

CONFORMED COPY

LOAN NUMBER 4589 CHA

Loan Agreement

(Water Conservation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 9, 2001

LOAN NUMBER 4589 CHA

LOAN AGREEMENT

AGREEMENT, dated February 9, 2001, 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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by the Borrower's Municipality of Beijing, Provinces of Hebei and Liaoning and Municipality of Qingdao (the Project Entities) 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 the Project Entities, as set forth in this Agreement;

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 the Project Entities (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) (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings wherever used herein:

(a) "Allocated Amount" means, in respect of: (i) Beijing, the amount of the Loan allocated from time to time to Category (1); (ii) Hebei, the amount of the Loan allocated from time to time to Category (2); (iii) Liaoning, the amount of the Loan allocated from time to time to Category (3); and (iv) Qingdao, the amount of the Loan allocated from time to time to Category (4); and in each case to be utilized by said Project Entity for purposes of carrying out its Respective Part of the Project.

(b) "Beijing" means the Borrower's Municipality of Beijing, and any successor thereto.

(c) "Beijing Special Account" means the account referred to in Section 2.02(b)(i) of this Agreement.

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

(e) "CPCG" means the central Project coordination group to be maintained by the Borrower in accordance with the provisions of Part A.1(a) of Schedule 4 to this Agreement.

(f) "CPMO" means the central Project management office to be maintained by the Borrower in accordance with the provisions of Part A.1(b) of Schedule 4 to this Agreement.

(g) "Environmental Mitigation and Monitoring Plan" means the mitigation and monitoring measures established with respect to the Project, acceptable to the Bank, integrating the environmental mitigation and monitoring measures prepared by each Project Entity with respect to its Respective Part of the Project.

(h) "Hebei" means the Borrower's Province of Hebei, and any successor thereto.

(i) "Hebei Special Account" means the account referred to in Section 2.02(b)(ii) of this Agreement.

(j) "Liaoning" means the Borrower's Province of Liaoning, and any successor thereto.

(k) "Liaoning Special Account" means the account referred to in Section 2.02(b)(iii) of this Agreement.

(l) "Local PMOs" means, in respect of each Project Entity, the Project management offices to be maintained at the city and county levels within said Project Entity.

(m) "MWR" means the Borrower's Ministry of Water Resources, and any successor

thereto.

(n) "PPMO" means, in respect of each Project Entity, the Project Management Office to be maintained by said Project Entity within its Water Resources Bureau, in accordance with the provisions of Part A1.(b) of Schedule 2 to the Project Agreement.

(o) "Project Agreement" means the agreement between the Bank and the Project Entities 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.

(p) "Project Areas" means, in respect of each Project Entity, the areas within said Project Entity, selected by agreement between the Bank and said Project Entity, in which the Project is to be carried out; and "Project Area" means any of the Project Areas.

(q) "Project Entities" means Beijing, Hebei, Liaoning and Qingdao; and "Project Entity" means any of the Project Entities.

(r) "Qingdao" means the Municipality of Qingdao, in the Borrower's Province of Shandong, and any successor thereto.

(s) "Qingdao Special Account" means the account referred to in Section 2.02(b)(iv) of this Agreement.

(t) "Resettlement Policy Framework" means the Policy Framework for Resettlement and Land Acquisition, dated March 2000, prepared by the CPMO, setting forth the policies, planning principles and institutional arrangements designed to improve the living standards and productive capacity of persons affected by the Project, as said Policy Framework may be amended from time to time with the agreement of the Bank.

(u) "Respective Part of the Project" means, in respect of each Project Entity, all the Subprojects to be carried out in said Project Entity under Part A of the Project and the activities to be carried out by it under Part B of the Project.

(v) "SIDD" means a self-financing irrigation and drainage district to be established under Part B of the Project.

(w) "Special Accounts" means, collectively, the Beijing Special Account, the Hebei Special Account, the Liaoning Special Account and the Qingdao Special Account, and "Special Account" means any of the Special Accounts.

