

CONFORMED COPY

OTF GRANT NUMBER TF 022002

Ozone Projects Trust Fund Grant Agreement
(Montreal Protocol Ozone Depleting
Substances Phase Out Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as Trustee of the Ozone Projects
Trust Fund

Dated June 29, 1995

OTF GRANT NUMBER TF 022002

OZONE PROJECTS TRUST FUND GRANT AGREEMENT

AGREEMENT, dated June 29, 1995 between the PEOPLE'S REPUBLIC OF CHINA (the "Recipient") and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank"), acting as Trustee of grant funds provided by Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer (Montreal Protocol) to the Vienna Convention for the Protection of the Ozone Layer into the Ozone Projects Trust Fund ("OTF") (the "Trustee").

WHEREAS (A): the Bank, pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank (the "Resolution"), established a Facility, including the OTF, to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

WHEREAS (B): the parties to the Montreal Protocol have established the Multilateral Fund for the Implementation of the Montreal Protocol (the "Multilateral Fund") to operate under the authority of the said parties to provide the financing of agreed incremental costs to enable the parties operating under paragraph 1 of Article 5 of the Montreal Protocol to comply with control measures provided for in the said Protocol;

WHEREAS (C): the Executive Committee of the Multilateral Fund (the "Executive Committee") and the Bank have entered into an agreement effective on July 9, 1991, pursuant to which the Executive Committee has agreed to provide funds into the OTF to be administered by the Bank as Trustee in accordance with the provisions of the said agreement and the Resolution;

WHEREAS (D): the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested assistance from the resources of the OTF in the financing of the Project, and the Trustee has determined that such assistance would be in accordance with the provisions of the Resolution;

WHEREAS (E): Part A of the Project will be carried out by the Subproject Beneficiaries (as said term is defined herein) with the Recipient's assistance, and as part of such assistance, the Recipient will make available to the Subproject Beneficiaries, through China Investment Bank (CIB as said term is defined herein), and through other Financial Institutions (as said term is defined herein) a part of the proceeds of the OTF Grant as provided in this Agreement;

WHEREAS (F): Part B(1) of the Project will be carried out by the Recipient through its National Environmental Protection Agency (NEPA as said term is defined herein) and Part B(2) of the Project will be carried out by CIB and through such other Financial Institutions with the Recipient's assistance, and as part of such assistance, the Recipient will make available to CIB a part of the proceeds of the OTF Grant as provided in this Agreement; and

WHEREAS (G): the Trustee has agreed, on the basis, inter alia, of the foregoing, to extend a grant (the "OTF Grant") to the Recipient upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the "General Conditions") constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (g), (i) and (k), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01, 12.02, 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

- (i) The term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Trustee except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;
- (ii) The term "Borrower", wherever used in the General Conditions, means the Recipient;

- (iii) The term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
- (iv) The term "Loan" and "loan" wherever used in the General Conditions, means the OTF Grant; and
- (v) The term "Loan Account" wherever used in the General Conditions, means the OTF Grant Account.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "CIB" means the China Investment Bank, a legal entity, established and existing, pursuant to its Charter dated July 22, 1994 under the laws of the Recipient.

(b) "Country Program" means the Recipient's Country Program for the Phase Out of Ozone-Depleting Substances under the Montreal Protocol, dated January 1993, as approved by the Executive Committee in March 1993.

(c) "Financial Institutions" means the financial institutions referred to in Section 3.03(c) of this Agreement, and "Financial Institution" means each of the Financial Institutions.

(d) "Fiscal Year" means the twelve (12) month period corresponding to any of the Recipient's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year.

(e) "Implementation Agreement" means an implementation agreement to be entered into, among MOF, and NEPA and CIB or another Financial Institution pursuant to Section 3.03 (a) of this Agreement.

(f) "MOF" means the Recipient's Ministry of Finance or any successor thereto.

(g) "NEPA" means the National Environmental Protection Agency, an agency of the Recipient, or any successor thereto.

