

CONFORMED COPY

CREDIT NUMBER 3251 CHA

Development Credit Agreement

(Sichuan Urban Environment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Date January 9, 2001

CREDIT NUMBER 3251 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 9, 2001, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to one hundred million Dollars (\$100,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in this Agreement are made;

(D) the Project will be carried out by Sichuan Province (Sichuan) with the

Borrower's assistance, and as part of such assistance, the Borrower will make available to Sichuan the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith among the Association, the Bank and Sichuan;

NOW THEREFORE the parties hereto hereby agree as follows;

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

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

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) 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 Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Affected Persons" means persons who on account of the execution of the Project had or would have their: (a) standard of living adversely affected; or (b) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (c) business, occupation, work or place of residence or habitat adversely affected, and "Affected Person" means any of the Affected Persons.

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

(c) "Chengdu" means Chengdu municipality in Sichuan, and any successor thereto.

(d) "Chengdu Drainage Company" means the Chengdu Drainage Company, Ltd., a state-owned limited liability company established and operating pursuant to its Charter of July, 1998, which was approved on August 6, 1998, by Chengdu Municipal Construction Commission; and to Business License No. 5101001800031, dated August 6, 1998, issued by Chengdu Industrial and Commercial Administration Bureau, and any

successor thereto.

(e) "Deyang" means Deyang municipality in Sichuan, and any successor thereto.

(f) "Deyang Sewage Treatment Corporation" means Deyang Qing Yuan Sewage Treatment Company, Ltd., a limited liability company established and operating pursuant to its charter of February, 1999, which was approved in March, 1999 by Deyang Construction Commission; and to Business License No. 20512328-2, dated April 29, 1999, issued by Deyang Industrial and Commercial Administration Bureau, and any successor thereto.

(g) "Environmental Assessment" means the Sichuan Urban Environment Project Environmental Assessment of Parts A, B and D of the Project, dated December 1998, which includes environmental mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures.

(h) "Guanghan" means Guanghan municipality in Sichuan, and any successor thereto.

(i) "Industrial Pollution Control Action Plan" means the action plan dated March 22, 1999, setting forth activities to be carried out by Sichuan to control and minimize wastewater pollution in the Min and Tuo River Basins.

(j) "Leshan" means Leshan municipality in Sichuan.

(k) "Leshan Environmental Sanitation Management Bureau" and "LESMB" means the bureau responsible for environmental sanitation management in Leshan.

(l) "Leshan Water Supply General Company" means Leshan Water Supply General Company, a state-owned enterprise established and operating pursuant to its Charter, which was approved on December 12, 1986, by Leshan Construction Commission; and to Business License No. 20695038-6, dated April 22, 1996, issued by Leshan Industrial and Commercial Administration Bureau, and any successor thereto.

(m) "Leshan Wastewater Treatment Company" means Leshan Wastewater Treatment Company, Ltd., a state-owned limited liability company established and operating pursuant to its Charter of April 13, 1998, which was approved on April 13, 1998, by Leshan Construction Commission; and to Business License No. 20696835-9, dated July 15, 1998, issued by Leshan Industrial and Commercial Administration Bureau, and any successor thereto.

(n) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(o) "Luzhou" means Luzhou municipality in Sichuan, and any successor thereto.

(p) "Luzhou Water Supply Company" means Luzhou Water Supply Company, a state-owned enterprise established and operating in accordance with its charter of March 28, 1998, which was approved on April 18, 1998, by Luzhou Municipal Construction Committee; and to Business License No. 20470299-5, dated March 31, 1998, issued by Luzhou Industrial and Commercial Administration Bureau, and any successor thereto.

(q) "PMO" means the project management office maintained pursuant to the provisions of paragraph 1(a)(i) of Schedule 2 to the Project Agreement.

(r) "Project Agreement" means the agreement among the Association, the Bank

and Sichuan 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.

(s) "Project Municipalities" means, collectively, Chengdu, Deyang, Guanghan, Leshan and Luzhou, and "Project Municipality" means, individually, any of the Project Municipalities.

(t) "Project Municipality's Respective Part of the Project" means for:

(i) Chengdu: Parts E and F of the Project;

(ii) Deyang: Parts C(1), C(2), E and F of the Project;

(iii) Guanghan: Part D(2) of the Project;

(iv) Leshan: Parts A(4), C(1), C(2), C(3), C(4), D(1), E and F of the Project; and

(v) Luzhou: Parts C(1), C(2), C(3), C(4), E and F of the Project.

(u) "Resettlement Action Plan" means the Sichuan Urban Environment Project Resettlement Action Plan or SUEP RAP, dated April 1999, which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Parts A and B of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as such SUEP RAP may be revised from time to time in agreement with the Association.

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

(w) "Sichuan" means the Borrower's Sichuan Province, and any successor thereto.

(x) "Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between each of the Project Municipalities (excluding Guanghan) and its Utility Company pursuant to paragraph 7 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes schedules to said agreements; and "Subsidiary Loan Agreement" means, individually, any of the Subsidiary Loan Agreements.

