

**CONFORMED COPY**

**LOAN NUMBER 4617 CHA**

# **Loan Agreement**

**(Liao River Basin Project)**

**between**

**PEOPLE'S REPUBLIC OF CHINA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated January 18, 2002**

**LOAN NUMBER 4617 CHA**

**LOAN AGREEMENT**

AGREEMENT, dated January 18, 2002, 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 Liaoning (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 Liaoning, 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 Liaoning (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) "Affected Persons" means persons who, on account of the execution of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and "Affected Person" means any of the Affected Persons.

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

(c) "Environmental Action Plans" means: (i) the Environmental Impact Assessment for the Liao River Basin Project (Final), dated February 2001, covering Part A of the Project and includes environmental mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures; and (ii) the Sub-project EAPs.

(d) "Industrial Pollution Control Action Plan" means the action plan dated March

2001 setting forth activities to be carried out by Liaoning to control and minimize industrial pollution in the Liao River Basin in order for surface waters of Liaoning to meet the water quality class-V standard stipulated in the Borrower's "Surface Water Environmental Quality Standard" (GB3838-88).

(e) "Jinzhou" means Jinzhou Municipality within Liaoning Province, and any successor thereto.

(f) "Jinzhou DC" means Jinzhou Drainage Management Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of October 26, 2000, and to Business License No. 2107011100012, dated October 20, 2000, issued by Jinzhou Industrial and Commercial Administration Bureau, and any successor thereto.

(g) "Jincheng PMC" means Jincheng Paper-Making Company Limited, a limited liability company majority-owned by the state and established and operating pursuant to its Charter of April 17, 2000 and to Business License No. 2107001100321, dated July 23, 1999, issued by Jinzhou Industrial and Commercial Administration Bureau, and any successor thereto.

(h) "Jinzhou Wastewater RAP" means the 'Resettlement Action Plan for Jinzhou Wastewater Treatment Project' dated December 2000, which was prepared by Jinzhou DC and sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A.3(a) 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 in agreement with the Bank.

(i) "LEPB" means Liaoning Environmental Protection Bureau, which is responsible for environmental protection in Liaoning, and any successor thereto.

(j) "LUCRPO" means Liaoning Urban Construction and Renewal Project Office, which is responsible for promoting and managing internationally financed urban development projects in Liaoning.

(k) "LCD" means Liaoning Construction Department, which is responsible for the design, development and management of urban infrastructure in Liaoning, and any successor thereto.

(l) "LFD" means Liaoning Finance Department, which is responsible for the management of Liaoning's financial budget, and any successor thereto.

(m) "Liaoning" means the Borrower's Liaoning Province, and any successor thereto.

(n) "Operational Regulations" means the manual referred to in paragraph 11 of Schedule 2 to the Project Agreement.

(o) "Panjin" means Panjin Municipality within Liaoning Province, and any successor thereto.

(p) "Panjin DC" means Panjin Municipal Drainage Management Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of October 24, 2000, and to Business License No. 2111001100330 dated December 10, 2000,

issued by Panjin Industrial and Commercial Administration Bureau, and any successor thereto.

(q) “Panjin Wastewater RAP” means the ‘Resettlement Action Plan for Panjin Wastewater Treatment Project’ dated March 2001, which was prepared by Panjin DC and sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A.1 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 in agreement with the Bank.

(r) “Participating Enterprise” means an enterprise to which Liaoning proposes to make, or has made, a Sub-loan.

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

(t) “Project Company” means in respect of:

(i) Jinzhou: Jinzhou DC and Jincheng PMC;

(ii) Panjin: Panjin DC; and

(iii) Yingkou: Yingkou DC and Yingkou PMC,

collectively, referred to as “Project Companies.”

