

CONFORMED COPY

LOAN NUMBER 4751-CHA

Loan Agreement

(Hunan Urban Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 18, 2004

LOAN NUMBER 4751-CHA

LOAN AGREEMENT

AGREEMENT, dated October 18, 2004, 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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Hunan (as defined in Section 1.02) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Hunan, as set forth in this Agreement; and

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

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 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) “Changsha” means Changsha Municipality within Hunan Province, and any successor thereto.

(c) “Changsha Section RAP” means the Resettlement Action Plan for the Corridor Component, Changsha Section, dated March 2004 and prepared by Hunan Water and Hydropower Reconnaissance and Design Institute, which set out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons on account of the execution of Part A of the Project in Changsha, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Bank.

(d) “Changsha Wastewater Treatment RAP” means the Resettlement Action Plan of Chanshanyuan of Changsha City dated December 2003 and adopted by Changsha, which sets out the principles and procedures governing the acquisition of land and other assets, the resettlement, compensation and rehabilitation of Displaced Persons on account of the execution of Part B of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Bank.

(e) “CMDC” means Changsha Municipal Drainage Company Limited a state-owned limited liability company established and operating pursuant to its Charter of July 2000 and to Business License No. 4301001003232 dated November 27, 2000, issued by Changsha Industrial and Commercial Administration Bureau, and any successor thereto.

(f) “CUDIC” means Changsha Urban Development Investment Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of August 18, 1988, and to Business License No. 4301001003070 dated August 18, 1988, issued by Changsha Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(g) “CZT EIO” means the Changsha-Zhuzhou-Xiangtan Economic Integration Office referred to in paragraph 1(b) of Schedule 2 to the Project Agreement.

(h) “CZT Region” means the region encompassing the Municipalities of Changsha, Zhuzhou and Xiangtan.

(i) “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of

livelihood, whether or not such persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a “Displaced Person” means any of such Displaced Persons.

(j) “Environmental Management Plan” means the Hunan Urban Development Project Environmental Management Plan dated July 2004 prepared on behalf of Hunan, and referred to in paragraph 3 of Schedule 2 to the Project Agreement and which said Plan sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as said plan may be revised from time to time with the agreement of the Bank.

(k) “Fiscal Year” means: (i) in respect of the Borrower, each period from January 1 through December 31 of the calendar year; and (ii) in respect of each of Hunan, the Project Municipalities and the Project Companies, each period from January 1 through December 31 of the calendar year.

(l) “HEPB” means Hunan Environmental Protection Bureau, which is responsible for the enforcement of environmental laws and regulations in Hunan Province.

(m) “Hunan” means the Borrower’s Province of Hunan, and any successor thereto.

(n) “HWRB” means Hunan Water Resources Bureau which is responsible for the regulation of water resources in Hunan province.

(o) “HZCCC” means Hunan Zhuxi Clean Coal Co. Ltd., a state-owned limited liability company established and operating pursuant to its Charter of April 16, 2002, and to Business License No. 43020010044169 dated May 8, 2002, issued by Zhuzhou Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(p) “Project Agreement” means the agreement between the Bank and Hunan of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement.

(q) “Project Municipalities” means, collectively, Changsha, Xiangtan and Zhuzhou; and a “Project Municipality” means, individually, any of said Project Municipalities.

(r) “Resettlement Policy Framework” means the Resettlement Policy Framework for Linked Projects dated March 2004 prepared on behalf of Hunan and referred to in paragraphs 2 and 4 of Schedule 2 to the Project Agreement, which sets out

the policies and procedures for the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement action plans whenever required during the implementation of the Project, as said Policy Framework may be revised from time to time with the prior agreement of the Bank.

- (s) “Respective Parts of the Project” means in respect of:
 - (i) CMDC, Parts B, E.1, E.3 and F of the Project;
 - (ii) CUDIC, Parts A, E.1 and F of the Project;
 - (iii) HZCCC, Parts C, E.1 and F of the Project;
 - (iv) XUDIC, Parts A, E.1 and F of the Project;
 - (v) ZTTDC, Parts A, D, E.1 and F of the Project;
 - (vi) ZUDIC, Parts A, E.1 and F of the Project; and
 - (vii) CZT EIO, Part E.5 of the Project.
- (t) “Respective Project Companies” means in respect of:
 - (i) Changsha: CUDIC and CMDC;
 - (ii) Xiangtan: XUDIC, and ZTTDC; and
 - (iii) Zhuzhou: ZUDIC.

collectively, referred to as “Project Companies.”

