

**CONFORMED COPY**

**LOAN NUMBER 4724-CHA**

# **Project Agreement**

**(Zhejiang Urban Environment Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**ZHEJIANG PROVINCE**

**Dated June 2, 2004**

**LOAN NUMBER 4724-CHA**

**PROJECT AGREEMENT**

AGREEMENT, dated June 2, 2004, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ZHEJIANG PROVINCE (Zhejiang).

WHEREAS by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of one hundred thirty-three million Dollars (\$133,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Zhejiang agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Zhejiang, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**Definitions**

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

**ARTICLE II**

**Execution of the Project**

Section 2.01. (a) Zhejiang declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out, and shall cause to be carried out, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and social and environment standards acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Zhejiang shall otherwise agree, Zhejiang shall carry out, and

shall cause to be carried out, the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the 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 this Agreement.

Section 2.03. (a) Zhejiang shall carry out, and shall cause to be carried out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Zhejiang shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Zhejiang, a plan for the continued achievement of the objectives of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Zhejiang on said plan.

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

(b) Zhejiang shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by Zhejiang of its obligations under this Agreement.

### **ARTICLE III**

#### **Financial Covenants**

Section 3.01. (a) Zhejiang shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) Zhejiang shall:
- (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 and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 3.02. (a) Without limitation upon Zhejiang's progress reporting obligations set out in paragraph 11 of Schedule 2 to this Agreement, Zhejiang shall prepare and furnish to the Bank financial monitoring reports, in form and substance satisfactory to the Bank, which set forth sources and uses of funds for the Project, both cumulatively and for the period covered by each said report, showing separately funds provided under the Loan, and explain variances between the actual and planned uses of such funds.

(b) The first such financial management report shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each financial management report shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

#### **ARTICLE IV**

##### **Effective Date; Termination; Cancellation and Suspension**

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Zhejiang thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Zhejiang thereof.

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

## ARTICLE V

### Miscellaneous Provisions

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

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, NW  
Washington, DC 20433  
United States of America

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

For Zhejiang:

Zhejiang Provincial Construction Bureau  
Zhejiang Urban Development Project Office  
Building 2, Sheng Fu Road  
Hangzhou  
China 310025

Facsimile:

86-571-8705 5049/86-571 8705 2848

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Zhejiang may be taken or executed by its Governor or a Vice Governor or such other person or persons as said Governor or Vice Governor shall designate in writing, and Zhejiang shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Zou Jiayi  
Authorized Representative

ZHEJIANG PROVINCE

By /s/ Yukon Huang  
Authorized Representative

## **SCHEDULE 1**

### **Procurement**

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Prequalification

Bidders shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Borrower).

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, and works estimated to cost less than \$15,000,000 equivalent per contract, up to an aggregate amount not to exceed \$183,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section shall be those set forth in the Law on Tendering and Bidding of



the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:

- (i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in China and such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.
- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders shall be required to provide security in an amount sufficient to protect the Borrower, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower.
- (vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.

- (viii) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for (a) works estimated to cost the equivalent of \$5,000,000 or more, and (b) goods estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for tourism development and heritage conservation under Part F of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval, prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 2**

### **Implementation Program**

#### Project Management

1. Throughout the period of implementation of the Project, Zhejiang shall maintain:

(a) the Project Leading Group, chaired by the Deputy Secretary General of the provincial government and composed of representatives from line departments of the provincial government, such as the Development and Planning Commission, Financial Bureau, the Audit Bureau, the Environment Protection Bureau, the Construction Bureau, and the Price Bureau, to provide overall policy guidance and supervision of the Project; and

(b) the Urban Development Project Office, under the direction of qualified and experienced managers, staffed with competent personnel in sufficient numbers, and provided with adequate resources, to be responsible, at the provincial level, for the overall coordination and supervision of Project implementation, including procurement and financial management, resettlement, environmental impact mitigation and progress reporting.

