

CONFORMED COPY

LOAN NUMBER 4705-CHA

Loan Agreement

(Shanghai Urban Environment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 10, 2003

LOAN NUMBER 4705 -CHA

LOAN AGREEMENT

AGREEMENT, dated November 10, 2003, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from Shanghai Municipality (Shanghai) a letter dated February 7, 2002, which describes a program designed to improve urban environmental conditions in an integrated and sustainable manner throughout Shanghai, and to increase access to environmental services in poorer and less well-served areas within said area so as to foster sustainable growth and improve the living conditions of its population (the Program), and declare Shanghai's commitment to the execution of said Program;

(B) the Borrower has requested that the Bank support Shanghai's execution of the Program through a series of loans over a period of approximately eight years to be utilized in the implementation of the Program;

(C) the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Bank to assist in the financing of the Project; and

(D) the Project will be carried out by Shanghai 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 Shanghai, 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 agreement of even date herewith between the Bank and Shanghai (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) with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date and or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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

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

(b) "Chengtou" means Shanghai Chengtou Environment Industry Development Company Limited, established and operating pursuant to its Charter dated February 25, 2003, and to Business License No. 3101151018232 of the Shanghai Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(c) "Displaced 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 "Displaced Person" means any of the Displaced Persons.

(d) "Environmental Management Plan" means the plan prepared by Shanghai, and referred to in paragraph 4 of Schedule 2 to the Project Agreement, which is an integral part of the Environmental Assessment Report dated March 2002 and the supplement thereto dated March 2003, both prepared by Shanghai; said Plan sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as said plan may be revised from time to time with the agreement of the Bank.

(e) "Fengxian" means Fengxian District of Shanghai, and any successor thereto.

(f) “Fengjing WPC” means the Fengjing Water Purification Company Limited, established and operating pursuant to its Charter dated September 16, 2002, and to Business License Number 3102281012668 of the Jinshan Branch of the Shanghai Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(g) “Jinshan” means Jinshan District of Shanghai, and any successor thereto.

(h) “Jinshan OOC” means the Shanghai Jinshan Ocean Outfall Engineering General Company Limited, established and operating pursuant to its Charter dated January 1993, and to Business License Number 3102281006890 of the Jinshan Branch of the Shanghai Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(i) “Hongkou” means Hongkou District of Shanghai, and any successor thereto.

(j) “Nanpai SDC” means the Shanghai Nanpai Sewage Disposal Company Limited of Fengxian District, established and operating pursuant to its Charter dated April 28, 2002 and to Business License Number 3102261013137 of the Shanghai Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(k) “Participating Districts” means, collectively, Jinshan and Fengxian; and “Participating District” means either of said Participating Districts.

(l) “Project Agreement” means the agreement between the Bank and Shanghai 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.

(m) “Resettlement Action Plans” and “RAPs” mean, collectively: (i) the Resettlement Action Plan for Laogang Daily Waste Disposal Site dated April 2002; (ii) the Resettlement Action Plan for Shanghai Sewerage Project Phase III, dated April 5, 2002; (iii) the Resettlement Action Plan for Shanghai Fengxian Sewage Treatment Plant Project, dated March 28, 2002; (iv) the Resettlement Action Plan for Fengjing Water Decontamination Project in Jinshan, dated March 2002; and (v) the Resettlement Action Plan for Shanghai Jinshan Treated Wastewater Drainage Project – Phase II, dated March 2002; prepared by Shanghai and the Participating Districts, respectively, and referred to in paragraphs 3(b) and 5 of Schedule 2 to the Project Agreement, which set out the principles and procedures governing land acquisition, resettlement, compensation and rehabilitation of Displaced Persons, as well as administrative, reporting and monitoring arrangements to ensure compliance with said plans, as said plans may be revised from time to time with the agreement of the Bank; and “Resettlement Action Plan” and “RAP” mean any of said Resettlement Action Plans or RAPs.

(n) “Resettlement Policy Framework” means the Policy Framework for Resettlement and Land Acquisition, dated April 2002, prepared by Shanghai, and referred

to in paragraph 3(c) of Schedule 2 to the Project Agreement, which sets out the policies and procedures for land acquisition, resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement action plans whenever required during the implementation of the Project, as said Policy Framework may be revised from time to time with the agreement of the Bank.

(o) “Respective Parts of the Project” means: (i) in respect of SMSC (as hereinafter defined), Parts A, E and F.1 of the Project; (ii) in respect of Fengjing WPC, Parts D.3, E and F.1 of the Project; (iii) in respect of Jinshan OOC, Parts D.2, E and F.1 of the Project; and (iv) in respect of Nanpai SDC, Parts D.4, E and F.1 of the Project.

(p) “Respective Resettlement Action Plan” means: (i) in respect of SMSC (as hereinafter defined) the Resettlement Action Plan for Shanghai Sewerage Project Phase III; (ii) in respect of Shanghai and Chengtou, the Resettlement Action Plan for Laogang Daily Waste Disposal Site; (iii) in respect of Jinshan and Jinshan OOC, the Resettlement Action Plan for Shanghai Jinshan Treated Wastewater Drainage Project; (iv) in respect of Jinshan and Fengjing WPC, the Resettlement Action Plan for Fengjing Water Decontamination Project in Jinshan; and (v) in respect of Fengxian and Nanpai SDC, the Resettlement Action Plan for Shanghai Fengxian Sewage Treatment Plant Project.

