

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4815-CHA

Loan Agreement

(Heilongjiang Dairy Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 26, 2006

Public Disclosure Authorized



LOAN NUMBER 4815-CHA

LOAN AGREEMENT

AGREEMENT, dated April 26, 2006, 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 Heilongjiang Province (Heilongjiang) 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 Heilongjiang, as set forth in this Agreement;

(C) by an agreement of even date herewith between the Borrower and the Bank as administrator of grant funds provided by the Republic of Italy (Italian Grant Agreement), the Bank has agreed to make a grant to the Borrower in an amount equivalent to five million five hundred thousand Dollars (\$5,500,000) (the Italian Grant) to assist in financing Part C of the Project, on the terms and conditions set forth in the Italian Grant 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 agreement of even date herewith between the Bank and Heilongjiang (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 May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement.

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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:

(a) "Competitive Research Sub-grant" means a grant made, or proposed to be made, by Heilongjiang, out of the proceeds of the Italian Grant in accordance with the provisions of paragraph 8 through 10 of Schedule 2 to the Project Agreement, to a Competitive Research Sub-grant Beneficiary for the purposes of carrying out a specific Competitive Research Sub-project under Part C.4 of the Project, and the term "Competitive Research Sub-grants" means, collectively, the plural thereof.

(b) "Competitive Research Sub-grant Beneficiary" means any public or private sector research organization, university, or any other qualified person or organization selected to carry out a Competitive Research Sub-project, to whom, and for whose benefit, a Competitive Research Sub-grant is made or proposed to be made; the term "Competitive Research Sub-grant Beneficiaries" means, collectively, the plural thereof.

(c) "Competitive Research Sub-project" means a specific research project that in accordance with the provisions of paragraph 9 of Schedule 2 to the Project Agreement meet eligibility criteria for developing, testing, transferring technologies that reduce greenhouse gas emissions and increase carbon sequestration under Part C.4 of the Project; the term "Competitive Research Sub-projects" means, collectively, the plural thereof.

(d) “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by:

- (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or
- (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Displaced Persons” means, collectively, all such Displaced Persons.

(e) “EIA” means the Environmental Impact Assessment, dated November 2004, setting forth, inter alia, the assessment of environmental impacts of the Project, recommendations for mitigation of adverse impacts and enhancement of positive impacts based on such assessment, and the guidelines for environmental screening and monitoring of Project implementation; as said EIA may be amended from time to time with the agreement of the Bank.

(f) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement.

(g) “Heilongjiang” means the Borrower’s Province of Heilongjiang, and any successor thereto.

(h) “HDIS” means Heilongjiang Dairy Industry Association, a non-profit organization established and operating pursuant to its Charter dated September 16, 2003 and to its business license No. 0033 dated November 10, 2004, issued by the Civil Affairs Bureau of Heilongjiang Province; and any successor thereto.

(i) “Operational Manual” means the operational manual dated July 5, 2005, referred to in paragraph 3 of Schedule 2 to the Project Agreement, as said manual may be amended from time to time with the agreement of the Bank.

(j) “Procurement Plan” means the Borrower’s procurement plan, dated November 11, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(k) “Project Agreement” means the agreement between the Bank and Heilongjiang 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.

(l) “Project Leading Group” means the group to be maintained in accordance with the provisions of paragraph 1(a) of Schedule 2 to the Project Agreement.

(m) “Provincial PMO” means the Provincial Project Management Office to be maintained in accordance with the provisions of paragraph 1.(c) of Schedule 2 to the Project Agreement.

(n) “Research Committee” means the committee referred to in paragraph 8 of Schedule 2 to the Project Agreement.

(o) “Resettlement Policy Framework” means the policy framework, dated November 25, 2004, and referred to in paragraph 2(c) to the Annex to Schedule 2 of the Project Agreement, which sets out the policies and procedures for land acquisition, resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement action plans whenever required during the implementation of the Project, as said policy framework may be revised from time to time with the agreement of the Bank.

(p) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

(q) “Sub-loan” means a loan made or proposed to be made by Heilongjiang out of the proceeds of the Loan in accordance with the provisions of the Annex to Schedule 2 to the Project Agreement to a Sub-loan Beneficiary for financing a Sub-project under Part A.1 through A.4 of the Project, and “Sub-loans” means, collectively, the plural thereof.

(r) “Sub-loan Beneficiary” means an individual, a household, or an enterprise which has been selected to participate in a Sub-project in accordance with paragraph 1 of the Annex to Schedule 2 of the Project Agreement, and to whom Heilongjiang proposes to make or has made a Sub-loan; and “Sub-loan Beneficiaries” means, collectively, the plural thereof.