- (u) “Respective Resettlement Action Plans” means in respect of:
 - (i) Changsha: the Changsha Section RAP and Changsha Wastewater Treatment RAP;
 - (ii) CUDIC: the Changsha Section RAP;
 - (iii) CMDC: Changsha Wastewater Treatment RAP;
 - (iv) Xiangtan: the Xiangtan Section RAP, Zhaoshan Section RAP and Xiangtan-Zhaoshan Scenic Area RAP;
 - (v) XUDIC: the Xiangtan Section RAP;

(vi) ZTTDC: Zhaoshan Section RAP and Xiangtan-Zhaoshan Scenic Area RAP; and

(vii) Zhuzhou and ZUDIC: the Zhuzhou Section RAP.

(v) “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

(w) “Subsidiary Loan Agreements” means, collectively, the agreements to be entered into between Hunan and HZCCC and between each Project Municipality and each of its Project Companies pursuant to paragraph 6 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules and supplements to said agreements; and a “Subsidiary Loan Agreement” means, individually, any of said Subsidiary Loan Agreements.

(x) “Xiangtan” means Xiangtan Municipality within Hunan Province, and any successor thereto.

(y) “Xiangtan Section RAP” means the Resettlement Action Plan for the Corridor Component, Xiangtan Urban Section dated March 2004 and prepared by Hunan Water and Hydropower Reconnaissance and Design Institute, which set out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons on account of the execution of Part A of the Project in Xiangtan, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Bank.

(z) “Xiangtan-Zhaoshan Scenic Area RAP” means Zhaoshan Scenic Area Component Resettlement Action Plan, dated March 2004 and prepared on behalf of Xiangtan, which set out the procedures governing land acquisition, resettlement and compensation for Displaced Persons for Part E of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Bank.

(aa) “XUDIC” means Xiangtan Urban Development Investment Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of October 22, 2003, and to Business License No. 4303001003649 dated July 11, 2001, issued by Xiangtan Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(bb) “XWRB” means Xiangtan Water Resources Bureau, which is responsible for the regulation of construction and management of water resource infrastructure in Xiangtan Municipality.

(cc) “Zhaoshan Section RAP” means the Resettlement Action Plan for the Corridor Component, Zhaoshan Section dated March 2004 and prepared by Hunan Water and Hydropower Reconnaissance and Design Institute, which set out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons on account of the execution of Part A of the Project in Zhaoshan, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Bank.

(dd) “Zhuzhou Section RAP” means the Resettlement Action Plan for the Corridor Component, Zhuzhou Section dated March 2004 and prepared by Hunan Water and Hydropower Reconnaissance and Design Institute, which set out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons on account of the execution of Part A of the Project in Zhuzhou, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Bank.

(ee) “Zhuzhou” means Zhuzhou Municipality within Hunan Province, and any successor thereto.

(ff) “ZTTDC” means Zhaoshan Tourism and Trade Development Company, a state-owned company established and operating pursuant to its Charter of December 24, 1992, and to Business License No. 4303041000137 dated December 24, 1992, issued by Xiangtan Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(gg) “ZUDIC” means Zhuzhou Urban Development Investment Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of May 27, 2003, and to Business License No. 4302001004445 dated June 3, 2003, issued by Zhuzhou Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Hunan and each of the Project Municipalities and their Respective Project Companies.

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-two million Dollars (\$172,000,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and 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, 2010, 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 fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollar 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) three-fourths of one percent ($3/4$ 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 2.06, 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 new 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 2.07. Interest and other charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Hunan to perform in accordance with the provisions of the Project Agreement all the obligations of Hunan therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Hunan 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 the proceeds of the Loan available to Hunan on the following principal terms:

- (i) The principal amount shall be made available in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn.
- (ii) The following shall be recovered over a period of twenty (20) years, inclusive of a grace period of five (5) years: (A) the principal amount so made available; and (B) an amount equal to the fee paid pursuant to Section 2.04 of this Agreement.
- (iii) Interest shall be charged 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 the provisions of Section 2.06 of this Agreement.
- (iv) A commitment fee shall be charged on such principal amount of the Loan so made available and not withdrawn from time to time at a rate equal to three fourths of one percent ($3/4$ of 1%) per annum.

Section 3.02. Except as the Bank shall otherwise agree procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Hunan pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause Hunan to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

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

(c) 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) 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, or covering, the fiscal year in which the last withdrawal from the Loan Account was made;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies of the Bank

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

- (a) Hunan shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Hunan will be able to perform its obligations under the Project Agreement.
- (c) Any of the parties to any of the Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

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) CUDIC, XUDIC, ZTTDC (for ZTTDC, with respect to Part A of the Project) and ZUDIC, and their respective Project Municipalities have each entered into a Subsidiary Loan Agreement, satisfactory to the Bank, in accordance with the provisions of paragraph 6 of Schedule 2 to the Project Agreement.