(q) “Respective Sewerage Companies” means: (i) in respect of Jinshan, Fengjing WPC and Jinshan OOC, and any successors thereto; and (ii) in respect of Fengxian, Nanpai SDC, and any successor thereto.

(r) “Shanghai” means the Borrower’s Shanghai Municipality, and any successor thereto.

(s) “Shanghai Water Authority” and “SWA” mean the agency established in 2000 by Shanghai to manage all water resources for Shanghai Municipality and responsible for planning and investment strategies for urban environmental services related to water within Shanghai.

(t) “SMSC” means the Shanghai Municipal Sewerage Company Limited, a wholly state-owned entity, established and operating pursuant to its Charter dated August 1995 and to Business License No. 3101081016391 of the Shanghai Municipal Industrial and Commercial Administration Bureau, and any successor thereto, which is the recipient of a subsidiary loan from Shanghai in accordance with paragraph 6 of Schedule 2 to the Project Agreement.

(u) “SWEC” means the Shanghai Water and Environment Construction Company Limited, established and operating pursuant to its Charter dated July 1999, as revised, and to Business License No. 3101071019027 of the Shanghai Municipal Industrial and Commercial Administration Bureau, and any successor thereto, and referred to in paragraph 6(b) of Schedule 2 to the Project Agreement.

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

(w) “Subsidiary Loan Agreements” means, collectively, the agreements to be entered into between Shanghai and SMSC, and between each Participating District and its respective Sewerage Company or Companies, as the case may be, pursuant to paragraphs 6 and 9, respectively, of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to said agreements; and “Subsidiary Loan Agreement” means, individually, any of said Subsidiary Loan Agreements.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Shanghai, Shanghai Chengtuo Environment Industry Development Company Limited, Shanghai Municipal Sewerage Company Limited, Shanghai Water Authority, Shanghai Water and Environment Construction Company Limited, Jinshan and Fengxian and each of their Respective Sewerage Companies, and Hongkou.

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 two hundred million Dollars (\$200,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2009 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 front-end 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 such 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 Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) 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, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Shanghai to perform in accordance with the provisions of the Project Agreement all the obligations of Shanghai therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Shanghai 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 Shanghai 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 or of payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out.
- (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, 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 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 Shanghai 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 separate accounts reflecting such expenditures;
 - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
 - (iii) enable the Bank's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a)(i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as possible, but in any case not later than six (6) 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) Shanghai 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 Shanghai will be able to perform its obligations under the Project Agreement.

(c) As a result of events which have occurred after the date of the Loan Agreement, a situation shall have arisen which shall make it improbable that Shanghai will carry out a substantial part of the Program.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) 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, that Shanghai and SMSC have entered into a Subsidiary

Loan Agreement satisfactory to the Bank in accordance with the provisions of paragraph 6 of Schedule 2 to the Project Agreement.

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

(a) the Project Agreement has been duly authorized or ratified by Shanghai, and is legally binding upon Shanghai in accordance with its terms; and

(b) the Subsidiary Loan Agreement between Shanghai and SMSC has been duly executed by the parties thereto and is valid and 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	(86-10) 68551125

For the Bank:

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

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

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zou Jiayi
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ 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		48%
(a) under Part A of the Project	108,200,000	
(b) under Part D.2 of the Project	5,000,000	
(c) under Part D.3 of the Project	2,500,000	
(d) under Part D.4 of the Project	1,900,000	
(e) under other Parts of the Project	19,400,000	
(2) Goods		
(a) under Part A of the Project	20,000,000	100% of foreign
(b) under Part D.2 of the Project	3,100,000	expenditures, 100%
(c) under Part D.3 of the Project	1,600,000	of local expenditures
(d) under Part D.4 of the Project	2,000,000	(ex-factory cost) and
(e) under other Parts of the Project	14,200,000	75% of local
		expenditures for
		other items procured
		locally
(3) Consultants' services		91%
(a) under Part A of the Project	2,000,000	
(b) under other Parts of the Project	4,700,000	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(4) Training	3,400,000	100%
(5) Front-end fee	2,000,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	<u>10,000,000</u>	
TOTAL	<u>200,000,000</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:

(a) payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding \$5,000,000, may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after October 1, 2002, and subject to the provisions of sub-paragraphs (b) and (c) of this paragraph 3;

(b) expenditures under Category (1)(a) until SMSC shall have engaged the services of a consultancy firm to provide technical assistance in construction management in accordance with the provisions of paragraph 8 of Schedule 2 to the Project Agreement; and

(c) expenditures under:

