

CONFORMED COPY

LOAN NUMBER 3022-CHA

CIB Project Agreement

(Tianjin Light Industry Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CHINA INVESTMENT BANK

Dated September 8, 1989

LOAN NUMBER 3022-CHA

CIB PROJECT AGREEMENT

AGREEMENT, dated September 8, 1989, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CHINA INVESTMENT BANK (CIB).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to one hundred fifty-four million dollars (\$154,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that CIB agree to undertake such obligations toward the Bank as are set forth in this Agreement and Tianjin Municipality agree to undertake such obligations toward the Bank as are set forth in the Tianjin Project Agreement;

(B) by a subsidiary loan agreement to be entered into between Tianjin Municipality and CIB, a portion of the proceeds of the Loan provided for under the Loan Agreement, will be made available to CIB on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS CIB, 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 and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project; Management and Operations of CIB

Section 2.01. (a) CIB 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 Parts A and B.2 of the Project through its Tianjin branch and conduct its operations and affairs, in accordance with sound financial standards and practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers and in accordance with its Charter, Supplementary Regulations, Statement of Operating and Financial Policies, Statement of Development Strategy and Lending Procedures.

(b) CIB shall carry out Part B.2 of the Project in accordance with a program agreed between the Bank and CIB.

Section 2.02. CIB undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

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

Section 2.03. Except as the Bank shall otherwise agree, procurement of the goods and services required for Parts A and B.2 of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.04. CIB 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 CIB Project Agreement and Parts A and B.2 of the Project.

Section 2.05. CIB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, CIB shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement to affect the provisions of Section 2.02 (a) of the Tianjin Project Agreement.

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

(b) CIB 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 the Loan, or the performance by CIB of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.07. If CIB establishes or acquires any Subsidiary, CIB shall cause such Subsidiary to observe and perform the obligations of CIB under this Agreement to the extent to which such obligations shall or may be made applicable thereto, as though such obligations were binding upon such Subsidiary.

Section 2.08. CIB shall exchange views with the Bank on any proposal to modify its Charter, Supplementary Regulations, Statement of Operating and Financial Policies, Statement of Development Strategy or Lending Procedures.

Section 2.09. From time to time, at the request of any one of them, the Bank, the Borrower and CIB shall exchange views on the interest rates to be charged by CIB in its lending operations in light of CIB's cost of funds and profitability and interest and inflation rates in China and internationally.

Article III

Financial and Other Covenants

Section 3.01. (a) CIB shall maintain procedures and records adequate to monitor and report the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices and operations and financial condition of CIB.

(b) CIB shall:

(i) have its records, accounts and 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;

(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 records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

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

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

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

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

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

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

loan which the Bank may determine to be included in the consolidated capital and surplus of CIB.

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

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

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

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

Section 4.02. This Agreement and all obligations of the Bank and CIB thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify CIB 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, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the 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 CIB:

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

Cable address:

Telex:

2122
Beijing

22537 CIB CN

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of CIB may be taken or executed by its President, or by such other person or persons as the President shall designate in writing, and CIB 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 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

CHINA INVESTMENT BANK

By /s/ Zhao Xixin

Authorized Representative

SCHEDULE 1

Terms and Conditions of Sub-loans
and Processing Procedures

1. Principal Terms and Conditions of CIB Sub-loans:

(a) Sub-loans shall bear interest on the principal amount withdrawn and outstanding from time to time, at a rate not less than the variable rate payable under Section 2.05 of the Loan Agreement, plus a spread of at least 1%.

(b) The aggregate amount of all Sub-loans and Prior Sub-loans for an Investment Project shall not exceed the equivalent of \$15,000,000.

(c) Repayment periods for Sub-loans shall normally not extend beyond fifteen years, including up to three years of grace.

(d) Investment Enterprises shall bear all foreign exchange risks on Sub-loans.

(e) A Sub-loan may be used to finance goods and services required for the Investment Project, including initial permanent foreign currency working capital, and interest during construction payable in foreign currency on such Sub-loan.

(f) Investment Projects shall be in eligible industrial sub-sectors, and consistent with Tianjin Municipality's development program and strategy for the Sub-sector. Except as the Bank shall otherwise agree, Sub-loans shall be allocated among eligible industrial sub-sectors as follows:

- (i) textile dyeing and finishing, up to \$36,000,000;
- (ii) pulp and paper, up to \$71,000,000; and
- (iii) packaging, up to \$33,600,000.

(g) With respect to the Sub-loans for the pulp and paper sub-sector: (i) CIB shall be the managing agency, on behalf of Tianjin Municipality on terms and conditions acceptable to the Bank; (ii) CIB shall carry out all the functions of a financial intermediary except that the credit risk for such sub-loans shall be borne by Tianjin Municipality; (iii) in respect of this managing agency function, CIB shall charge Tianjin Municipality a managing fee of 0.30% of principal outstanding on such Sub-loans which shall be deducted from the spread under paragraph 1 (a) above; (iv) the remaining amount of the spread shall be paid to Tianjin Municipality; and (v) the limitation in paragraph 1 (b) above shall not apply.

(h) Investment Projects shall have minimum financial and economic rates of return of 12%.

(i) Investment Enterprises shall have a satisfactory projected financial position as determined by generally accepted financial standards.

(j) Investment Projects shall be consistent with environmental standards satisfactory to the Bank.

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

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan.

(i) For the purposes of the Loan Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which, when added to any other outstanding amounts financed or proposed to be financed out of Sub-loans and Prior Sub-loans, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project, shall not exceed in the aggregate the equivalent of \$3,500,000, the foregoing amount being subject to change from time to time as determined by the Bank.

3. (a) When presenting a Sub-loan (other than a free-limit Sub loan) to the Bank for approval, CIB shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan and a description of the procurement procedures; (ii) the proposed terms and conditions of the Sub-loan including the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.

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

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1992.

4. Sub-loans shall be made on terms whereby CIB shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and CIB, including the right to:

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

(b) require that the goods and services to be financed out of the proceeds of the Sub-loan (i) be procured in accordance with the provisions of Schedule 2 to this Agreement; and (ii) be used exclusively in the carrying out of the Investment Project;

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

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

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

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Sub-loan upon failure by such Investment Enterprise to perform its obligations under its contract with CIB.

SCHEDULE 2

Procurement

Except as the Bank may otherwise agree, CIB shall cause Investment Enterprises to procure goods and services to be financed in whole or in part under Sub-loans in accordance with paragraphs 1, 2 and 3 below.

1. Goods and services estimated to cost the equivalent of \$5,000,000 or more each shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

In the procurement of goods in accordance with the procedures described in this paragraph, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

2. Goods and services estimated to cost less than the equivalent of \$5,000,000 per contract shall be procured under contracts awarded on the basis of evaluation and comparison of price quotations obtained from at least three qualified suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Review of procurement decisions by the Bank:

(a) Review of invitations to bid and of proposed awards and final contracts:

(i) With respect to the first five contracts estimated to cost the equivalent of \$5,000,000 or more and all subsequent contracts estimated to cost

the equivalent of \$10,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the CIB Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the CIB Special Account in respect of such contract.

(ii) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the CIB Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Loan Agreement.

(iii) The provisions of the preceding sub-paragraphs (a) (i) and (ii) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditures. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Loan Agreement.

(b) The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