(b) Hunan, through CZT EIO, has entered into a contract or contracts with consulting firm or firms, acceptable to the Bank for the provision of technical assistance in institutional development and project management under Part E.1 of the Project.

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

(a) The Project Agreement has been duly authorized or ratified by Hunan and is legally binding upon Hunan in accordance with its terms.

(b) Each of the Subsidiary Loan Agreements referred to in Section 6.01(a) has been duly authorized or ratified by each of the parties thereto and is legally binding on said parties in accordance with its terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Sanlihe, Beijing 100820
People's Republic of China

Facsimile:

(86-10) 68551125

For the Bank:

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

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

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

PEOPLE'S REPUBLIC OF CHINA

By: /s/ Zou Jiayi

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ David Dollar

Authorized Representative

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Part A of the Project to be implemented by:		
(a) CUDIC	32,380,000	68%
(b) XUDIC	18,680,000	69%
(c) ZUDIC	43,190,000	69%
(d) ZTTDC	10,980,000	69%
(2) Works under Parts B, C and D of the Project to be implemented by:		
(a) CMDC	26,970,000	42%
(b) ZTTDC	3,180,000	48%
(3) Goods under Part A of the Project to be implemented by:		
(a) CUDIC	2,750,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(b) CMDC	19,300,000	
(c) HZCCC	7,760,000	
(4) Consultants' services required to carry out:		
(a) Parts E.1 and E.5 (by the Project Companies and CTZ-EIO respectively)	4,890,000	91%
(b) Part E.2(a) (by HWRB)	610,000	
(c) Part E.3 (by CMDC)	300,000	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(d) Part E.4 (by HEPB)	150,000	
(5) Fee	860,000	Amount due under Section 2.04 of the Loan Agreement
TOTAL	<u>172,000,000</u>	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region, and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be foreign expenditures.

(b) The term “local expenditures” means any expenditures that are not foreign expenditures.

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

(a) Expenditures under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$17,000,000 for expenditures by the Project Companies may be made in respect of Categories (1), (2) and (4) on account of payments made for expenditures before that date but after April 15, 2004.

(b) Expenditures under Category 1(b) set forth in the table of paragraph 1 of this Schedule until the Bank shall have received evidence, satisfactory to the Bank, that Xiangtan has adopted the Shaoyaogang EMP and Shaoyaogang RAP as defined and prepared in accordance with the provisions in paragraph 6 of Section II in Schedule 3 to the Project Agreement.

(c) Expenditures under Categories 2(a) and 3(b) set forth in the table of paragraph 1 of this Schedule until the Bank shall have:

- (i) received evidence satisfactory to the Bank that CMDC has entered into a contract with consultants, under terms of reference satisfactory to the Bank, to provide technical assistance for the institutional development of CMDC under Part E.3 of the Project; and
 - (ii) notified the Borrower and Hunan of its receipt of received evidence, satisfactory to the Bank, that a Subsidiary Loan Agreement has been entered into between Changsha and CMDC in accordance with the provisions of paragraph 6 of Schedule 2 to the Project Agreement and that said Subsidiary Loan Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon the parties thereto in accordance with its terms.
- (d) Expenditures under Category (3)(c) set forth in the table of paragraph 1 of this Schedule until the Bank shall have:
- (i) received, a plan, prepared in accordance with terms of reference acceptable to the Bank, for the treatment of solid waste that will be generated by the new facilities to be constructed under Part C of the Project; and
 - (ii) notified the Borrower and Hunan of its receipt of received evidence, satisfactory to the Bank, that a Subsidiary Loan Agreement has been entered into between Hunan and HZCCC in accordance with the provisions of paragraph 6 of Schedule 2 to the Project Agreement and that said Subsidiary Loan Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon the parties thereto in accordance with its terms.
- (e) Expenditures under Category (2)(b) set forth in the table of paragraph 1 of this Schedule until the Bank shall have:
- (i) received evidence, satisfactory to the Bank, that official approval has been given for works to be carried out on Zhaoshan Temple, which is listed with the Xiangtan Municipal Cultural Relics Bureau; and
 - (ii) notified the Borrower and Hunan of its receipt of received evidence, satisfactory to the Bank, that a Subsidiary Loan Agreement with respect to Part D of the Project has been entered into between Xiangtan and ZTTDC in accordance with the provisions of paragraph 6 of Schedule 2 to the Project Agreement

and that said Subsidiary Loan Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon the parties thereto in accordance with its terms.