(h) "ODS" means ozone depleting substances.

(i) "PMO" means the Project Management Office established by NEPA for the purpose of coordinating the Country Program.

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

(k) "Subgrant" means the portion of the proceeds of the OTF Grant made available to a Subproject Beneficiary under a Subgrant Agreement.

(l) "Subgrant Agreement" means the Subgrant Agreement referred to in Paragraph 2 of Schedule 4 to this Agreement.

(m) "Subproject" means a Subproject, consisting of investments and other activities eligible under the Montreal Protocol which result in reduction of ODS use or in the substitution of non-ozone depleting technologies for ozone depleting technologies, selected and approved in accordance with the Subproject Guidelines.

(n) "Subproject Beneficiaries" means collectively the entities to whom Subgrants have been made available for the purpose of carrying out Subprojects; and "Subproject Beneficiary" means any one of the Subproject Beneficiaries.

(o) "Subproject Guidelines" means the guidelines containing the criteria and procedures for the selection and approval of subprojects as set out or referred to in the Annex to Schedule 4 of this Agreement.

ARTICLE II

The OTF Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the OTF Grant in an

amount in various currencies not to exceed the equivalent of ninety million one hundred thousand dollars (\$90,100,000).

Section 2.02. (a) The amount of the OTF Grant may be withdrawn from the OTF Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Trustee shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out the Project, and to be financed out of the proceeds of the OTF Grant.

(b) The Recipient may, 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 Trustee, 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000, or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

Section 2.04. The Trustee shall not be obligated to make any payment under this Agreement, except to the extent it shall have received funds for the purposes of the Project from the Executive Committee referred to in WHEREAS Clause (C) of the Preamble to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part B of the Project through NEPA, CIB and the Financial Institutions, and Part A of the Project through the Subproject Beneficiaries (as provided herein) with due diligence and efficiency and in conformity with appropriate administrative, financial, and engineering practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Trustee shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Trustee shall otherwise agree, procurement of the goods and services required for the Project, and to be financed out of the proceeds of the OTF Grant, shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) Without limitation upon the provisions of Section 3.01 (a) of this Agreement, the Recipient shall ensure that a separate implementation agreement is entered into, under terms and conditions satisfactory to the Trustee, among MOF, NEPA and CIB, and, where another Financial Institution has been selected in accordance with paragraph (b) below, among MOF, NEPA and such Financial Institution, which shall provide for:

- (i) NEPA to carry out Part B(1) of the Project and to assist the Subproject Beneficiaries to carry out Part A of the Project; and
- (ii) CIB or the relevant Financial Institution, as the case may be, to assist in carrying out Part B(2) of the Project and to administer Subgrants to Subproject Beneficiaries under Part A of the Project (including appraisal of subproject proposals, monitoring disbursements and procurement, and the supervision of Subproject implementation).

(c) The Recipient may, from to time, enter into arrangements, satisfactory to the Trustee, to provide for financial institutions other than or additional to CIB to carry out the functions set out in paragraph (a) (ii) above.

Section 3.04. (a) The Recipient undertakes that, unless the Trustee shall otherwise agree, Subgrants will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Paragraphs 2 and 3 of Schedule 4 to this Agreement.

(b) The Recipient shall exercise its rights in relation to each Subproject in such manner as to: (i) protect the interests of the Recipient and the Trustee; (ii) comply with its obligations under this Agreement; and (iii) to accomplish the purposes of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain, or cause to be maintained, records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments, agencies or entities (including, but without limitation, NEPA, CIB and the Financial Institutions) of the Recipient responsible for carrying out the Project or any part thereof.

(b) The Recipient 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 Trustee;
- (ii) furnish to the Trustee as soon as available, but in any case not later than six (6) 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 Trustee shall have reasonably requested; and
- (iii) furnish to the Trustee such other information concerning said records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the OTF Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Trustee has received the audit report for the Fiscal Year in which the last withdrawal from the OTF Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Trustee'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.