(u) “Project Company’s Respective Part of the Project” means:

(i) for Jinzhou DC: Parts A.3(a), E.1 and E.2 of the Project;

(ii) for Jincheng PMC: Parts A.3(b) of the Project;

(iii) for Panjin DC: Parts A.1, E.1 and E.2 of the Project;

(iv) for Yingkou DC: Parts A.2(a), E.1 and E.2 of the Project; and

(v) for Yingkou PMC: Parts A.2(b) of the Project;

(v) “Project Participants” means, collectively, Jinzhou, Panjin and Yingkou; and “Project Participant” means, individually, any of the Project Participants.

(w) “Resettlement Action Plans” means, collectively, the Jinzhou Wastewater RAP, Panjin Wastewater RAP, Yingkou Wastewater RAP and the Sub-project RAPs.

(x) “Respective RAP” means:

(i) for Jinzhou DC : Jinzhou Wastewater RAP;

(ii) for Panjin DC: Panjin Wastewater RAP; and

(iii) for Yingkou DC: Yingkou Wastewater RAP.

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

(z) “Subsidiary Loan Agreements” means, collectively, the agreements to be entered into between each Project Participant and its Project Company or Project Companies, as the case may be, pursuant to paragraph 7 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes schedules to said agreements; and “Subsidiary Loan Agreement” means, individually, any of the Subsidiary Loan Agreements.

(aa) “Sub-loan” means a loan made, or proposed to be made by Liaoning, out of the proceeds of the Loan, to a Participating Enterprise for a Sub-project; and “Sub-loans” means, collectively, all loans made by Liaoning out of the proceeds of the Loan to Participating Enterprises for Sub-projects.

(bb) “Sub-project” means a specific development project under Part D of the Project to be carried out by a Participating Enterprise utilizing the proceeds of a Sub-loan.

(cc) “Sub-project EAPs” means, collectively, the environmental action plans prepared pursuant to paragraph 5(b) of Schedule 4 to the Project Agreement; and “Sub-project EAP” means, individually, any of the Sub-project EAPs.

(dd) “Sub-project RAPs” means, collectively, the resettlement action plans prepared pursuant to paragraph 5(c) of Schedule 4 to the Project Agreement; and “Sub-project RAP” means, individually, any of the Sub-project RAPs.

(ee) “Yingkou” means Yingkou Municipality within Liaoning Province, and any successor thereto.

(ff) “Yingkou DC” means Yingkou Drainage Company, state-owned company, established and operating pursuant to its Charter of September 2000 and to Business License No. 2108001110543, dated November 22, 2000, issued by Yingkou Industrial and Commercial Administration Bureau, and any successor thereto.

(gg) “Yingkou PMC” means Yingkou Paper-Making Company Limited, a limited liability company wholly-owned by Jincheng PMC and established and operating pursuant to its Charter of November 1997 and to Business License No. 2108001111121-00, dated August 30, 1999, issued by Yingkou Industrial and Commercial Administration Bureau, and any successor thereto.

(hh) “Yingkou Wastewater RAP” means the ‘Resettlement Action Plan for Yingkou Wastewater Treatment Project’ dated December 2000, which was prepared by Yingkou DC and sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A.2(a) 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 in agreement with the Bank.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Liaoning and each of the Project Participants and 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 million Dollars (\$100,000,000).

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, works and consultants' services required for Parts A, B, C and E of the Project and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Participating Enterprise under a Sub-loan (under Part D of the Project) to meet the reasonable cost of goods and consultants' services required for a Sub-project and in respect of which the withdrawal from the Loan account is requested.

(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, 2007, 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. 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 February 15 and August 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 Liaoning to perform in accordance with the provisions of the Project Agreement all the obligations of Liaoning 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 Liaoning to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Liaoning 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 one percent (1%) of the Loan.
- (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: (a) procurement of the goods, works and consultants' services required for Parts A, B, C and E of 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; and (b) procurement of goods and consultants' services required for Sub-projects (under Part D of the Project) and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1A 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 Liaoning pursuant to Section 2.03 of the Project Agreement.



