

CONFORMED COPY

LOAN NUMBER 4099 CHA

Loan Agreement

(Second Xinjiang Highway Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 23, 1997

LOAN NUMBER 4099 CHA

LOAN AGREEMENT

AGREEMENT, dated January 23, 1997, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Xinjiang-Uygur Autonomous Region (XAR) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to XAR the proceeds of the Loan as provided in this Agreement; and

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

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 (the General Conditions) constitute an integral part of

this Agreement:

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

(a) "EAP" means the Urumqi-Kuitun Highway Environmental Action Plan of November 1995, which establishes environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures;

(b) "IRI" means the international roughness index in respect of paved roads;

(c) "MRP" means the four-year highway maintenance and rehabilitation program developed as a result of a study conducted under Part D.2 of the Xinjiang Provincial Highway Project financed under the Loan Agreement dated November 11, 1994 between the Borrower and the Bank, which will cover approximately seventy-eight percent (78%) of the periodic road maintenance and rehabilitation works in XAR during the period 1997-2000;

(d) "MRP yearly program" means the maintenance and rehabilitation program for the relevant year under Part B of the Project prepared in accordance with Part B.2 of Schedule 2 to the Project Agreement;

(e) "Project Agreement" means the agreement between the Bank and XAR 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;

(f) "RAP" means the Urumqi-Kuitun Highway Resettlement Action Plan of June 1996, which sets out the procedures governing the acquisition of land and other property, resettlement and compensation, as well as reporting and monitoring arrangement to ensure compliance with such plan;

(g) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(h) "Urumqi-Kuitun Highway" means the road to be constructed between Urumqi and Kuitun in XAR under Part A of the Project, including the by-pass to the west of Urumqi, the road connecting to the Turpan-Urumqi-Dahuangshan Highway, and all linking roads;

(i) "XAR" or "Xinjiang" means the Xinjiang-Uygur Autonomous Region, an administrative sub-division of the Borrower, and any successor thereto;

(j) "XCD" means the Xinjiang Communications Department, an agency of XAR, and any successor thereto;

(k) "XHAB" means the Xinjiang Highway Administration Bureau, an agency of XAR, and any successor thereto; and

(l) "XHGHAB" means the Xinjiang High-grade Highway Administration Bureau, an agency of XAR, and any successor thereto.

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 three hundred million dollars (\$300,000,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(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 or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002 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 commitment charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (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 2.06 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) one-half of one percent (1/2 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 Section 2.05, 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 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 2.06. Interest and other charges shall be payable semi-annually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in

accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

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

(i) the principal amount so made available to XAR shall be the amount withdrawn from the Loan Account or paid out of the Special Account on account of the cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan;

(ii) XAR shall repay the principal amount so made available to it over a period of twenty (20) years, inclusive of a grace period of five (5) years; and

(iii) the Borrower shall charge: (A) interest on the principal amount so made available and withdrawn and remaining unpaid from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement; and (B) a commitment charge on the principal amount 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 XAR pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

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

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(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 including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) XAR 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 XAR will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely the event described 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 is specified as an additional matter, 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 the Project Agreement has been duly authorized or ratified by XAR, and is legally binding upon XAR in accordance with its terms.

Section 6.02. 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:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

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:

248423 (MCI) or
64145 (MCI)

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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works		

(a) under Part A of the Project	182,400,000	50%
(b) under Part B of the Project	30,000,000	43%
(c) under Part D of the Project	1,700,000	50%
(2) Supply and installation of electronic, electric and mechanical equipment under Part A of the Project	9,600,000	80%
(3) Goods	9,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(4) Consultants' services and training	4,700,000	100%
(5) Unallocated	62,100,000	
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TOTAL	300,000,000	=====

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; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in amounts not to exceed \$2,400,000 in respect of Category (1) (a), \$200,000 in respect of Category (3) and \$1,000,000 in respect of Category (4), may be made in respect of such Categories on account of payments made for expenditures before that date but after April 1, 1996.

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 than \$250,000 equivalent;

(b) works under contracts costing less than \$2,000,000 equivalent, or under force account;

(c) consultants' services under contracts with firms or individuals costing less than \$100,000 equivalent and \$50,000 equivalent, respectively; 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 objectives of the Project are to assist the Borrower to: (a) support the continuing development of road infrastructure in Xinjiang-Uygur Autonomous Region in order to relieve congestion, facilitate mobility and stimulate socioeconomic development; (b) improve maintenance of Regional highway network; (c) promote the development of institutional capacities of the Regional departments and agencies responsible for highway planning, design, financing, operations and maintenance; (d) increase the safety of highway transport; and (e) promote transport linkages with neighboring provinces and countries.

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: Construction of Urumqi-Kuitun Highway

1. Construction of a highway of about 267 kilometers (km) between Urumqi and Kuitun in Xinjiang-Uygur Autonomous Region which consists of: (a) a four-lane expressway of about 218 km between Urumqi and Kuitun; (b) a by-pass of about 32 km to the west of Urumqi; (c) a four-lane Class I highway of about 16 km linking the Urumqi-Kuitun Highway to the Turpan-Urumqi-Dahuangshan Highway; including the supply and installation of electrical, electronic and mechanical equipment for toll collection, traffic monitoring, telecommunications and lighting, and the construction of management and maintenance buildings, parking and service areas.
2. Construction, rehabilitation and upgrading of about 18 km of linking roads at major interchanges on the Urumqi-Kuitun Highway.
3. Enhancing construction quality, operation and maintenance of the Urumqi-Kuitun Highway through the provision of technical assistance, training and equipment.

Part B: Highway Maintenance

1. Rehabilitation and maintenance of about 2,450 km of highway sections included in the MRP.

Part C: Institutional Strengthening and Training

Institutional development and strengthening of XCD and its affiliated institutions in the area of highway engineering, maintenance, operations and management through the provision of technical assistance, training and equipment.

Part D: Highway Safety Program

Implementation of a program to improve highway safety consisting of (a) improvement of traffic safety coordination among the different responsible institutions, (b) development of procedures for road safety audits, (c) black spot identification and improvement, and (d) improvement of road signs and markings, through the provision of technical assistance, training and equipment.

Part E: Promotion of Regional Transport

Carrying out of a regional transport study to identify the principal medium-term transport needs of XAR and to develop recommendations for the transport policy and investment program for XAR.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
June 15, 2002	1,850,000
December 15, 2002	1,850,000
June 15, 2003	1,850,000
December 15, 2003	1,850,000
June 15, 2004	6,100,000
December 15, 2004	6,100,000
June 15, 2005	6,100,000
December 15, 2005	6,100,000
June 15, 2006	18,300,000
December 15, 2006	18,300,000
June 15, 2007	24,400,000
December 15, 2007	24,400,000
June 15, 2008	24,400,000
December 15, 2008	24,400,000
June 15, 2009	24,400,000
December 15, 2009	24,400,000
June 15, 2010	12,200,000
December 15, 2010	12,200,000
June 15, 2011	12,200,000
December 15, 2011	12,200,000
June 15, 2012	12,200,000
December 15, 2012	12,200,000
June 15, 2013	1,500,000
December 15, 2013	1,500,000
June 15, 2014	1,500,000
December 15, 2014	1,500,000
June 15, 2015	1,500,000
December 15, 2015	1,500,000
June 15, 2016	1,500,000
December 15, 2016	1,500,000

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$25,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$18,000,000 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 \$80,000,000.

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 a deposit or deposits 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 in 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; or

(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, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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.

