

CONFORMED COPY

LOAN NUMBER 3929 CHA

Loan Agreement

(Shanghai-Zhejiang Highway Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 2, 1995

LOAN NUMBER 3929 CHA

LOAN AGREEMENT

AGREEMENT, dated November 2, 1995, 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), B, C (1), and D (1) of the Project will be carried out by Zhejiang Province (Zhejiang) and Parts A (2), C (2), and D (2) of the Project will be carried out by Shanghai Municipality (Shanghai), all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Zhejiang and Shanghai 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, in the Zhejiang Project Agreement of even date herewith between the Bank and Zhejiang, and in the Shanghai Project Agreement of even date herewith between the Bank and Shanghai;

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) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made:

(i) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or

(ii) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) 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) "Expressway" means the Shanghai-Hangzhou expressway, including related facilities, to be constructed under Part A of the Project, and shall, where the context requires, be construed to mean the portion of the Expressway to be constructed in Shanghai or Zhejiang, as the case may be.

(b) "HHEC" means the Shanghai Hu-Hang (Shanghai-Hangzhou) Expressway Construction Executive Commission, an executive agency established and operating under Shanghai's Leading Group for Expressway Projects, and any successor thereto.

(c) "Project Agreements" means, collectively, the Zhejiang Project Agreement and the Shanghai Project Agreement.

(d) "Respective Proceeds of the Loan" means, in respect of:

(i) Shanghai, the proceeds of the Loan allocated to the Shanghai Parts of the Project; and

(ii) Zhejiang, the proceeds of the Loan allocated to the Zhejiang Parts of the Project.

(e) "Shanghai" means Shanghai Municipality, a political subdivision of the Borrower, and any successor thereto.

(f) "Shanghai Parts of the Project" means Parts A (2), C (2) and D (2) of the Project.

(g) "Shanghai Project Agreement" means the agreement between the Bank and Shanghai 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 Shanghai Project Agreement.

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

(i) "Special Accounts" means the Shanghai Special Account and the Zhejiang Special Account, collectively, and "Special Account" means one of the Special

Accounts.

(j) "Zhejiang" means Zhejiang Province, a political subdivision of the Borrower, and any successor thereto.

(k) "Zhejiang Parts of the Project" means Parts A (1), B, C (1) and D (1) of the Project.

(l) "Zhejiang Project Agreement" means the agreement between the Bank and Zhejiang 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 Zhejiang Project Agreement.

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

(n) "ZPEC" means the Zhejiang Provincial Expressway Project Executive Commission, an executive agency established and operating under Zhejiang's Provincial Expressway Project Steering Committee, and any successor thereto.

(o) "ZPHAB" means Zhejiang Provincial Highway Administration Bureau and any successor thereto.

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 two hundred and sixty million dollars (\$260,000,000), 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.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars:

(i) a special deposit account for the Zhejiang Parts of the Project;
and

(ii) a special deposit account for the Shanghai Parts of the Project;

each 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 Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 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 April 15 and October 15 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Zhejiang and Shanghai to perform in accordance with the provisions of the Zhejiang Project Agreement and the Shanghai Project Agreement, respectively, all the obligations of Zhejiang and Shanghai therein set forth, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Zhejiang and Shanghai 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 available to Zhejiang and Shanghai their Respective Proceeds of the Loan on the following principal terms:

(i) the principal amount so made available to Shanghai and Zhejiang shall be the equivalent in dollars (determined on the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods, works and services required for the Shanghai and Zhejiang Parts of the Project, respectively, and to be financed out of the proceeds of the Loan;

(ii) Shanghai and Zhejiang shall each repay the principal amount so made available to them over a period of twenty (20) years, inclusive of a grace period of five (5) years; and

(iii) the Borrower shall charge (A) interest on the principal amount so made available and withdrawn and remaining unrepaid from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement and (B) a commitment charge on the principal amount 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. 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 Agreements.

