating company; and

(d) the establishment and operation of restructuring advisory facilities to assist NSOEs in preparing restructuring plans and investment proposals.

(2) Strengthening of the institutional capabilities of the Financial Intermediaries through the provision of training to their staff in credit policy, procedures and analysis, and project appraisal and supervision.

\* \* \* \*

The Project is expected to be completed by June 30, 2002.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
March 15, 2002	3,645,000
September 15, 2002	3,750,000
March 15, 2003	3,855,000
September 15, 2003	3,965,000
March 15, 2004	4,080,000
September 15, 2004	4,200,000
March 15, 2005	4,320,000
September 15, 2005	4,445,000
March 15, 2006	4,570,000
September 15, 2006	4,705,000
March 15, 2007	4,840,000
September 15, 2007	4,980,000
March 15, 2008	5,120,000
September 15, 2008	5,270,000
March 15, 2009	5,420,000
September 15, 2009	5,580,000
March 15, 2010	5,740,000
September 15, 2010	5,905,000
March 15, 2011	6,075,000
September 15, 2011	6,250,000
March 15, 2012	6,430,000
September 15, 2012	6,615,000
March 15, 2013	6,805,000
September 15, 2013	7,000,000
March 15, 2014	7,200,000
September 15, 2014	7,410,000
March 15, 2015	7,625,000
September 15, 2015	7,840,000
March 15, 2016	8,070,000
September 15, 2016	8,290,000

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\* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

### SCHEDULE 4

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (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 A.4 (b) of Schedule 1 to the Financial Intermediaries 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 \$10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$6,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$40,000,000.

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 deposit into the Special Account of an amount or amounts 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 into 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General

Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments 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.