- (i) Categories (1)(b) and (2)(b) until the Bank shall have received satisfactory evidence that Jinshan and Jinshan OOC have duly entered into a Subsidiary Loan Agreement satisfactory to the Bank, in accordance with the provisions of paragraph 9 of Schedule 2 to the Project Agreement, and that said Subsidiary Loan Agreement is valid and binding on Jinshan and Jinshan OOC in accordance with the terms thereof;
- (ii) Categories (1)(c) and (2)(c) until the Bank shall have received satisfactory evidence that Jinshan and Fengjing WPC have duly entered into a Subsidiary Loan Agreement satisfactory to the Bank, in accordance with the provisions of paragraph 9 of Schedule 2 to the Project Agreement, and that said Subsidiary Loan Agreement is valid and binding on Jinshan and Fengjing WPC in accordance with the terms thereof; and
- (iii) Categories (1)(d) and (2)(d) until the Bank shall have received satisfactory evidence that Fengxian and Nanpai SDC have duly entered into a Subsidiary Loan Agreement satisfactory to the Bank, in accordance with the provisions of paragraph 9 of Schedule 2 to the Project Agreement, and that said Subsidiary Loan Agreement is valid and binding on Fengxian and Nanpai SDC in accordance with the terms thereof.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less \$500,000 equivalent each; (b) works under contracts costing less than \$10,000,000 equivalent each; (c) services under contracts (i) with firms, costing less than \$100,000 equivalent each, and (ii) with individuals, costing less than \$50,000 equivalent each; and (d) training; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The Project is the first phase of the Shanghai Urban Environment Program. The objective of the Project is to assist the Borrower's Shanghai Municipality to: (i) develop policies and plans to support and enable an integrated municipality-wide approach to urban environment issues, and (ii) improve environmental management and infrastructure services in the core city and in the upper Huangpu catchment areas.

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: Urban Wastewater Management

1. Completion of the wastewater collection systems in the urban core area of Shanghai within its Outer Ring Road, consisting of the construction of collection and trunk sewers, stormwater conveyors and pumping stations in the Baoshan, Zhabei, Hongkou, Yangpu and Pudong areas.
2. Construction of a main conveyor, including associated pumping stations, and a wastewater treatment plant at Zhuyuan, incorporating secondary treatment, effluent discharge, and sludge disposal.

PART B: Urban Solid Waste Management

1. Expansion of the sanitary landfill at Laogang, including installation of facilities for leachate collection and treatment, for collection of landfill gas, and the provision of equipment for landfill operations.
2. Establishment of a food waste collection system through the provision of equipment.
3. Design and installation of a computerized management information system for the management of urban solid waste.

PART C: Urban Planning and Upgrading

Carrying out of a pilot urban upgrading program in Hongkou District through the construction of off-site environmental infrastructure, on-site building renovation and associated infrastructure, and improvement of surrounding neighborhoods.

PART D: Upper Huangpu River Catchment Environmental Management

1. Preparation of an Upper Huangpu Catchment Management Plan, including analysis of pollution sources, development of strategies for pollution control and formulation of an investment plan.
2. Construction and operation of a wastewater treatment plant and sea outfall at Xinjiang in Jinshan District; construction of conveyor, secondary and tertiary collection sewers and connections to conveyor; and provision of mechanical and electrical equipment for related pumping stations.
3. Construction and operation of a wastewater treatment plant in the town of Fengjing in Jinshan District; and construction of collection sewers and conveyor.
4. Construction and operation of a wastewater treatment plant in Fengxian District; extension of an existing trunk conveyor, and construction of a new trunk conveyor and secondary and tertiary collection sewers.

PART E: Resettlement

Carrying out of a program of resettlement and rehabilitation for Displaced Persons under the Project.

PART F: Institutional Strengthening

1. Strengthening the institutional capacity of Shanghai, Jinshan and Fengxian, and their respective relevant agencies, including institutional capacity for construction design and supervision, wastewater treatment plant operation, project management, procurement management, and preparation for successive phases of the Program, through the provision of technical assistance and training.
2. Carrying out of strategic studies and preparatory works, including studies on metropolitan water resource and policy, and on pollution reduction measures, and preparatory studies on alternative funding for environmental services.

* * *

The Project is expected to be completed by September 30, 2008.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
February 15, 2009	5,840,000
August 15, 2009	5,895,000
February 15, 2010	5,945,000
August 15, 2010	6,000,000
February 15, 2011	6,055,000
August 15, 2011	6,105,000
February 15, 2012	6,160,000
August 15, 2012	6,215,000
February 15, 2013	6,275,000
August 15, 2013	6,330,000
February 15, 2014	6,385,000
August 15, 2014	6,445,000
February 15, 2015	6,500,000
August 15, 2015	6,560,000
February 15, 2016	6,615,000
August 15, 2016	6,675,000
February 15, 2017	6,735,000
August 15, 2017	6,795,000
February 15, 2018	6,855,000
August 15, 2018	6,920,000
February 15, 2019	6,980,000
August 15, 2019	7,045,000
February 15, 2020	7,105,000
August 15, 2020	7,170,000
February 15, 2021	7,235,000
August 15, 2021	7,300,000
February 15, 2022	7,365,000
August 15, 2022	7,430,000
February 15, 2023	7,495,000
August 15, 2023	7,570,000

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means the amount of \$14,000,000 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 the amount of \$10,000,000 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 \$60,000,000.

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 Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

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