(x) "Subproject" means a specific investment project to be carried out in a Project Entity under Part A of the Project and to be financed out of the proceeds of the Loan.

(y) "WSOs" means water supply organizations established within SIDDs under Part B(1) of the Project; and "WSO" means any of the WSOs.

(z) "WUAs" means water user associations established under Part B(1) of the Project; and "WUA" means any of the WUAs.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to the Project Entities.

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 seventy four million Dollars (\$74,000,000).

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, four special deposit accounts, each in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment: (i) an account for Beijing's Respective Part of the Project (the Beijing Special Account); (ii) an account for Hebei's Respective Part of the Project (the Hebei Special Account); (iii) an account for Liaoning's Respective Part of the Project (the Liaoning Special Account); and (iv) an account for Qingdao's Respective Part of the Project (the Qingdao Special Account). Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006 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 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 said 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 March 15 and September 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 the Project Entities to perform in accordance with the provisions of the Project Agreement all the obligations of the Project Entities 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 the Project Entities to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without any limitation upon the provisions of Section 3.01(a) of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the actions specified in the Implementation Program set forth in Schedule 4 to this Agreement.

(c) For the purposes of carrying out each Project Entity's Respective Part of the Project, the Borrower shall make available to said Project Entity part of the proceeds of the Loan on the following principal terms:

(i) the principal amount so made available to said Project Entity shall be the equivalent in terms of Dollars _____ (determined as of the date, or respective dates of withdrawal from the Loan Account or payment out of the respective Special Account, as the case may be) of the value of the currency or currencies so withdrawn or _____ paid out on account of the cost of items required for its Respective Part of the Project and to be financed out of the proceeds of the Loan, and shall be recovered by the Borrower in Dollars (the Loan Amount);

(ii) the Borrower shall recover the Loan Amount from said Project Entity in semi-annual installments over a _____ period not exceeding 20 years, inclusive of a grace period not exceeding 5 years;

(iii) the Borrower shall charge interest on the Loan Amount withdrawn and outstanding from time to time, at a _____ rate which shall not exceed the rate payable by the Borrower from time to time pursuant to Section 2.06 of

this Agreement; and

(iv) the Borrower shall charge: (A) a commitment fee on the principal amount of the Loan so made available and not withdrawn from time to time at a rate which shall not exceed three-fourths of one percent (0.75%) per annum; and (B) an additional fee in an amount equal to 1% of the Loan Amount.

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 Borrower and the Bank 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 each Project Entity in respect of its Respective Part of the Project, 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 Accounts 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(p) of the General Conditions, the following additional events are specified:

(a) Any of the Project Entities 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 any Project Entity will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01(a) of this Agreement shall occur and shall continue for a period of 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 each of the Project Entities, and is legally binding upon the Project Entities 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 MFPRCCN

Facsimile:

8610-6855-1125

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)	(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/ Zhu Guangyao

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:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Beijing		
(a) Works		
(i) under Parts A(1)(f), (2) and (3)(a) of the Project	480,000	20%
(ii) under Part A(1) other than A(1)(f) of the Project	7,140,000	33%
(b) Goods	5,330,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(c) Consultants' services and training	3,880,000	100%

(2)	Hebei		
	(a)	Works	
		(i) under Parts A(1)(f), (2) and (3)(a) of the Project	430,000 20%
		(ii) under Part A(1) other than A(1)(f) of the Project	5,210,000 33%
	(b)	Goods	1,700,000 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
	(c)	Consultants' services and training	2,560,000 100%
(3)	Liaoning		
	(a)	Works	
		(i) under Parts (A)(1)(f), (2) and (3)(a) of the Project	1,640,000 20%
		(ii) under Part (A)1 other than A(1)(f) of the Project	15,720,000 33%
	(b)	Goods	16,160,000 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
	(c)	Consultants' services and training	3,110,000 100%
(4)	Qingdao		
	(a)	Works	
		(i) under Parts (A)(1)(f), (2) and (3)(a) of the Project	260,000 20%
		(ii) under Part A(1) other than A(1)(f) of the Project	4,780,000 33%
	(b)	Goods	3,000,000 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local

			expenditures for other items procured locally
(c)	Consultants' services and training	1,860,000	100%
(5)	Fee	740,000	Amount due under Section 2.04 of this Agreement
	TOTAL	74,000,000	

