

CONFORMED COPY

LOAN NUMBER 2784 CHA

Project Agreement

(Shanghai Machine Tool Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

SHANGHAI MACHINE TOOL CORPORATION

and

SHANGHAI MACHINE TOOL WORKS

Dated October 8, 1987

LOAN NUMBER 2784 CHA

PROJECT AGREEMENT

AGREEMENT, dated October 8, 1987, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and SHANGHAI MACHINE TOOL CORPORATION and SHANGHAI MACHINE TOOL WORKS (hereinafter called the Corporations).

WHEREAS: (A) by the Loan Agreement of even date herewith between the People's Republic of China (hereinafter called the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred million dollars (\$100,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Corporations agree to undertake such obligations toward the Bank as are hereinafter set forth;

(B) by subsidiary loan agreements to be entered into between the Borrower and Shanghai, and Shanghai and each of the Corporations, part of the proceeds of the loan provided for under the Loan Agreement will be made available to each such Corporation on the terms and conditions therein set forth; and

WHEREAS the Corporations, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows;

#### ARTICLE I

##### Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, 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. Each of the Corporations 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 its respective Part of the Project, described in said Schedule, with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and with environmental standards agreed with the Bank.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and technology, and employment of engineering firms and consultants required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. Each of the Corporations shall carry 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 the Project Agreement and each of the Corporations' respective Part of the Project.

Section 2.04. Each of the Corporations shall maintain the Project Implementation Unit, established within such Corporation, with staff, functions and responsibilities acceptable to the Bank.

Section 2.05. Each of the Corporations shall duly perform all its obligations under the respective Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, none of the Corporations shall take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the respective Subsidiary Loan Agreement to affect the provisions of paragraph (b) of Section 3.02 of the Loan Agreement.

Section 2.06. (a) Each of the Corporations shall, at the request of the Bank, exchange views with the Bank with regard to the progress of its respective Part of the Project, the performance of its obligations under this Agreement and under the respective Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) Each of the Corporations shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its respective Part of the Project, the accomplishment of the purposes of the Loan, or the performance of its obligations under this Agreement and under the respective Subsidiary Loan Agreement.

Section 2.07. Each of the Corporations shall prepare and furnish to the Bank, not later than June 30, 1987, for the Bank's review and comments, the details of the training program under Parts A.4 and B.4 of the Project, and shall thereafter implement such program.

#### ARTICLE III

##### Management and Operations of Each of the Corporations

Section 3.01. Each of the Corporations shall carry on its operations and conduct

its affairs in accordance with sound administrative, financial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. Each of the Corporations shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and administrative practices, and environmental standards acceptable to the Bank.

Section 3.03. Each of the Corporations shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. Each of the Corporations shall cause any enterprise, company or other entity majority owned by such Corporation to observe and perform the obligations of such Corporation under this Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) Each of the Corporations shall maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition, including, without limitation to the foregoing, separate accounts reflecting all expenditures for its respective Part of the Project.

(b) Each of the Corporations shall:

(i) have its accounts and financial statements (balance sheets, statements of income and sources and application of funds) and 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: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals are requested from the Loan Account on the basis of statements of expenditure, each of the Corporations shall:

(i) maintain, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;

(ii) retain, until 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such separate accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of

the Loan withdrawn in respect of such expenditures used for the purpose for which they were provided. have been

Section 4.02. (a) Except as the Bank shall otherwise agree, each of the Corporations shall maintain a ratio of current assets to current liabilities of not less than 1.5.

(b) Before April 1 in each of its fiscal years, each of the Corporations shall, on the basis of its forecasts satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) above 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.

(c) If any such review shows that such Corporation would not meet the requirements set forth in paragraph (a) for its fiscal years covered by such review, such Corporation shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(iii) 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.

(iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, neither of the Corporations shall 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 1.5 times its estimated debt service requirements in such year on all its debt including the debt to be incurred.

(b) For the purposes of this Section:

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

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between:

(A) the sum of revenues from all sources related to operations

and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term "net non-operating income" means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term "debt service requirements" means the aggregate of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) The term "reasonable forecast" means a forecast prepared by such Corporation not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and such Corporation accept as reasonable and as to which the Bank has notified such Corporation of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of such Corporation.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

#### ARTICLE V

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

Section 5.01. This Agreement shall come into force and effect on the date on which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the Corporations thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms and the Bank shall promptly notify each of the Corporations thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such

party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the 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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For SMTC:

Shanghai Machine Tool Corporation  
89 Fu Zhou Road  
Shanghai, China

Telex:

33159 SMTCT CN

For SMTW:

Shanghai Machine Tool Works  
1146 Jungong Road  
Shanghai, China

Telex:

33097 SMTW CN

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of either of the Corporations may be taken or executed by the General Manager of such Corporation or such other person or persons as such General Manager shall designate in writing, and such General Manager shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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 representative thereunto duly authorized, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu

Regional Vice President  
Asia

SHANGHAI MACHINE TOOL CORPORATION  
SHANGHAI MACHINE TOOL WORKS

By /s/ Han Xu

Authorized Representative