ARTICLE V

Remedies of the Trustee

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

(a) Any party shall have failed to perform any of its respective obligations under any Implementation Agreement.

(b) The Charter, dated July 22 1994, of CIB or the charter of any Financial Institution shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CIB or such Financial Institution to perform any of its obligations under its respective Implementation Agreement.

(c) The Recipient or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CIB or any Financial Institution or for the suspension of its operations.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following event is specified as additional conditions to the effectiveness of this Agreement, namely, that the Implementation Agreement has been entered into among MOF, NEPA and CIB.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. This Agreement shall continue in effect until the OTF Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Minister of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Trustee:

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:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC).

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/ Pan Xiaojiang

Authorized Representative

INTERNATIONAL BANK FOR
 RECONSTRUCTION AND DEVELOPMENT as Trustee of
 the Ozone Projects Trust Fund

By /s/ Nicholas C. Hope

Director
 Country Department II
 East Asia and Pacific Region

SCHEDULE 1

Withdrawal of the Proceeds of the OTF Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the OTF Grant, the allocation of the amounts of the OTF Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the OTF Grant Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Subprojects under Part A of the Project:	77,300,000	
(a) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services and training		100%
(2) Part B.1 and B.2 of the Project	100,000	
(a) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
(b) Consultants' services and training		100%
(3) Agency Fee and charges	2,700,000	100%
(4) Unallocated	10,000,000	
Total	90,100,000	

2. For the purposes of this Schedule the term "Agency Fee and charges" means the

fee and charges to be paid to CIB, any Financial Institution and NEPA respectively in accordance with paragraph 5 of Schedule 4 to this Agreement.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$18,000,000, may be made in respect of Category 1 on account of payments made for expenditures before that date but after June 30, 1992; and

(b) under Category 1, unless the Subproject, in respect of which disbursement is sought, has been approved by the Trustee and the Executive Committee and the Subgrant Agreement, in respect of such Subproject, has been entered into between the Recipient, represented by CIB or a Financial Institution, as the case may be, and the concerned Subproject Beneficiary in accordance with the provisions of paragraph 2 of Schedule 4 to this Agreement.

4. If the Trustee shall have determined at any time that any payment made from the OTF Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee for deposit into the OTF Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Trustee.

5. The Trustee may require withdrawals from the OTF Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods not exceeding \$2,000,000 equivalent; (b) consultants' services not exceeding \$100,000 equivalent for firms and \$50,000 for individuals; and (c) training, agency fees and charges under such terms and conditions as the Trustee shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in carrying out its Country Program so as to phase-out the use of ODS within its territory.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Trustee may agree upon from time to time to achieve such objectives:

Part A: Subprojects

Undertaking of Subprojects comprising, inter alia: (1) specific cost-effective priority investments to reduce consumption of ozone depleting substances through the provision of equipment and introduction of appropriate technology; (2) assistance in (a) closure of CFC production and halon plants, and (b) production of non-CFC chemicals; and (3) technical assistance through the provision of consultants' services and training.

Part B: Institutional Strengthening

Strengthening (1) the management and operational capability of NEPA; and (2) financial and technical capabilities of CIB and the Financial Institutions in the areas of procurement, disbursement, ODS technology, and project implementation and supervision, through the provision of consultants' services, training and equipment required therefor.

* * * * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

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 1992 (the "Guidelines") and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1(a) of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Recipient shall use, or cause to be used, the relevant standard bidding documents issued by the Trustee, with such modifications thereto as the Trustee shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Trustee, the recipient shall use, or cause to be used, bidding documents based on other internationally recognized standard terms agreed with the Trustee.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured within the territory of the Recipient 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

1. Items or groups of items of goods, estimated to cost less than the equivalent of two million dollars (\$2,000,000) per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three (3) suppliers from at least two (2) different countries eligible under the Guidelines, in accordance with procedures acceptable to the Trustee.