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; 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 Recipient for goods or services supplied from said region shall be deemed "foreign expenditures"; and

(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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$6,200,000, may be made before that date but after December 1, 1999.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding \$500,000 equivalent each, (b) goods under contracts not exceeding \$250,000 equivalent each; (c) consultants' services provided by firms under contracts not exceeding \$100,000 equivalent each; (d) consultants' services provided by individuals under contracts not exceeding \$50,000 equivalent each; and (e) training and study tours, regardless of the cost thereof; in each case under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in enhancing beneficial use of water resources, agriculture production capacity and farmer incomes in the Project Entities through: (a) increasing the value of agriculture production per unit of water consumed by increasing yields and reducing non-beneficial water losses; and (b) establishing mechanisms for sustainable use and management of water resources in irrigated areas, all in the Project Entities.

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: Investments

Carrying out in the Project Entities of specific investment projects in the

following areas:

(1) Irrigation and Drainage

Improvement of irrigation and drainage systems, through such activities as: (a) lining of selected canals and laterals; (b) replacing selected canals and laterals with buried low-pressure pipes, buried pressure pipe and sprinkler irrigation systems or buried pressure pipe and micro-irrigation systems; (c) installing and rehabilitating wells, small headworks, small reservoirs and drains; (d) installing gates, ancillary structures and measuring devices at key diversion points; (e) implementation of groundwater recharge schemes; (f) construction of rural roads required for irrigation system operation and maintenance; and (g) installation of power transmission lines and transformers where necessary for electrification of pumps.

(2) Agriculture Support and Services

Increasing agricultural production through such activities as: (a) land leveling and deep plowing; (b) incorporation of green manure and stalk for improved soil fertility and introduction of organic and plastic mulching, cropping pattern adjustments and seed improvements and development of drought resistant varieties; (c) development of seed farms; and (d) provision of farm machinery, fertilizer, chemicals and plastic film.

(3) Forestry and Environmental Monitoring

(a) Increase in vegetative cover through: (i) establishment of tree nurseries; (ii) planting of on-farm windbreaks and trees for economic production; and (iii) provision of machinery and equipment for tree planting and maintenance.

(b) Establishment of systems and provision of equipment to monitor environmental impact of the Project on soil and water.

Part B: Institutional Development

(1) Carrying out of programs for the development of self-financing irrigation and drainage districts in selected locations in each Project Area, comprising, inter alia, water supply organizations and water user associations, in order to ensure the sustainability and self-financing of irrigated agriculture, and improve irrigation system performance and effective decentralized irrigation services, cost recovery and farmer participation.

(2) Development of groundwater management plans in each Project Area and implementation of said plans in selected locations in the Project Areas, including water licensing and use controls, limits on new groundwater development and integrated measures to achieve water savings.

(3) Development and implementation in each Project Area of a program for the provision of advisory services and training to farmers and technicians in integrated irrigation technology, agriculture and management, through deployment of mobile specialist teams and other support services.