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 3.04. 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:

(a) the Zhejiang Parts of the Project shall be carried out by Zhejiang pursuant to Section 2.03 of the Zhejiang Project Agreement; and

(b) the Shanghai Parts of the Project shall be carried out by Shanghai pursuant to Section 2.03 of the Shanghai 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 accounts reflecting such

expenditures;

(ii) ensure that all records evidencing such expenditures (contracts, orders, invoices, bills, receipts and other documents) 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 (1) of the General Conditions, the following additional events are specified:

(a) Zhejiang or Shanghai shall have failed to perform any of its obligations under the Zhejiang Project Agreement or Shanghai Project Agreement, respectively.

(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 Zhejiang or Shanghai will be able to perform its obligations under the Zhejiang Project Agreement or Shanghai Project Agreement, respectively.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, 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.

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 each of Shanghai and Zhejiang has entered into a legally binding agreement with international construction supervision consultants with respect to Part A of the Project, procured in accordance with the provisions of Section II of Schedule 1 of the Shanghai Project Agreement and Zhejiang Project Agreement, respectively.

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 Zhejiang Project Agreement has been duly authorized or ratified by Zhejiang, and is legally binding upon Zhejiang in accordance with its terms; and

(b) that the Shanghai Project Agreement has been duly authorized or ratified by Shanghai, and is legally binding upon Shanghai 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

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/ Li Daoyu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas C. Hope

Acting 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 |
|--|--|---|
| Zhejiang Part of the Project | | |
| 1. Civil works under: | | |
| (a) Part A (1) of the Project | 132,300,000 | 43% |
| (b) Part B (1) of the Project | 7,500,000 | 35% |
| 2. Supply and installation of equipment under Part A (1) of the Project | 12,100,000 | 73% |
| 3. Goods under: Parts B and D (1) of the Project | 6,900,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |
| 4. Consultants' services and training under Parts A (1), B and C (1) of the Project | 11,200,000 | 100% |
| 5. Unallocated | 30,000,000 | |
| Shanghai Part of the Project | | |
| 6. Civil works under Part A (2) of the Project | 40,400,000 | 35% |
| 7. Supply and install- ation of equipment under Part A (2) of the Project | 2,500,000 | 79% |
| 8. Goods under Part | 2,200,000 | 100% of foreign |

| | | |
|---|-------------|--|
| D (2) of the Project | | expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |
| 9. Consultants' services and training under Parts A (2) and C (2) of the Project | 5,800,000 | 100% |
| 10. Unallocated | 9,100,000 | |
| | <hr/> | |
| TOTAL | 260,000,000 | |

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; 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:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, not to exceed the equivalent of the following aggregate amounts, may be made in respect of Categories 1, 3, 4, 6, 8 and 9 on account of payments made for expenditures totaling \$26,000,000 equivalent before that date but after September 1, 1994; and

(b) Category 1(b) for any road section to be upgraded under Part B (1) of the Project, unless the requirements set out in paragraph 4(b) of Schedule 2 to the Zhejiang Project Agreement have been complied with for said section in a manner acceptable to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures:

(a) for works under Part A of the Project under contracts not exceeding \$4,000,000 equivalent;

(b) for goods under contracts not exceeding \$200,000 equivalent;

(c) for consultants' services under contracts with firms or individuals not exceeding \$100,000 and \$50,000 equivalent, respectively; and

(d) for training;

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to increase highway capacity in the Shanghai-Hangzhou corridor with a view to relieving congestion and promoting economic development; (b) to improve road safety in Northern Zhejiang through the

implementation of a pilot road safety program; and (c) to develop highway sector institutional capacity in Zhejiang and Shanghai.

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: Construction of Shanghai-Hangzhou Expressway

Construction of a four-lane divided access-controlled expressway, from Pengbu in Zhejiang to Songjiang in Shanghai, including required bridges, crossroads grade separations, farm access passageways, services facilities, the supply and installation of electrical, electronic and mechanical equipment for tolling, traffic monitoring, telecommunication and lighting along the Expressway, the upgrading and construction of crossroads at Expressway interchanges, as well as construction supervision, as follows:

(1) In Zhejiang:

(a) construction of about 102 kilometers of a four-lane section of the Expressway between Pengbu and Feng Nan, with embankments providing for four lanes and major structures built for six lanes; and

(b) upgrading or construction of about 56 kilometers of crossroads at interchange locations on the Expressway.