**ARTICLE IV**

**Financial Covenants**

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

( i )	maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
( i i )	retain, 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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
(iii)	enable the Bank's representatives to examine such records; and
( v )	ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures 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.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a)(i) of this Section, including 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(p) of the General Conditions, the following additional events are specified:

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

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

(c) 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 event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, Subsidiary Loan Agreements have been executed on behalf of: (a) Jinzhou and Jinzhou DC; (b) Panjin and Panjin DC; and (c) Yingkou and Yingkou DC.

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 Liaoning and is legally binding upon Liaoning in accordance with its terms.

(b) Each of the Subsidiary Loan Agreements 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

Cable address:	Telex:	Facsimile:
FINANMIN Beijing	22486 MFPRC CN	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)	(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/ Ms. Zou Jiayi

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

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 the following Parts of the Project:		
(a) Part A.1 (Panjin DC)	6,750,000)	
(b) Part A.2(a) (Yingkou DC)	11,750,000)	40%
(c) Part A.3(a) (Jinzhou D.C.)	5,750,000)	
(d) Other Parts of the Project	750,000)	
(2) Goods under the following Parts of the Project		

		) 100% of foreign ) expenditures, 100%
(a) Part A.3(b) (Jingcheng PMC)	8,500,000	) of local expenditures
(b) Part A.2(b) (Yingkou PMC)	12,500,000	) (ex-factory cost) and
(c) Other Parts of the Project	30,000,000	) 75% of local expenditures ) for other items procured ) locally
 (3) Sub-Loans	 10,000,000	 95% of amounts disbursed
 (4) Consultants' services and training	 8,000,000	 100%
 (5) Fee	 1,000,000	 Amount due under Section 2.04 of the Loan Agreement
 (6) Unallocated	 5,000,000	
 TOTAL	 <u>100,000,000</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 expenditures:

(a) under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$6,000,000 for expenditures by the Project Companies may be made in respect of Categories (1)(a), (1)(b) and (1)(c) on account of payments made for expenditures before that date but after March 21, 2001;

(b) under each of the following Categories until the respective Project Company shall have entered into an agreement, acceptable to the Bank, in accordance with Section II of Schedule 1 to the Project Agreement, with consultancy firms for the provision of training, institutional and financial technical assistance services and construction supervision services under Part E of the Project: (i) for Category (1)(a), the respective Project Company is Panjin DC;

(ii) for Category (1)(b), the respective Project Company is Yingkou DC; and (iii) for Category (1)(c), the respective Project Company is Jinzhou DC;

(c) under Category (2)(a) until the Bank shall have notified the Borrower of its receipt of evidence satisfactory to the Bank that a Subsidiary Loan Agreement has been entered into between Jinzhou and Jincheng PMC and that said Subsidiary Loan Agreement has been duly ratified by the parties thereto and is legally binding upon the parties in accordance with its terms;

(d) under Category (2)(b) until the Bank shall have notified the Borrower of its receipt of evidence satisfactory to the Bank that a Subsidiary Loan Agreement has been entered into between Yingkou and Yingkou PMC and that said Subsidiary Loan Agreement has been duly ratified by the parties thereto and is legally binding upon the parties in accordance with its terms; and

(e) under Category (3) until: (i) the Operational Regulations have been adopted and put into effect by the Liaoning, and unless (ii) the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 2 to the Project Agreement.

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

(a) works under contracts costing less than \$6,000,000 equivalent each;

(b) goods under contracts costing less than \$300,000 equivalent each;

(c) consultants' services under contracts with firms or individuals, each costing less than \$100,000 equivalent or \$50,000 equivalent respectively; and

(d) training, regardless of the cost thereof,

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 Liaoning during the first phase of its program to: (a) improve the water quality and urban environment of the area of the Liao River Basin within its jurisdiction through the management of wastewater and reduction of industrial water pollution; and (b) enhance its basin-wide water quality management and monitoring capabilities.