2. Zhejiang shall cause each Project Municipality, throughout the period of implementation of the Project, to maintain its respective Project management office, under the direction of qualified and experienced managers, staffed with competent personnel in sufficient numbers, and provided with adequate resources; said project management office to be responsible, at the municipality level, for the overall coordination and supervision of the implementation of the Project Municipality's respective part of the Project, including procurement and financial management, resettlement, environmental impact mitigation and progress reporting.

#### Resettlement and Environment Protection

3. Zhejiang shall:

(a) take, and shall cause the Project Municipalities and their Respective Project Companies to take, all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently;

(b) for this purpose, implement, and cause the Project Municipalities and their Respective Project Companies to implement, the respective Resettlement Action Plans, and the Resettlement Policy Framework as the case may be, in a manner satisfactory to the Bank; and

(c) provide, and cause the Project Municipalities and their Respective Project Companies to provide, to the Bank for its prior concurrence any proposed modification or waiver of any of the Resettlement Action Plans, and as the case may be the Resettlement Policy Framework, prior to putting into effect such modification or waiver.

4. Zhejiang shall implement, and shall cause the Project Municipalities and their Respective Project Companies to implement, the Environmental Management Plan in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards.

5. Zhejiang shall, and shall cause the Project Municipalities and their Respective Project Companies to:

(a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the Environmental Management Plan, the Resettlement Action Plans, and as the case may be the Resettlement Policy Framework, the achievement of the objectives of said Plans and Framework, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by June 30 of each year, commencing in 2004, annual reports of the results of such monitoring and evaluation activities, together with any revisions proposed to be introduced into such Plans in order to achieve their respective objectives; and

(c) introduce such revisions into such Plans as shall have been agreed with the Bank.

#### Project Implementation

6. For purposes of Parts A, B.1, C, E, F.1 and F.3 of the Project, Zhejiang shall make available to each of Ningbo and Hangzhou part of the proceeds of the Loan, and shall cause each of Ningbo and Hangzhou to re-lend to its Respective Project Company, or Project Companies, as the case may be, a portion of the Loan proceeds so made available to it, pursuant to a Subsidiary Loan Agreement acceptable to the Bank, and under terms and conditions satisfactory to the Bank which shall include, without limitation, the following:

- (a) (i) The principal amount so re-lent shall be the amount in Dollars (on the date, or respective dates, of withdrawal from the Loan Account or payment from the Special Account) of the value of the currency or currencies so withdrawn on account of a Respective Project Company's Respective Part of the Project.

- (ii) Each Project Municipality shall recover from its Respective Project Company, or Project Companies, as the case may be, the principal amount so made available, together with an amount equal to one percent (1%) of such principal amount, over a period of twenty (20) years, including a grace period of five (5) years.
- (iii) Each Project Municipality shall charge interest on such principal amount, withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.06 of the Loan Agreement.
- (iv) Each Project Municipality shall charge a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

(b) Each Respective Project Company shall undertake to: (i) carry out its Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (ii) without limitation on the foregoing, take all measures necessary to ensure that its Respective Parts of the Project shall be implemented in accordance with its Respective Resettlement Action Plan and with the Environmental Management Plan.

(c) Each Respective Project Company shall undertake to procure the goods, works and consultants' services for its Respective Parts of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of its Respective Parts of the Project.

(d) Each Respective Project Company shall undertake to enable its respective Project Municipality, Zhejiang and the Bank to inspect such goods and the sites and works included in its Respective Parts of the Project, the operation thereof, and any relevant records and documents.

(e) Each Respective Project Company shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by said Project Company to replace or repair such goods.

- (f) Each Respective Project Company shall undertake to:
  - (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition;
  - (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and
  - (iii) furnish to the Bank, to Zhejiang and to its respective Project Municipality, as soon as available, but in any case not later than six (6) months after the end of each such year certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Bank, Zhejiang or the respective Project Municipality shall have reasonably requested; and all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Zhejiang or the respective Project Municipality shall reasonably request.
  
- (g) Each Respective Project Company shall undertake to:
  - (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and to Zhejiang the carrying out of its Respective Parts of the Project and the achievement of the objectives thereof; and
  - (ii) prepare, under terms of reference satisfactory to the Bank, to Zhejiang and its respective Project Municipality, and submit to the Urban Development Project Office quarterly reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (g) on the progress achieved in the carrying out of its Respective Parts of the Project during the period preceding the date of each such report.
  
