

CONFORMED COPY

LOAN NUMBER 3274-CHA
CREDIT NUMBER 2186-CHA

FINANCIAL INTERMEDIARIES
PROJECT AGREEMENT

(Rural Industrial Technology (Spark) Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

AGRICULTURAL BANK OF CHINA

CHINA INVESTMENT BANK

and

JILIN PROVINCE ECONOMIC DEVELOPMENT
INVESTMENT CORPORATION

Dated January 17, 1991

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CREDIT NUMBER 2186-CHA

FINANCIAL INTERMEDIARIES
PROJECT AGREEMENT

AGREEMENT, dated January 17, 1991, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and AGRICULTURAL BANK OF CHINA (ABC), CHINA INVESTMENT BANK (CIB) and JILIN PROVINCE ECONOMIC DEVELOPMENT INVESTMENT CORPORATION (JEDIC) (the Financial Intermediaries).

WHEREAS: (A) by the Development Credit Agreement of even date herewith between the Borrower and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to forty-five million one hundred thousand Special Drawing Rights (SDR45,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Financial Intermediaries agree to

undertake such obligations toward the Association as are set forth in this Agreement and that the Project Provinces agree to undertake such obligations toward the Association as are set forth in the Provincial Project Agreement;

(B) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to fifty million dollars (\$50,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Financial Intermediaries agree to undertake such obligations toward the Bank as are set forth in this Agreement, and that the Project Provinces agree to undertake such obligations toward the Bank as are set forth in the Provincial Project Agreement;

(C) by subsidiary loan agreements to be entered into between the Project Provinces and the Financial Intermediaries, a portion of the proceeds of the credit provided for under the Development Credit Agreement and the proceeds of the loan provided for under the Loan Agreement will be made available to the Financial Intermediaries on terms and conditions set forth in said Subsidiary Loan Agreements; and

WHEREAS the Financial Intermediaries, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, and the Bank's entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Loan Agreement and in the General Conditions (as so defined in the Development Credit Agreement and the Loan Agreement, respectively) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project; Management and Operations of the Financial Intermediaries

Section 2.01. Each of the Financial Intermediaries declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out its respective part of Parts A and D.2 of the Project and conduct its operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management assisted by competent staff in adequate numbers and in accordance with: (a) for ABC, the ABC Documents; (b) for CIB, the CIB Charter, Supplementary Regulations, Statement of Operating and Financial Policies, Statement of Development Strategy and Lending Procedures; and (c) for JEDIC, the JEDIC Charter and the JEDIC Policy Statement.

Section 2.02. Each of the Financial Intermediaries undertakes that, unless the Association and the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to this Agreement.

(b) Each of the Financial Intermediaries shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and the Bank and of such Financial Intermediary; (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. Except as the Association and the Bank shall otherwise agree, procurement of the consultants' services required for Part D.2 of the Project and to be financed out of the proceeds of the Credit and the Loan shall be governed by the

provisions of Section II of Schedule 3 to the Development Credit Agreement.

Section 2.04. Each of the Financial Intermediaries shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions applicable to the Development Credit Agreement and in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions applicable to the Loan Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Financial Intermediaries Project Agreement and its respective parts of Parts A and D.2 of the Project.

Section 2.05. Each of the Financial Intermediaries shall duly perform all its obligations under its respective Subsidiary Loan Agreement. Except as the Association and the Bank shall otherwise agree, no Financial Intermediary shall take or concur in any action which would have the effect of assigning, amending, abrogating or waiving such Subsidiary Loan Agreement to affect the provisions of Section 2.02 (a) of the Provincial Project Agreement.

Section 2.06. (a) Each of the Financial Intermediaries shall, at the request of the Association or the Bank, exchange views with the Association and the Bank with regard to the progress of its respective part of Parts A and D.2 of the Project, the performance of its obligations under this Agreement and under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit and the Loan.

(b) Each of the Financial Intermediaries shall promptly inform the Association and the Bank of any condition which interferes or threatens to interfere with the progress of its respective part of Parts A and D.2 of the Project, the accomplishment of the purposes of the Credit and the Loan, or the performance by such Financial Intermediary of its obligations under this Agreement and under its respective Subsidiary Loan Agreement.

Section 2.07. Each of the Financial Intermediaries shall carry out the training under Part D.2 of the Project in accordance with a training program agreed with the Association and the Bank.

Section 2.08. From time to time, at the request of any one of them, the Association and the Bank, the Borrower and any Financial Intermediary shall exchange views on the interest rates to be charged by such Financial Intermediary in its lending operations in light of its cost of funds and profitability and interest and inflation rates in China and internationally.

(b) From time to time, at the request of any one of them, the Association, the Bank, ABC and CIB shall exchange views on the adequacy of the exchange risk fee to be charged in Jiangsu pursuant to paragraph 1 (d) of the Schedule to this Agreement.