(s) “Sub-project” means a specific investment project selected for financing under Part A.1 through A.4 of the Project in accordance with the provisions of paragraph 4 of Schedule 2 to the Project Agreement; and “Sub-projects” means, collectively, the plural thereof.

(t) “Technical Advisory Group” means the group to be maintained in accordance with the provisions of paragraph 1(b) of Schedule 2 to the Project Agreement.

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

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 one hundred million Dollars (\$100,000,000).

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: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan; and (ii) 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 a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2010, 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fees as may be determined by the Bank from time to time. 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 such 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 (6) 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 (6) 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 Heilongjiang to perform in accordance with the provisions of the Project Agreement all the respective obligations of Heilongjiang 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 Heilongjiang to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Heilongjiang on the following principal terms:

- (i) The principal amount shall be made available in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn.
- (ii) The following shall be recovered over a period of twenty (20) years, inclusive of a grace period of five (5) years: (A) the principal amount so made available; and (B) an amount equal to the fee paid pursuant to Section 2.04 of this Agreement.
- (iii) Interest shall be charged on such principal amount withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to the provisions of Section 2.06 of this Agreement.
- (iv) A commitment fee shall be charged on such principal amount of the Loan so made available and not withdrawn from time to time at a rate equal to three fourths of one percent ($3/4$ of 1%) per annum.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than

twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Heilongjiang pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause Heilongjiang to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations, resources and expenditures related to the Project.

- (b) The Borrower shall cause Heilongjiang to:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.
- (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) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained

until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

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) Heilongjiang 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 Heilongjiang will be able to perform its obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph:

the right of the Borrower to withdraw the proceeds of the Italian Grant, made to the Borrower for the financing of Part C of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Italian Grant Agreement, or

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(k) 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 (60) days after notice thereof shall have been given by the Bank to the Borrower.

(b) The event specified in paragraph (c)(i) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (c)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the Italian Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled.

Section 6.02. The following are 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 Heilongjiang, and is legally binding upon Heilongjiang in accordance with its 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

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

Facsimile:
(86-10) 68 55 11 25

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	248423 (MCI) or	(1-202) 477-6391
Washington, D.C.	64145 (MCI)	

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Yang Shaolin

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David Dollar

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works (Except for Parts A.1 and A.4 of the Project)	7,400,000	25%
(2) Goods (Except for livestock)	8,950,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 75% of local expenditures for other items procured locally.
(3) Livestock	82,000,000	100%
(4) Consultants' services	900,000	100%
(5) Training and study tours overseas	500,000	100%
(6) Fee	250,000	Amount due under Section 2.04 of this Agreement
TOTAL	<u>100,000,000</u>	

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 Borrower for goods or services supplied from said region shall be deemed “foreign expenditures”; and

(b) the term “local expenditures” means 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 of not exceeding \$1,000,000, may be made in respect of Categories (2),(4), and (5) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after April 1, 2005.

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 costing less than \$1,000,000 equivalent each; (b) goods (including livestock) under contracts costing less than \$300,000 equivalent each; (c) consultants’ services under contracts with firms costing less than \$100,000 equivalent each; (d) consultants’ services under contracts with individuals costing less than \$50,000 each; and (e) training and study tours overseas; all 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 to: (i) improve the financial viability of dairy operations in selected areas of Heilongjiang Province; and (ii) demonstrate innovative technologies to reduce greenhouse gas emissions and increase carbon sequestration in selected areas of Heilongjiang Province.

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: Dairy Production Development

Carrying out specific dairy production Sub-projects in Heilongjiang as described in paragraph 1 through paragraph 4 in this Part A and providing capacity building for implementation of said Sub-projects as described in paragraph 5 of this Part A:

1. Supporting about 10,000 individual households to engage in dairy production or to increase their dairy herd productivity and size through the purchase by each said household of 1 to 6 dairy cows and a set of farming tools.
2. Establishing about 55 milking stations, including construction of milking sheds, provision of related milking and milk storage equipment, and installation of internet connected computer systems for each milking station for management of cow performance records.
3. Establishing about 50 new dairy parks and upgrading about 20 existing dairy parks, including: (a) construction of the dairy park facilities and required access roads, and (b) purchase and installation of related dairy farming equipment and office equipment for said dairy parks.
4. Establishing about 7 demonstration farms, including: (a) importing of about 600 dairy cattle of high quality for each demonstration farm; and (b) purchase and installation of related dairy farming equipment and office equipment.
5. Carrying out a program of capacity building for implementation of the activities described in the above paragraphs (1) through (5) under this Part A of the Project, through:
 - (a) strengthening the implementation capacity of various stakeholders involved in dairy production by: (i) the development of training manuals for extension workers, milk processing staff, and farmers; (ii) the provision of training to the staff of

the Heilongjiang Animal Husbandry Bureau, dairy park owners and managers, technicians, and dairy farmers on animal husbandry and breeding, animal nutrition including least cost feed rationing, animal condition scoring, pasture and natural resources management, milk hygiene and environmental protection; and (iii) the provision of vehicles, artificial insemination equipment, and veterinary equipment for the staff of the Animal Husbandry Bureaus in the participating towns; and