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: Wastewater Management

1. Panjin Wastewater Management

Construction of interceptor sewers, pumping stations and a wastewater treatment plant, and modification, upgrading and rehabilitation of existing pumping stations and selected facilities within the sewerage system in Panjin.

2. Yingkou Wastewater Management

(a) Construction of interceptor sewers, pumping stations and a wastewater treatment plant, and upgrading and rehabilitation of selected facilities within the sewerage system in Yingkou.

(b) Modification of Yingkou PMC's paper-making processes and operations to reduce water pollution by upgrading its equipment and facilities.

3. Jinzhou Wastewater Management

(a) Construction of interceptor sewers and a wastewater treatment plant, and upgrading and rehabilitation of selected facilities within the sewerage system in Jinzhou.

(b) Modification of Jincheng PMC's paper-making processes and operations to reduce water pollution by upgrading its equipment and facilities.

Part B: Urban Management Information Systems

1. Establishment of city-wide geographic information systems (GIS) that focus on selected main urban areas in Liaoning.

2. Strengthening the Urban Management Information System Center by: (a) developing a provincial urban information system to facilitate policy and strategy formulation and implementation; and (b) formulating and implementing a strategy for public access to urban and environmental information.

Part C: Environmental Quality Monitoring

Improvement of environmental quality monitoring in Liaoning by upgrading monitoring equipment.

Part D: Environmental Sub-projects

Reduction of polluting discharges by enterprises in order to comply with environmental regulations, through the carrying out of Sub-projects to upgrade in-plant processes of said enterprises.

Part E: Institutional Strengthening, Construction Management Supervision and Studies

Carrying out programs to strengthen the institutional capabilities of provincial and municipal level agencies and the Project Companies in environmental, financial and utility management, consisting of :

(1) Strengthening the financial, institutional, operational and management capacities of Liaoning, the Project Participants, Jinzhou DC, Panjin DC and Yingkou DC in the areas of business strategy and planning, financial management, setting and collection of tariffs, utility operations and information and data management.

(2) Strengthening the capacity of Liaoning, the Project Participants, Jinzhou DC, Panjin DC and Yingkou DC in supervising construction under the Project and in promoting improvement of construction quality.

(3) Enhancing the institutional capability of Liaoning and the Project Participants in the management of urban infrastructure investments.

(4) Carrying out: (a) studies on improvement of the quality of the urban environment; and (b) feasibility studies for future investment projects in environmental management.

Part F. Resettlement

Resettlement and rehabilitation of Affected Persons in connection with the carrying out of Part A of the Project.

\* \* \*

The Project is expected to be completed by December 31, 2006.

**SCHEDULE 3**

**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in Dollars)*</u>
February 15, 2007	2,100,000
August 15, 2007	2,165,000



February 15, 2008	2,230,000
August 15, 2008	2,295,000
February 15, 2009	2,365,000
August 15, 2009	2,435,000
February 15, 2010	2,510,000
August 15, 2010	2,585,000
February 15, 2011	2,665,000
August 15, 2011	2,745,000
February 15, 2012	2,825,000
August 15, 2012	2,910,000
February 15, 2013	2,995,000
August 15, 2013	3,085,000
February 15, 2014	3,180,000
August 15, 2014	3,275,000
February 15, 2015	3,375,000
August 15, 2015	3,475,000
February 15, 2016	3,580,000
August 15, 2016	3,685,000
February 15, 2017	3,795,000
August 15, 2017	3,910,000
February 15, 2018	4,030,000
August 15, 2018	4,150,000
February 15, 2019	4,275,000
August 15, 2019	4,400,000
February 15, 2020	4,535,000
August 15, 2020	4,670,000
February 15, 2021	4,810,000
August 15, 2021	4,945,000

\* 

---

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: (i) 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 (ii) required for Sub-projects 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 paragraph 7(b) of Schedule 4 to the Project Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$8,000,000 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 \$30,000,000.

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.

