

CONFORMED COPY

LOAN NUMBER 3443 CHA

(Regional Cement Industry Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 9, 1992

LOAN NUMBER 3443 CHA

LOAN AGREEMENT

AGREEMENT, dated July 9, 1992, 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) Parts A.1, A.2 and B of the Project will be carried out by the Anhui Tongling Cement Company, Ningbo Beilun Cement Company and Zhongguo Cement Company (the Companies), respectively, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Companies a portion of 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 the Companies;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Companies" means the Ningbo Company, the Tongling Company and the Zhongguo Company, collectively, and "Company" means any of the Companies;

(b) "Hefei Institute" means the Hefei Cement Industry Design Institute, under SABMI;

(c) "Nanjing Institute" means the Nanjing Cement Industry Design Institute, under SABMI;

(d) "Ningbo Company" means the Ningbo Beilun Cement Company, a state enterprise of the Borrower, established and operating pursuant to the Ningbo Charter;

(e) "Ningbo Charter" means the Charter of the Ningbo Company, approved by the Ningbo Municipal Bureau of Building Materials Industry on January 8, 1992;

(f) "Project Agreement" means the agreement between the Bank and the Ningbo Company, Tongling Company and Zhongguo Company 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;

(g) "Project Institutes" means the Hefei Institute, Nanjing Institute, Research Institute and the Tianjin Institute, collectively, and "Project Institute" means any of the Project Institutes;

(h) "Research Institute" means the Research Institute of Cement, under SABMI;

(i) "SABMI" means the Borrower's State Administration for Building Materials Industry, and any successor thereto;

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

(k) "Subsidiary Loan Agreements" means the six agreements to be entered into: (1) between the Borrower and each of Ningbo Municipality, Anhui Province and Nanjing Municipality; and (2) between Ningbo Municipality, Anhui Province and Nanjing Municipality and the Ningbo Company, the Tongling Company and the Zhongguo Company, respectively, all pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreements;

(l) "Tianjin Institute" means the Tianjin Cement Industry Design Institute, under SABMI;

(m) "Tongling Company" means the Anhui Tongling Cement Company, a state enterprise of the Borrower, established and operating pursuant to the Tongling Charter;

(n) "Tongling Charter" means the Charter of the Tongling Company, approved by the Anhui Provincial Bureau of Building Materials Industry on January 8, 1992;

(o) "tpty" means metric tons per year;

(p) "Zhongguo Company" means the Zhongguo Cement Company, a state enterprise of the Borrower, established and operating pursuant to the Zhongguo Charter; and

(q) "Zhongguo Charter" means the Charter of the Zhongguo Company, approved by the Nanjing Municipal Bureau of Building Materials Industry on February 17, 1990.

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, various currencies that shall have an aggregate value equivalent to the amount of eighty-two million seven hundred thousand dollars (\$82,700,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 and in respect of interest and other charges on the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank and 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 6 to this Agreement.

(c) On each of the semiannual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 2.03. The Closing Date shall be June 30, 1996 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 percent ($3/4$ 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 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:

(i) shall carry out Part C of the Project through SABMI, with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project; and

(ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause each of the Companies to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each of the Companies 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 limitation upon the provisions of paragraph (a) of this Section,

and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part C of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) Without limitation upon the provisions of paragraph (a) (ii) of this Section, the Borrower shall allow the Ningbo Company and the Tongling Company each to implement the shareholding system as provided in the Ningbo Charter and Tongling Charter, respectively, to the full extent permitted under applicable law.

Section 3.02. (a) The Borrower shall relend out of the proceeds of the Loan the equivalent of:

(i) eight million dollars (\$8,000,000) to the Ningbo Company, through Ningbo Municipality;

(ii) forty-five million nine hundred thousand dollars (\$45,900,000) to the Tongling Company, through Anhui Province; and

(iii) twenty-five million two hundred thousand dollars (\$25,200,000) to the Zhongguo Company, through Nanjing Municipality,

under Subsidiary Loan Agreements to be entered into between the Borrower and each of Ningbo Municipality, Anhui Province and Nanjing Municipality, and between Ningbo Municipality, Anhui Province and Nanjing Municipality and the Ningbo Company, the Tongling Company and the Zhongguo Company, respectively, under terms and conditions which shall have been approved by the Bank which shall include, inter alia, those specified in paragraph (b) of this Section.