Section 2.09. (a) CIB shall exchange views with the Association and the Bank on any proposal to modify its Charter, Supplementary Regulations, Statement of Operating and Financial Policies, Statement of Development Strategy or Lending Procedures.

(b) ABC shall inform the Association and the Bank of any changes in the laws of the Borrower applicable to ABC, including the ABC Documents, which relate to the ability of ABC to carry out the Project.

(c) JEDIC shall exchange views with and the Association and the Bank on any proposal to modify the JEDIC Charter or the JEDIC Policy Statement.

Section 2.10. If CIB establishes or acquires any Subsidiary, CIB shall cause such Subsidiary to observe and perform the obligations of CIB under this Agreement to the extent to which such obligations shall or may be made applicable thereto, as though such obligations were binding upon such Subsidiary.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each of the Financial Intermediaries shall maintain procedures and records adequate: (i) to monitor and record the progress of its respective parts of the Project and of each of its respective Investment Projects (including the cost and the benefits to be derived from it); and (ii) to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of such Financial Intermediary, or, in the case of ABC, of its provincial branches in Jiangsu Province and Shanghai Municipality.

(b) Each of the Financial Intermediaries shall:

(i) have the Project accounts referred to in paragraph (a)(i) above and its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) referred to in paragraph (a)(ii) above for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association and the Bank;

(ii) furnish to the Association and the Bank, as soon as available but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; (B) the report of such audit by said auditors, of such scope and in such detail as the Association and the Bank shall have reasonably requested; and (C) in the case of ABC, the Financial Statements (balance sheet and statement of income and expenses) for ABC's total operations; and

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

Section 3.02. Except as the Association and the Bank shall otherwise agree, CIB shall not incur or permit any Subsidiary to incur any debt if, after the incurrence of such debt, the aggregate principal amount of the consolidated debt of CIB and all its Subsidiaries then incurred and outstanding would be greater than five times the consolidated capital and surplus of CIB and all its Subsidiaries. For the purpose of this Section:

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

(b) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date, and to the extent, the amount of such debt has become outstanding pursuant to such contract or agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent the guaranteed debt is outstanding.

(c) Whenever in connection with this Section it shall be necessary to value, in terms of Renminbi, debt payable in foreign currency, such valuation shall be made at the prevailing lawful rate of exchange at which such foreign currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association and the Bank.

(d) The term "consolidated debt of CIB and all its Subsidiaries" means the total amount of debt of CIB and all its Subsidiaries excluding: (i) debt owed by CIB to any Subsidiary or by any Subsidiary to CIB or to any other Subsidiary; and (ii) debt referred to in paragraph (e) (ii) of this Section.

(e) The term "consolidated capital and surplus of CIB and all its Subsidiaries" means the aggregate of: (i) the total unimpaired paid-in capital, surplus and free reserves of CIB and of all its Subsidiaries after excluding therefrom such amounts as shall represent equity interests of CIB in any Subsidiary, or of any

such Subsidiary in CIB or in any other Subsidiary; and (ii) such amount of any other loan which the Association and the Bank may determine to be included in the consolidated capital and surplus of CIB.

Section 3.03. Except as the Association and the Bank shall otherwise agree, CIB shall not make any repayment in advance of maturity in respect of any outstanding debt of CIB which, in the judgment of the Association and the Bank, would materially affect CIB's ability to meet its financial obligations.

Section 3.04. Each of the Financial Intermediaries shall take such steps satisfactory to the Association and the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including Renminbi) used in its operations.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which both the Development Credit Agreement and the Loan Agreement become effective.

Section 4.02. (a) This Agreement and all obligations of the Association and the Bank and of the Financial Intermediaries thereunder shall terminate on the earlier of the following two dates:

(i) the date on which both the Development Credit Agreement and the Loan Agreement shall terminate; or

(ii) a date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association and the Bank shall promptly notify the Financial Intermediaries thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions applicable to the Development Credit Agreement or the Loan Agreement.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable Address:

INDEVAS
Washington, D.C.

Telex:

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

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:

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

For ABC:

Agricultural Bank of China
25 Fuxing Road
Beijing
People's Republic of China

Cable address:

1053
Beijing

Telex:

22017 ABC CN

For CIB:

China Investment Bank
Jingtong Hotel
No. 27-B Wan Shou Road (South)
Beijing
People's Republic of China

Cable address:

2122
Beijing

Telex:

22537 CIB CN

For JEDIC:

Jilin Province Economic
Development Investment Corporation
No. 1 Songjiang Road, Stalin Street
Changchun
People's Republic of China

Cable address:

1918
Changchun

Facsimile:

35372

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of a Financial Intermediary, may be taken or executed by its President or in the case of JEDIC, its General Manager, or by such other person or persons as such officials shall designate in writing, and such Financial Intermediary shall furnish to the Association and the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. As long as the Bank has not given notice to the contrary to the Financial Intermediaries and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of the Financial Intermediaries to consult with, and to furnish information, documents, plans, reports, records and statements to, the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to, the Financial Intermediaries shall be satisfied to the extent such obligations are fulfilled by the Association; and

(c) all actions taken (including the giving of approvals or granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Loan Agreement, and in the name and on behalf of both the Association and the Bank.