(4) Carrying out of a program to strengthen the capabilities of the CPMO, PPMOs and Local PMOs to monitor and evaluate Project implementation, including development and operation of a management information system.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due Dollars)*	Payment of Principal (Expressed in
September 15, 2006	1,400,000
March 15, 2007	1,450,000
September 15, 2007	1,505,000
March 15, 2008	1,560,000
September 15, 2008	1,615,000
March 15, 2009	1,675,000
September 15, 2009	1,735,000
March 15, 2010	1,800,000
September 15, 2010	1,865,000
March 15, 2011	1,930,000
September 15, 2011	2,005,000
March 15, 2012	2,075,000
September 15, 2012	2,150,000
March 15, 2013	2,230,000
September 15, 2013	2,310,000
March 15, 2014	2,395,000
September 15, 2014	2,480,000
March 15, 2015	2,570,000
September 15, 2015	2,665,000
March 15, 2016	2,765,000
September 15, 2016	2,865,000
March 15, 2017	2,970,000
September 15, 2017	3,075,000
March 15, 2018	3,190,000
September 15, 2018	3,305,000
March 15, 2019	3,425,000
September 15, 2019	3,550,000
March 15, 2020	3,680,000
September 15, 2020	3,810,000
March 15, 2021	3,950,000

* 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

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01(b) of this Agreement.

A. Project Oversight

1. The Borrower shall maintain, or cause to be maintained, throughout the period of Project implementation:

(a) the CPCG, within MWR, with composition and responsibilities acceptable to

the Bank, to be responsible for the general oversight of Project implementation; and

(b) the CPMO, within MWR, with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for the overall coordination and management of Project implementation, financial management of the Project, review of proposed Subprojects, supervision of Subprojects under implementation and provision of technical and policy assistance to the Project Entities in the carrying out of their Respective Parts of the Project.

2. The Borrower shall, through the CPMO, prepare and furnish to the Bank not later than January 31, 2001, for the Bank's review and comment, a plan for staffing, capacity building and budgeting for the CPMO and, thereafter, carry out said plan taking into account the Bank's comments thereon.

B. Subprojects

1. In order to ensure the proper implementation of Part A of the Project, the Borrower shall, through the CPMO, in accordance with guidelines satisfactory to the Bank:

(a) establish, not later than January 31, 2001, an expert advisory group responsible for providing technical advice to the CPMO and assisting the CPMO in undertaking annual reviews of Subprojects, under terms of reference and with composition satisfactory to the Bank;

(b) review the report on each investment project proposed to be included in the Project as a Subproject which is furnished to it pursuant to Part B.1 of Schedule 2 to the Project Agreement, and prepare and furnish to the Bank a report summarizing the results of said review, together with its recommendations regarding said Subproject;

(c) thereafter, take or cause to be taken all measures necessary to implement such recommendations regarding said proposed Subproject as shall have been agreed between the Borrower and the Bank; and

(d) monitor the implementation of each Subproject and provide technical and policy guidance to the respective Project Entities in respect of said implementation.

C. Annual Implementation and Training Plans

1. The Borrower shall:

(a) review promptly: (i) the annual implementation plans furnished to it by the Project Entities each year pursuant to Part A.3(a) of Schedule 2 to the Project Agreement; and (ii) the annual training, study tour and research plans furnished to it by the Project Entities each year pursuant to Part A.4(b) of Schedule 2 to the Project Agreement;

(b) on the basis of said review, prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank no later than September 30 in said year, a summary of said plans for the Bank's review and comment; and

(c) thereafter, take all measures necessary to ensure prompt implementation of said plans, taking into account the views of the Bank thereon.

2. The Borrower shall:

(a) review promptly the detailed terms of reference and participant lists for each overseas study tour proposed to be carried out under the Project and upon completion of said review furnish to the Bank for the Bank's review and comment a

summary thereof;

(b) thereafter, take all measures necessary to ensure prompt implementation of said study tours, taking into account the views of the Bank thereon; and

(c) promptly upon completion of any overseas study tour carried out under the Project, furnish to the Bank a report on said study tour, including a summary of lessons learned and the applicability of said lessons to the implementation of the Project.

D. Management Information System

1. The Borrower shall develop and install within the CPMO a comprehensive management information system not later than January 31, 2001.