(b) Except as the Bank shall otherwise agree, the relending terms and conditions shall include, inter alia: (i) interest payable at 110% of the variable rate payable under Section 2.05 of this Agreement; (ii) commitment charges calculated in accordance with Section 2.04 of this Agreement; (iii) repayment period of 15 years, including a grace period of five years; (iv) foreign exchange risk to be borne by the respective Company; and (v) amortization of the interest during construction.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements to affect the provisions of paragraph (b) of this Section.

(d) The Borrower shall make three million six hundred thousand dollars (\$3,600,000) out of the proceeds of the Loan available to the Project Institutes through SABMI on terms and conditions satisfactory to the Bank.

Section 3.03. The Borrower shall maintain the Project Coordination Group established within SABMI to coordinate the implementation of the Project, with staff and responsibilities acceptable to the Bank.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part C of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.05. 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) in respect of Parts A.1, A.2 and B of the Project shall be carried out by the Tongling Company, the Ningbo Company and the Zhongguo Company, respectively, pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part C of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) 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; and

(c) 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 paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, 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 or payment out of the Special 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 records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains 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.

Section 4.02. (a) The Borrower shall ensure that the river transport facilities necessary to support Part A of the Project are available in a timely manner, and, in particular, that the two bulk receiving terminals at Nantong and Wenzhou, and the acquisition of the necessary clinker and bulk cement carriers, are completed by December 31, 1994.

(b) The Borrower shall ensure that the contracts for said river transport facilities are entered into and maintained in accordance with paragraph A.1 of Schedule 2 to the Project Agreement.

Section 4.03. The Borrower shall allow the Companies to sell the output of facilities constructed under the Project directly and on the basis of market pricing.

ARTICLE V

Remedies of the Bank

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

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

(c) The Ningbo Charter, the Tongling Charter or the Zhongguo Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the respective Company to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any of the Companies or for the suspension of its operations.

(e) Any of the parties to the river transport contracts referred to in paragraph A.2 of Schedule 2 to the Project Agreement shall have failed to perform its obligations thereunder.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) any event specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Borrower's State Council has approved the Loan Agreement;

(b) the Subsidiary Loan Agreements have been executed on behalf of the Borrower, Ningbo Municipality, Anhui Province and Nanjing Municipality, and each of the Companies; and

(c) the river transport contracts referred to in paragraph A.1 of the Schedule to the Project Agreement shall have been concluded by the parties thereto.

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

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

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower, Ningbo Municipality, Anhui Province and Nanjing Municipality and each of the Companies, and are legally binding upon the Borrower, Ningbo Municipality, Anhui Province and Nanjing Municipality and each of the Companies in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives 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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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/ Zhu Qizhen

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam S. Kaji

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
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(1) Interest and other charges on the Loan accrued on or before April 30, 1996	8,700,000	Amount due pursuant to Section 2.02 (c) of this Agreement
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Part A.1 of the Project:

(2) Equipment and materials	33,300,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 75% of local expenditures for other items procured locally
(3) Technical services	100,000	100%
(4) Training	400,000	100%
(5) Unallocated	7,400,000	

Part A.2 of the Project:

(6) Equipment and materials	5,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 75% of local expenditures for other items procured locally
(7) Technical services	100,000	100%
(8) Training	200,000	100%
(9) Unallocated	1,200,000	

Part B of the Project:

(10) Equipment and materials	17,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 75% of local expenditures for other items procured locally
(11) Technical services	100,000	100%
(12) Training	200,000	100%
(13) Unallocated	4,400,000	

Part C of

the Project:

(14)	Equipment and materials	2,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 75% of local expenditures for other items procured locally
(15)	Technical services	300,000	100%
(16)	Training	600,000	100%
	TOTAL	82,700,000 =====	

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 an aggregate amount not to exceed \$500,000, may be made in respect of Categories (3), (7), (11) and (15) on account of payments made for expenditures before that date but after October 31, 1991.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (a) expanding cement production capacity based on economically viable technologies and scale; (b) improving product quality and production efficiency of existing cement plants in line with the country's increasing demand for high-grade cement; and (iii) strengthening domestic capabilities for research and design in the cement industry.