- (h) Commencing in Fiscal Year 2004:
  - (i) Ningbo SC shall for each Fiscal Year undertake to produce total operating revenues related to wastewater operations equivalent to not less than the sum of: (A) its total operating expenses;



(B) the amount by which debt service requirements exceeds the provision for depreciation; and (C) the amount by which total non-operating expenses exceed total non-operating revenues.

- (ii) Hangzhou SWC shall for each Fiscal Year undertake to produce total operating revenues related to solid waste operations in an amount such that said total operating revenues shall be not less than the sum of: (A) its total operating expenses; (B) the amount by which debt service requirements exceeds the provision for depreciation; and (C) the amount by which total non-operating expenses exceed total non-operating revenues.
  - (iii) Dongqian Lake DIC shall for each Fiscal Year undertake to produce total operating revenues equivalent to not less than the sum of: (A) its total operating expenses; (B) the amount by which debt service requirements exceeds the provision for depreciation; and (C) the amount by which total non-operating expenses exceed total non-operating revenues.
- (i) Commencing in Fiscal Year 2004, and before September 30 in each of its Fiscal Year:
- (i) (A) Ningbo SC shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (h)(i) of this paragraph 6 in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion; (B) if any such review shows that Ningbo SC would not meet the requirements set forth in sub-paragraph (h)(i) above for the Fiscal Years covered by such review, Ningbo SC shall promptly take all necessary measures (including without limitation adjustments of the structure or levels of its tariffs) in order to meet such requirements.
  - (ii) (A) Hangzhou SWC shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (h)(ii) of this paragraph 6 in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion; (B) if any such review shows that Hangzhou SWC would not meet the requirements set forth in sub-paragraph (h)(ii) above for the Fiscal Years covered by such review, Hangzhou SWC shall promptly take all necessary measures (including without limitation adjustments of the structure or levels of its service charges) in order to meet such requirements.

- (iii) (A) Dongqian Lake IDC shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (h)(iii) of this paragraph 6 in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion; (B) if any such review shows that Dongqian Lake IDC would not meet the requirements set forth in sub-paragraph (h)(iii) above for the Fiscal Years covered by such review, Dongqian LIDC shall promptly take all necessary measures (including without limitation adjustments of the structure or levels of its charges) in order to meet such requirements.
  
- (j) Commencing in Fiscal Year 2004:
  - (i) Ningbo SC shall undertake not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.3 times its estimated debt services requirements in such year on all of its debt including the debt to be incurred.
  
  - (ii) Hangzhou SWC shall undertake not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.3 times its estimated debt services requirements in such year on all of its debt including the debt to be incurred.
  
  - (iii) Dongqian Lake IDC shall undertake not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.3 times its estimated debt services requirements in such year on all of its debt including the debt to be incurred.
  
- (k) For purposes of sub-paragraphs (h), (i) and (j) of this paragraph 6:
  - (i) The term “total operating revenues” means: (A) with respect to Ningbo SC, revenues derived directly from the application of wastewater tariffs and other user charges by Ningbo SC for wastewater services provided by Ningbo SC; (B) with respect to Hangzhou SWC, revenues derived directly from the application of landfill tipping fees and other user charges by Hangzhou SWC for solid waste services provided by Hangzhou SWC; and (C)

with respect to Dongqian Lake IDC, revenues derived from the acquisition, development and sale or lease of land and associated improvement to land.