(b) supporting the development of village-level dairy farmer associations by: (i) the development of relevant training materials; (ii) the provision of training to members and leaders of farmer associations on association charter development and member rights and obligations; to municipal, county, and township leaders and trainers on participatory approaches in the decision-making process in the farmer associations, Chinese laws and regulations pertinent to agricultural and civic associations, and agricultural business management; and (iii) the provision of study tours for trainers, government officials, and community leaders to understand the farmer association development process.

Part B: Dairy Breed Improvement

Carrying out a program to improve the genetic base of the dairy herd and the efficiency of dairy production in Heilongjiang through establishing a dairy herd improvement program (DHIP), consisting of:

1. Establishing and equipping a DHIP management unit within the Heilongjiang Dairy Industry Association.
2. Providing training to staff in relevant government agencies and farmers on dairy reproductive management.
3. Establishing a milk recording system to record breeding, feeding, milk production and hygiene data for about 150,000 dairy cows, including: construction of a milk testing laboratory and a milk recording administration office, and provision of milking sampling equipment.
4. Accelerating dairy genetic improvement, through: (a) importation of about 840,000 units of semen of proven bulls; (b) construction of an on-station semen storage facility and a long-term semen storage facility; (c) provision of liquid nitrogen storage equipment; (d) preparation of internationally acceptable standards for the accreditation of inseminators, and (e) strengthening technical capabilities of breeding centers participating in the Project.

5. Establishing a genetic evaluation system, including: installation of computer systems for genetic data analysis and management and a duplicate data storage facility, and provision of skills training on dairy breed improvement, and dairy genetic evaluation and analysis.

Part C: Climate Change Mitigation

Carrying out a program to pilot innovative technologies to increase carbon sequestration and mitigate greenhouse gas emissions from livestock production in Heilongjiang, including:

1. Improving pasture management to increase fodder production and carbon sequestration, and to combat desertification.
2. Treating crop residues to improve the quality and usage in animal feeding, to decrease methane emissions, and to reduce on-field burning of residues.
3. Treating animal manure to reduce methane emissions and convert it into salable fertilizers.
4. Carrying out Competitive Research Sub-projects for developing, testing, and transferring technologies that reduce greenhouse gas emissions and increase carbon sequestration.
5. Monitoring and evaluating the financial viability and environmental impacts of the activities described in paragraphs (1) through (4) of this Part C.

Part D: Project Management, Monitoring and Evaluation

Carrying out a program to strengthen the capacities of the agencies participating in the implementation and monitoring of the Project, including:

1. Strengthening the capacities of the Provincial PMO and of local project management offices at the municipal and county levels for implementation of the Project, through provision of office equipment, and vehicles.
2. Supporting the Provincial PMO in undertaking its socio-economic and dairy production surveys.
3. Strengthening the capacity of the Heilongjiang Environmental Protection Bureau to monitor the environmental impacts of the Project.

4. Strengthening the capacities of the Provincial PMO and of the Heilongjiang Finance Bureau with respect to the day-to-day management of the Sub-loans, including appraising Sub-loans and Sub-projects, managing and monitoring the recovery of Sub-loans.

* * *

The Project is expected to be completed by June 30, 2010.

SCHEDULE 3**Amortization Schedule**

<u>Date of Payment Due</u>	<u>Payment of Principal (expressed in Dollars)*</u>
September 15, 2011	2,375,000
March 15, 2012	2,425,000
September 15, 2012	2,480,000
March 15, 2013	2,535,000
September 15, 2013	2,595,000
March 15, 2014	2,650,000
September 15, 2014	2,710,000
March 15, 2015	2,770,000
September 15, 2015	2,835,000
March 15, 2016	2,895,000
September 15, 2016	2,960,000
March 15, 2017	3,030,000
September 15, 2017	3,095,000
March 15, 2018	3,165,000
September 15, 2018	3,235,000
March 15, 2019	3,310,000
September 15, 2019	3,385,000
March 15, 2020	3,460,000
September 15, 2020	3,535,000
March 15, 2021	3,615,000
September 15, 2021	3,695,000
March 15, 2022	3,780,000
September 15, 2022	3,865,000
March 15, 2023	3,950,000
September 15, 2023	4,040,000
March 15, 2024	4,130,000
September 15, 2024	4,220,000
March 15, 2025	4,315,000
September 15, 2025	4,415,000
March 15, 2026	4,530,000

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (5) 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 the amount of \$7,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$4,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$30,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the 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 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.