Section 5.04. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Javed Burki

Regional Vice President
Asia

AGRICULTURAL BANK OF CHINA

CHINA INVESTMENT BANK

JILIN PROVINCE ECONOMIC DEVELOPMENT
INVESTMENT CORPORATION

By /s/ Zhu Qizhen

Authorized Representative

SCHEDULE

Terms and Conditions of Sub-loans

1. Major Terms and Conditions of Sub-loans:

(a) Sub-loans under Part A.1 of the Project shall bear interest on the principal amount withdrawn and outstanding from time to time, at a variable rate which shall be: (i) for foreign currency Sub-loans, at a rate not less than the variable rate payable under Section 2.05 of the Loan Agreement, plus a spread of at least 2%; and (ii) for Renminbi Sub-loans, at least equal to the prevailing minimum rate for fixed asset loans to township enterprises published by the People's Bank of China.

(b) Commitment charges shall be paid on the undisbursed balance of Sub-loans under Part A.1 of the Project at the rate of 0.75% per annum.

(c) Repayment periods for Sub-loans shall not normally exceed seven years, and in any case shall not exceed twelve years, including an appropriate period of grace.

(d) For foreign currency Sub-loans, Investment Enterprises shall bear the foreign exchange risk between the dollar and the Renminbi only. Each Investment Enterprise shall pay to the Financial Intermediary an annual exchange risk fee of at least 0.5% per annum not to exceed 2% per annum. The exchange risk fee shall be set in Jilin and Shanghai by the respective Project Province under Section 2.02 (a) (vii) of the Provincial Project Agreement and, in Jiangsu, by the Financial Intermediary. For Renminbi Sub-loans, Investment Enterprises shall repay in Renminbi and bear no foreign exchange risk.

(e) The aggregate amount of all Sub-loans from all Financial Intermediaries made to an Investment Enterprise shall not exceed the equivalent of \$2,500,000 for Part A.1 of the Project and \$200,000 for Part A.2 of the Project.

(f) Sub-loans shall not exceed the greater of: (A) 100% of actual foreign exchange expenditures for imported equipment and services; or (B) 50% of total Investment Project cost (excluding the cost of land). The Investment Enterprise shall finance at least 20% of the costs of the Investment Project, and normally 30%.

(g) Investment Projects under Part A.1 of the Project shall have minimum financial and economic rates of return of 12%. Economic rate of return calculations shall be prepared at least for all Investment Projects where the proposed Sub-loan would exceed \$300,000.

(h) All Investment Projects shall have been approved in accordance with paragraph 1 (a) of the Schedule to the Provincial Project Agreement.

2. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Credit or the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Association or the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association or the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Association or the Bank has authorized withdrawals from the Credit Account or the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association or the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan.

(i) For the purposes of the Development Credit Agreement, the Loan Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Credit and the Loan which shall not exceed the sum of \$2,500,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Credit and the Loan, the foregoing amount being subject to change from time to time as determined by the Association and the Bank.

(ii) Notwithstanding the provisions of paragraph (a)(i) above, the first four Sub-loans proposed to be made by each Financial Intermediary under Part A.1 of the Project and the first four Sub-loans proposed to be made by ABC and by CIB, respectively, under Part A.2 of the Project shall not be eligible to be free-limit Sub-loans.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association and the Bank for approval, each Financial Intermediary shall furnish to the Association and the Bank an application, in form satisfactory to the Association and the Bank, together with: (i) a description of the Investment Enterprise and an

appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit or the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Association and the Bank shall reasonably request.

(b) Each request by each Financial Intermediary for authorization to make withdrawals from the Credit Account or the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit or the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association and the Bank on or before June 30, 1993.

4. Sub-loans shall be made on terms whereby each Financial Intermediary shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Association and the Bank and such Financial Intermediary, including, in the case of any Sub-loan, the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit or the Loan shall be used exclusively in the carrying out of the Investment Project and shall be procured as follows:

(i) goods shall be procured in accordance with procedures acceptable to the Association and the Bank, under contracts awarded on the basis of price quotations solicited from a list of at least three suppliers eligible under the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in May 1985, except that proprietary items may be procured through direct negotiations with the suppliers;

(ii) civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association and the Bank; and

(iii) technical services shall be obtained directly from qualified and experienced specialists;

(c) inspect, by itself or jointly with representatives of the Association and the Bank if the Association and the Bank shall so request, such goods, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit or the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Association and the Bank or the Financial Intermediary shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of

the proceeds of the Credit and the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the Financial Intermediary.