- (ii) The term “wastewater tariffs and other user charges” and “landfill tipping fees and other user charges” means charges that meet all of the following conditions, namely, charges that are: (A) levied for wastewater services directly provided by Ningbo SC to its customers or levied for solid waste services directly provided by Hangzhou SWC; (B) applied by Ningbo SC or by Hangzhou SWC in accordance with applicable laws and regulations and, therefore, a legal obligation due to Ningbo SC or Hangzhou SWC; and, (C) billed and collected either directly by Ningbo SC or Hangzhou SWC or by a collection agent, acting on behalf of either of them, which collection agent remits directly to them the full amount collected, less an agreed amount as payment for the collecting service.
- (iii) The term “total operating expenses” means all expenses directly related to the generation of operating revenues, including taxes and payments in lieu of taxes, administration, adequate provision for maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight line basis at a rate of not less than 3.3% per annum of the average current gross value of fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
- (iv) The term “non-operating expenses” means all expenses directly related to the generation of non-operating revenues, including taxes and payments in lieu of taxes, and provision for depreciation or debt service requirements, whichever is greater.
- (v) The term “total non-operating revenues” means all revenues from all sources other than those related to operations.
- (vi) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

7. Zhejiang shall cause the Project Municipalities to: (a) exercise their rights under the Subsidiary Loan Agreements with their Respective Project Companies in such manner as to protect the interests of the Borrower, the Bank, Zhejiang and said Project Municipalities, and to accomplish the purposes of the Loan; and (b) except as the Bank and Zhejiang shall otherwise agree, not assign, amend, abrogate or waive their respective Subsidiary Loan Agreements or any provision thereof.

8. Zhejiang shall cause Ningbo to:

(a) carry out the Complementary Sewer Connection Plan and complete the construction of such secondary sewer networks by December 31, 2008;

(b) (i) by no later than June 30, 2004, furnish to the Bank for review and comments, a time-bound action plan for the management (including construction of a new landfill in Lupu village) of sludge generated by all wastewater treatment plants in Ningbo, prepared in accordance with terms of reference acceptable to the Bank; and (ii) thereafter, implement said plan in a manner satisfactory to the Bank (including completion of the said landfill by June 30, 2006) taking into account the Bank's comments thereon;

(c) carry out the Industrial Pollution Control Action Plan, in a manner satisfactory to the Bank and shall not modify or amend the Industrial Pollution Control Action Plan without the prior concurrence of the Bank;

(d) carry out, or caused to be carried out, the Catchment Management Plan in a manner satisfactory to the Bank; and

(e) carry out, and cause to be carried out, the Plan for Housing Upgrading and Conservation of Cicheng Town, in a manner satisfactory to the Bank.

9. Zhejiang shall cause Hangzhou to:

(a) establish the landfill tipping fee paid to Hangzhou SWC in Fiscal Year 2004 at no less than forty-nine Yuan per ton (Y49/t); and in accordance with the provisions of sub-paragraph (i) (ii) of paragraph 6 above, annually review said landfill tipping fee and, to the extent necessary, reset it for the purpose of meeting the provisions of sub-paragraph (h)(ii) of paragraph 6 above, with a view toward reducing the subsidy element incorporated into said fee; and

(b) during Fiscal Year 2004, transfer to Hangzhou SWC the legal ownership of the Tianziling Landfill, the landfill site and associated structures, equipment and materials.

10. Zhejiang shall cause Shaoxing to: (a) by no later than June 3, 2004, furnish to the Bank for review and comments, a time-bound action plan for the improvement of water quality of its canals (including expanded collection of wastewater discharges in the southern part of the city and inter-connecting the moat with small rivers with better water quality), prepared in accordance with terms of reference acceptable to the Bank; and (b) thereafter, implement said plan taking into account the Bank's comments thereon.

11. Zhejiang shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 21, April 21, July 21 and October 21 of each year, commencing in 2004 a quarterly report, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 11 and incorporating the reports prepared and submitted by, or on behalf of the Project Municipalities and the Respective Project Companies in accordance with the provisions of paragraphs 5 and 6(g) of this Schedule; each such report to (i) set out physical progress in the implementation of the Project, both cumulatively, and in respect of the preceding calendar semester, and explain variances between the actual and planned Project implementation; and (ii) set forth the status of procurement under the Project as at the end of the period covered by said report;

(c) prepare, under terms of reference satisfactory to the Bank and furnish to the Bank on or about June 30, 2006, a mid-term report on the progress achieved in the carrying out of the Project during the period preceding such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Bank by September 30, 2006, or such later date as the Bank shall request, the mid-term report referred to in sub-paragraph (c) of this paragraph 11, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.