2. Items or groups of items of goods, estimated to cost less than the equivalent of two hundred fifty thousand dollars (\$250,000) per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three (3) suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Trustee.

3. Contracts for proprietary items may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Trustee.

Part D: Review by the Trustee of Procurement Decisions

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

(a) With respect to each contract for goods, estimated to cost more than the equivalent of two million dollars (\$2,000,000), and with respect to each contract for a proprietary item, 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 (2) conformed copies of the contract required to be furnished to the Trustee pursuant to said paragraph 2 (d) shall be furnished to the Trustee 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 (2) conformed copies of the contract together with the other information required to be furnished to the Trustee pursuant to said paragraph 3 shall be furnished to the Trustee as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the OTF Grant Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

1. In order to assist the Recipient in carrying out the Project, the Recipient shall employ and cause NEPA, CIB, the Financial Institutions and the Subproject Beneficiaries to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Trustee. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Trustee 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. For complex, time-based assignments, the Recipient shall employ such consultants under contracts using the standard forms of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Trustee. Where no relevant standard contract documents have been issued by the Bank, the Recipient shall use other standard forms agreed with the Trustee.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank/Trustee review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank/Trustee review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Trustee, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Recipient shall select and submit subprojects, for approval by the Trustee, both in accordance with the Subproject Guidelines.

2. For the purpose of carrying out Subprojects, the Recipient shall make available a portion of the OTF Grant to Subproject Beneficiaries under subgrant agreements to be entered into between the Recipient, represented by CIB or the relevant Financial Institution, and each of the Subproject Beneficiaries upon terms and conditions, satisfactory to the Trustee, including the following:

Terms and Conditions of Subgrants

Subgrants shall be provided on terms whereby the Recipient shall obtain, through the Subgrant Agreements, rights adequate to protect the interests of the Trustee and the Recipient, including but without limitation, the right to:

(a) require the Subproject Beneficiary to carry out the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial, environmental and ecological standards;

(b) require that (i) the goods and services to be financed out of the proceeds of the OTF Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and (ii) such goods and services shall be used exclusively for the purposes and in furtherance of the objectives of the Project;

(c) require the Subproject Beneficiary to comply with the obligations similar to the financial covenants set forth in Section 4.01 of this Agreement;

(d) inspect, by itself or jointly with representatives of the Trustee, if the Trustee shall so request, the goods and plants included in the Subproject, the operation thereof and any relevant records and documents;

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

(f) obtain all such information as the Trustee shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Subproject Beneficiary and to the benefits derived from the Subproject;

(g) obtain upon demand the refund of any part of the proceeds of the OTF Grant (together with payment of interest thereon at the commercial rate from the date of payment until repayment thereof) which, in the opinion of the Recipient or the Trustee, has been misused by the Subproject Beneficiary; and

(h) suspend or terminate the right of the Subproject Beneficiary to the use of the proceeds of the OTF Grant upon failure by the Subproject Beneficiary to perform its obligations under the Subgrant Agreement.

3. The Recipient shall exercise its rights under each Subgrant Agreement in such a manner as to protect the interests of the Recipient and the Trustee and to accomplish the purposes of the OTF Grant, and, except as the Trustee shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subgrant Agreement or any part thereof.

4. The Recipient shall coordinate the implementation of the Subprojects in a manner satisfactory to the Trustee.

5. For each Subproject approved by the Trustee in accordance with the provisions of this Agreement: (a) CIB or the relevant Financial Institution, as the case may be, shall be entitled to an agency fee in an amount not to exceed the equivalent of two percent (2%) of the amounts disbursed under each Subgrant Agreement, such fee to be paid out of the proceeds of the OTF Grant as follows: (i) one and one half percent (1 1/2%) of the Subgrant amount after approval of the Subproject by the Trustee; and (ii) the remaining one half percent (1/2%) at final disbursement for each subproject by CIB or the relevant Financial Institution, as the case may be.