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

- (a) works under contracts costing less than \$3,000,000 equivalent each;
- (b) goods under contracts costing less than \$500,000 equivalent each; and
- (c) consultants' services under contracts with firms or individuals, each costing less than \$100,000 equivalent or \$50,000 equivalent, respectively,

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Hunan in fostering greater economic integration of the region encompassed by the Municipalities of Changsha, Zhuzhou and Xiangtan by investing in priority infrastructure that addresses specific regional needs in a sustainable manner.

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

Part A: Flood Control Improvement and Scenic Road Construction

Raise and strengthen selected sections of the existing embankment and build new embankments and associated flood control facilities along the Xiang River in the CZT Region to improve flood control, and construct a scenic road and associated parking and road facilities along the embankment crest to provide access, further flood control protection and a recreational resource.

Part B: Changsha Wastewater Management

Construct a secondary wastewater treatment plant in Xi Long Cun with a capacity of 120,000 cubic meter per day and a sewerage collection network, including sewer pipes, culverts, interceptors, and pumping main, all to serve the Changshanyuan drainage area.

Part C: Zhuzhou Clean Coal

Construct a 250,000 metric ton per year coal water mixture manufacturing plant and a 250,000 metric ton per year coal briquette manufacturing plant, and upgrade the capacity of the coal washing and preparation plant in Zhuzhou to 1,000,000 metric ton per year, all to provide clean coal products to replace the use of raw coal and fuel oil.

Part D: Zhaoshan Scenic Area

Redevelop the Zhaoshan Scenic Area through rehabilitation and afforestation of natural grounds, including eight selected natural scenic locations within the park area, and construction of supporting infrastructure and utilities to facilitate access to and enhance use of the area.

Part E: Institutional Strengthening

1. Strengthen the capacity of Project Companies to implement the Project, including carrying out engineering design, procurement, construction supervision and quality control and construction management.
2. (a) Strengthen the capacity of local Water Resources Bureaus with respect to the operation and management of dykes, scenic road operation and maintenance and flood warning including, the management of subcontractors, project planning, financial and quality control, general management of operations, operation and maintenance of pumps and gates, inspection of dyke structures, flood warning, monitoring, and evaluation of flood control; and (b) strengthen the capacity of the provincial Water Resources Bureau to interface with local Water Resources Bureaus for flood monitoring, evaluation and warning.
3. Provide technical assistance to transform the Changsha Municipal Drainage Company into an autonomous public utility operating on commercial principles.
4. Provide technical assistance to HEPB and the municipal environmental protection bureaus to strengthen their capacity to enforce and monitor compliance with environmental regulations and standards, which relate to sulfur standard content in coal, and to develop incentives for sulfur control in order to create a new market for clean coal products in the CZT Region.
5. Strengthen the capacity of CZT EIO, at the provincial and municipal levels, in macro-economic planning, large scale integrated project management, definition of optimal integration methods, project management, public and stakeholder consultations, and financial and administrative management of projects.

Part F: Resettlement

Resettlement and rehabilitation of Displaced Persons in connection with the carrying out of Parts A, B and D of the Project.

* * *

The Project is expected to be completed by June 30, 2010.

SCHEDULE 3

Amortization Schedule

<u>Date of Payment Due</u>	<u>Payment of Principal (expressed in Dollars) *</u>
June 15, 2010	4,980,000
December 15, 2010	5,025,000
June 15, 2011	5,075,000
December 15, 2011	5,120,000
June 15, 2012	5,170,000
December 15, 2012	5,220,000
June 15, 2013	5,270,000
December 15, 2013	5,320,000
June 15, 2014	5,370,000
December 15, 2014	5,425,000
June 15, 2015	5,475,000
December 15, 2015	5,525,000
June 15, 2016	5,580,000
December 15, 2016	5,635,000
June 15, 2017	5,685,000
December 15, 2017	5,740,000
June 15, 2018	5,795,000
December 15, 2018	5,850,000
June 15, 2019	5,905,000
December 15, 2019	5,965,000
June 15, 2020	6,020,000
December 15, 2020	6,080,000
June 15, 2021	6,135,000
December 15, 2021	6,195,000
June 15, 2022	6,255,000
December 15, 2022	6,315,000
June 15, 2023	6,375,000
December 15, 2023	6,435,000
June 15, 2024	6,495,000
December 15, 2024	6,565,000

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), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (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; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$9,000,000 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 \$50,000,000.
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, 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 respective 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), 6(b) and 6(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.