E. Monitoring and Evaluation

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank: (i) semi-annual reports, not later than March 31 and September 30 in each year, summarizing the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph in respect of the preceding calendar semester and setting forth the physical and financial progress in the implementation of the Project, both cumulatively, and in respect of the preceding calendar semester, consolidating the semi-annual reports furnished to it by the Project Entities pursuant to Part E.1(b)(i) of Schedule 2 to the Project Agreement, and setting out the measures recommended to ensure the efficient carrying out of the Project and to further the objectives thereof during the then current calendar semester; (ii) annual reports, not later than March 31 in each year, summarizing the results of the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph in respect of the preceding calendar year, consolidating the annual reports furnished by the Project Entities pursuant to Part E.1(b)(ii) of Schedule 2 to the Project Agreement, including the mobile specialist team reports for each Project Entity, and setting out the measures recommended to ensure the efficient carrying out of the Project and to further the objectives thereof during the then current calendar year; and (iii) a mid-term report, not later than December 31, 2003, summarizing the results of the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph from the inception of the Project, consolidating the mid-term reports furnished to it by the Project Entities pursuant to Part E.1(b)(iii) of Schedule 2 to the Project Agreement and setting out the measures recommended to ensure the efficient completion of the Project and to further the objectives thereof; and

(c) after furnishing to the Bank each report referred to in subparagraph (b) of this paragraph, review such reports with the Bank and, thereafter, promptly take all measures required to ensure the efficient completion of the Project and to ensure the achievement of the objectives thereof as shall have been agreed between the Borrower and the Bank.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in respect of the Beijing Special Account, Category (1); (ii) in respect of the Hebei Special Account, Category

(2); (iii) in respect of the Liaoning Special Account, Category (3); and (iv) in respect of the Qingdao Special Account, Category (4).

(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:

(i) in respect of the Beijing Special Account, an amount equivalent to \$1,200,000 to be withdrawn from the Loan Account and deposited into said Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation for said Special Account shall be limited to an amount equivalent to \$720,000 until the aggregate amount of withdrawals from the Loan Account allocated to the respective eligible Categories for said Special Account, plus the total amount of all outstanding special commitments entered into by the Bank in respect of Beijing's Respective Part of the Project, pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,500,000;

(ii) in respect of Hebei's Special Account, an amount equivalent to \$700,000 to be withdrawn from the Loan Account and deposited into said Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation for said Special Account shall be limited to an amount equivalent to \$420,000 until the aggregate amount of withdrawals from the Loan Account allocated to the respective eligible Categories for said Special Account, plus the total amount of all outstanding special commitments entered into by the Bank in respect of Hebei's Respective Part of the Project, pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000;

(iii) in respect of Liaoning's Special Account, an amount equivalent to \$2,500,000 to be withdrawn from the Loan Account and deposited into said Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation for said Special Account shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Loan Account allocated to the respective eligible Categories for said Special Account, plus the total amount of all outstanding special commitments entered into by the Bank in respect of Liaoning's Respective Part of the Project, pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$12,000,000; and

(iv) in respect of Qingdao's Special Account, an amount equivalent to \$700,000 to be withdrawn from the Loan Account and deposited into said Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation for said Special Account shall be limited to an amount equivalent to \$420,000 until the aggregate amount of withdrawals from the Loan Account allocated to the respective eligible Categories for said Special Account, plus the total amount of all outstanding special commitments entered into by the Bank in respect of Qingdao's Respective Part of the Project, pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000;

2. Payments out of the Special Accounts 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation for a Special Account, the Borrower shall furnish to the Bank a request or requests for deposit into said 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 said Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of a Special Account, the Borrower shall furnish to the Bank requests for deposits into said 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 said 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 said 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 a 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 any 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 said 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 for said Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of the Parts of the Project for which said Special Account is established, 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 said 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 any 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 said 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 said 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 any 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 any 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.