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: Tongling Cement Production and Distribution

1. (a) Construction and equipping of an integrated cement plant with 1.2 million tpy clinker capacity, a cement grinding line with 690,000 tpy processing capacity for high-strength cement, and a clinker and bulk cement loading terminal at Tongling in Anhui Province; and (b) strengthening the management and staff capabilities of the Tongling Company, through training of staff and provision of technical services.

2. (a) Construction and equipping of a cement-grinding plant with 600,000 tpy processing capacity for clinker, and a clinker-receiving terminal, at Ningbo in Zhejiang Province; and (b) strengthening the management and staff capabilities of the Ningbo Company, through training of staff and provision of technical services.

Part B: Zhongguo Plant Rehabilitation

1. (a) Construction, rehabilitation and equipping of the Zhongguo cement plant at Nanjing in Jiangsu Province, including a dry-process line with 640,000 tpy capacity, opening of a limestone quarry and improving road, rail and electric power facilities; and (b) strengthening the management and staff capabilities of the Zhongguo Company, through training of staff and provision of technical services.

Part C: Cement Industry Technical Assistance

1. Strengthening domestic cement industry capabilities for cement material research and cement plant process engineering and design, at the Project Institutes, through provision of equipment, computer software, technical services and staff training and acquisition of technology.

2. Undertaking a study of small-scale cement plants.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
November 1, 1997	1,510,000
May 1, 1998	1,565,000
November 1, 1998	1,625,000
May 1, 1999	1,690,000
November 1, 1999	1,755,000
May 1, 2000	1,825,000
November 1, 2000	1,895,000
May 1, 2001	1,965,000
November 1, 2001	2,045,000
May 1, 2002	2,120,000
November 1, 2002	2,205,000
May 1, 2003	2,290,000
November 1, 2003	2,375,000
May 1, 2004	2,470,000
November 1, 2004	2,565,000
May 1, 2005	2,665,000
November 1, 2005	2,765,000
May 1, 2006	2,875,000
November 1, 2006	2,985,000
May 1, 2007	3,100,000
November 1, 2007	3,220,000
May 1, 2008	3,345,000
November 1, 2008	3,475,000
May 1, 2009	3,610,000
November 1, 2009	3,745,000
May 1, 2010	3,890,000
November 1, 2010	4,040,000
May 1, 2011	4,200,000
November 1, 2011	4,360,000
May 1, 2012	4,525,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods 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 IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, 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.

Part C: Other Procurement Procedures

Items or groups of items estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$2,700,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for estimated to cost the equivalent of \$1,000,000 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 Special Account, such procedures shall be modified to ensure that the two conformed

copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) 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 Special Account, said 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 6 to this Agreement.

2. The preceding paragraph 1(b) shall not apply to contracts in respect of which the Bank shall have authorized withdrawals on the basis of statements of expenditure.

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

Section II: Employment of Consultants

In order to assist the Borrower in carrying out Part C of the Project, the Borrower shall employ consultants to provide technical services, whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Implementation Program

1. The Borrower shall cause SABMI to carry out the staff training for the Project Institutes under Part C.1 of the Project in accordance with a program agreed with the Bank.

2. The Borrower shall cause the Hefei Institute to carry out the study under Part C.2 of the Project in accordance with terms of reference and timing agreed with the Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (2), (3), (4), (6), (7), (8), (10), (11), (12), (14), (15) and (16) 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 \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) 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; (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.