(b) NEPA shall be entitled to charge an amount not to exceed the equivalent to one percent (1%) of the amounts disbursed under each Subgrant Agreement, such charge to be paid out of the OTF Grant as follows: (i) Three fourth of one percent (3/4%) of the Subgrant amount after approval of the Subgrant by the Trustee; and (ii) the remaining one fourth of one percent (1/4%) at final disbursement for each subproject by CIB or the relevant Financial Institution, as the case may be.

6. The Recipient shall, upon the completion of each Subproject, carry out a technical audit of such Subproject in a manner and in form and substance satisfactory to the Trustee.

7. The Recipient shall, until completion of the Project, maintain the PMO in NEPA with adequate staffing and funds and with functions and responsibilities satisfactory to the Trustee.

8. The Recipient shall from time to time, as reasonably requested by the Trustee, provide information to the Trustee regarding implementation of the Country Program.

9. The Recipient shall ensure that completion report for each Sub-project, approved by NEPA, shall be furnished to the Trustee promptly upon completion of such Sub-project.

ANNEX to SCHEDULE 4

SUBPROJECT GUIDELINES

Selection of Subprojects

1. Subprojects shall: (a) be consistent with the Country Program priorities and objectives; (b) reduce ODS consumption and production in China and serve as demonstrations in reducing ODS consumption in the country; (c) be cost effective and

based on environmentally sound technologies that can be substituted for ODS covered by the Montreal Protocol or that can be used to recycle ODS or substitutes, taking into account the national industrial policy of the country; and (d) meet any other criteria established by the Executive Committee.

2. Subprojects shall be appraised, inter alia, in accordance with the following criteria: (a) the proposed subgrant shall not exceed the proposed subproject's eligible incremental costs and/or approved funding; (b) the proposed subproject beneficiary's revenues shall be sufficient to cover any operating costs not provided for by the proposed grant; (c) the proposed subproject beneficiary is financially viable, as measured by a debt service coverage ratio of no less than 1.2 times after the subproject is completed and has reached full production capacity; and (d) the impact of the proposed subproject on ODS reduction.

Approval of Subprojects

When submitting a subproject to the Trustee for approval, the Recipient shall furnish to the Trustee an application, in form and substance satisfactory to the Trustee, together with, inter alia: (a) an appraisal of the subproject (including an environmental assessment and a financing plan), and a description of the expenditures proposed to be financed out of the proceeds of the OTF Grant; (b) a detailed description of how such subproject meets the criteria and procedures set forth in the Subproject Guidelines; and (c) such other information as the Trustee may, either on its own or on behalf of the Executive Committee, reasonably request in respect of such subproject.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1), (2) and (3) 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 OTF Grant 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 five million dollars (\$5,000,000) to be withdrawn from the OTF Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Trustee shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to 3 million 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 thirty million dollars (\$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 Trustee 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 Recipient shall furnish to the Trustee 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 Trustee shall, on behalf of the Recipient, withdraw from the OTF Grant Account and deposit in the Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee 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 Trustee shall, on behalf of the Recipient, withdraw from the OTF Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and 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 Trustee from the OTF Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Trustee shall reasonably request, furnish to the Trustee 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 Trustee shall not be required to make further deposits into the Special Account:

(a) If, at any time, the Trustee shall have determined that all further withdrawals should be made by the Recipient directly from the OTF Grant 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) If the Recipient shall have failed to furnish to the Trustee, 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 Trustee shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 1.01 (a) of the General Conditions; or

(d) Once the total unwithdrawn amount of the OTF Grant allocated to the Eligible Category, less the amount of any outstanding special commitment entered into by the Trustee 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 OTF Grant Account of the remaining unwithdrawn amount of the OTF Grant allocated to the Eligible Category shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee 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 Trustee 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 Trustee, the Recipient shall, promptly upon notice from the Trustee: (A) provide such additional evidence as the Trustee may request; or (B) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Trustee 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 Recipient shall, promptly upon notice from the Trustee, refund to the Trustee such outstanding amount.

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

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