(2) In Shanghai:

(a) construction of about 28 kilometers of a four-lane section of the Expressway between Songjiang and Feng Nan, with embankments and structures providing for six lanes;

(b) testing of soft soil remedies at sites on approaches to bridges along the alignment; and

(c) ancillary works, comprising pumps, approach roads, underpasses, flyovers and bridges, service area and administrative facilities, channelization of traffic and landscaping.

Part B: Road Safety Program

Implementation of a pilot program to improve road safety in Northern Zhejiang on highways in the Shanghai-Hangzhou corridor, including:

(1) the upgrading of selected road sections (including related structures) up to a total of about 86 kilometers of the Borrower's National Route 320 in Jiaying Municipality of Zhejiang Province and construction supervision of these works; and

(2) developing detailed aspects of the pilot road safety program and strengthening the capacity of ZPHAB through staff training and the provision of consultants' services and equipment.

Part C: Training

The development of HHEC and ZPEC staff through training in such areas as highway planning, management, design, construction and maintenance in (1) Zhejiang and (2) Shanghai.

Part D: Strengthening Technical Capacity

Strengthening of the technical capacity of HHEC and ZPEC through provision of equipment for a central laboratory, environmental protection and research, and operation and maintenance of the Expressway in: (1) Zhejiang; and (2) Shanghai.

* * * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|------------------|---|
| April 15, 2001 | 5,000,000 |
| October 15, 2001 | 5,175,000 |
| April 15, 2002 | 5,360,000 |
| October 15, 2002 | 5,550,000 |
| April 15, 2003 | 5,745,000 |
| October 15, 2003 | 5,950,000 |
| April 15, 2004 | 6,160,000 |
| October 15, 2004 | 6,380,000 |
| April 15, 2005 | 6,605,000 |
| October 15, 2005 | 6,840,000 |
| April 15, 2006 | 7,085,000 |
| October 15, 2006 | 7,335,000 |
| April 15, 2007 | 7,595,000 |
| October 15, 2007 | 7,865,000 |
| April 15, 2008 | 8,140,000 |
| October 15, 2008 | 8,430,000 |
| April 15, 2009 | 8,730,000 |
| October 15, 2009 | 9,040,000 |
| April 15, 2010 | 9,360,000 |
| October 15, 2010 | 9,690,000 |
| April 15, 2011 | 10,035,000 |
| October 15, 2011 | 10,390,000 |
| April 15, 2012 | 10,760,000 |
| October 15, 2012 | 11,140,000 |
| April 15, 2013 | 11,535,000 |
| October 15, 2013 | 11,945,000 |
| April 15, 2014 | 12,365,000 |
| October 15, 2014 | 12,805,000 |
| April 15, 2015 | 13,260,000 |
| October 15, 2015 | 13,730,000 |

* 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 | 0.55 |

| | |
|---|------|
| before maturity | |
| 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

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means for the Zhejiang Special Account, Categories 1, 2, 3, and 4, (collectively the Zhejiang Categories) and for the Shanghai Special Account, Categories 6, 7, 8 and 9, (collectively the Shanghai Categories), all as 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:

- (i) \$12,500,000, for the Zhejiang Special Account; and
- (ii) \$4,000,000, for the Shanghai Special Account;

to be withdrawn from the Loan Account and deposited into such 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 an amount equivalent to \$7,000,000 for the Zhejiang Special Account and \$2,000,000 for the Shanghai Special Account 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 \$75,000,000 and \$20,000,000 for the Zhejiang Categories and the Shanghai Categories respectively.

2. Payments out of a 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the said 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 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 said 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 the 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 a 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 minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to said Categories, 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 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 a 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 said 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 said 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.