(y) "Utility Company" means in respect of:

(i) Chengdu: the Chengdu Drainage Company;

(ii) Deyang: the Deyang Sewage Treatment Corporation;

(iii) Leshan: the Leshan Water Supply General Company and Leshan Wastewater Treatment Company; and

(iv) Luzhou: the Luzhou Water Supply Company,

collectively, referred to as "Utility Companies."

(z) "Utility Company's Respective Part of the Project" means:

(i) for Chengdu Drainage Company: Part A(1) of the Project;

- (ii) for Deyang Sewage Treatment Corporation: Part B(1) of the Project;
 - (iii) for Leshan Wastewater Treatment Company: Part A(3) of the Project;
 - (iv) for Leshan Water Supply General Company: Part A(2) of the Project;
- and
- (v) for Luzhou Water Supply Company: Part B(2) of the Project.
- (aa) "Yuan" and "¥" mean the currency of the Borrower.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Sichuan, each of the Project Municipalities and the respective Utility Company of each Project Municipality.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one million five hundred thousand Special Drawing Rights (SDR 1,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association 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 Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, 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 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected

pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15, 2009, and ending February 15, 2034. Each installment to and including the installment payable on February 15, 2019, shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

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 this Agreement, shall cause Sichuan to perform in accordance with the provisions of the Project Agreement all the obligations of Sichuan therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Sichuan 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 Sichuan the proceeds of the Credit on the following principal terms:

(i) The principal amount so made available: (A) shall be the equivalent in terms of Special Drawing Rights (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn; and (B) shall be repaid in a foreign currency selected by the Borrower in amounts equivalent (determined as of the date or respective dates of repayment) to the amount referred to in subparagraph (A) above.

(ii) The Borrower shall recover from Sichuan such principal amount over a period of seventeen (17) years, inclusive of a grace period of five (5) years.

(iii) The Borrower shall charge a service charge on such principal amount withdrawn and outstanding from time to time at a rate equal to the service charge applicable to the Credit pursuant to the provisions of Section 2.05 of this Agreement.

(iv) The Borrower shall charge a commitment fee on such principal amount not withdrawn from time to time at a rate equal to the commitment charge applicable to the Credit pursuant to the provisions of Section 2.04 of this Agreement.

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

(i) The principal amount so made available shall be the amount 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. The following amounts shall be recovered by the Borrower in Dollars: (A) the principal amount so made available; and (B) an amount equal to one percent (1%) of the Loan (collectively, the Loan Amount).

(ii) The Borrower shall recover from Sichuan the Loan Amount over a period of twenty (20) years, inclusive of a grace period of five (5) years.

(iii) The Borrower shall charge interest 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 the Loan Agreement.

(iv) The Borrower shall charge a commitment fee on such principal amount of the Loan so made available and not withdrawn from time to time at a rate equal to the commitment charge applicable to the Loan pursuant to the provisions of Section 2.05 of the Loan Agreement.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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

Sichuan pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit 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) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association'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 expenditures 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.

(b) The Borrower shall:

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

(ii) furnish to the Association 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 Association 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 Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) Sichuan 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 Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Sichuan will be able to perform its obligations under the Project Agreement.

(c) Any of the parties to any of the Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, any of the events specified in paragraph (a) or (c) 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 Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) All conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

(b) The Subsidiary Loan Agreements have been executed on behalf of the Project Municipalities (excluding Guanghan) and each of their respective Utility Companies.

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

(a) The Project Agreement has been duly authorized or ratified by Sichuan and is legally binding upon Sichuan in accordance with its terms.

(b) Each of the Subsidiary Loan Agreements has been duly authorized or ratified by each of the parties thereto and is legally binding on said parties 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 Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
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/ Zhu Guangyao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and the Loan

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

PLEASE SEE ORIGINAL FOR TABLE, DONE IN WRONG FORMAT

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 and 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 to be "foreign expenditures"; 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 under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$100,000 for expenditures by Luzhou under Part C(4) of the Project may be made in respect of Category 5(d) on account of payments made for expenditures before that date but after April 1, 1999; and

(b) payments made for expenditures by each Utility Company and LESMB under Categories 1(a), 1(b), 1(c), 1(d), 1(e) and 1(f) until such Utility Company and LESMB shall have entered into agreements, acceptable to the Association, in accordance with Section II of Schedule 1 to the Project Agreement, with consultancy firms for the provision of training, institutional and financial technical assistance services and construction supervision services under Part E of the Project.

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

(a) works under contracts costing less than \$6,000,000 equivalent each;

(b) goods under contracts costing less than \$400,000 equivalent each;

(c) consultants' services under contracts with firms or individuals, each costing less than \$100,000 equivalent or \$50,000 equivalent respectively; and

(d) training, regardless of the cost thereof,

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

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Sichuan in the first phase of its long term environmental improvement program to: (a) improve urban environmental services with a view to reducing environmental degradation of its water and land resources; (b) provide an adequate supply of safe water to its growing urban population and economy; and (c) maintain water quality at levels which are compatible with the needs of the river basins of the Min and Tuo Rivers, thereby protecting the water quality of the Yangtze River.

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

Part A: Min River Basin Water Quality Recovery

Improving the quality of water supplied, the treatment of wastewater and solid waste management through:

(1) Chengdu Wastewater

Laying of about 7 kilometers (km) of interceptor sewers; and construction of secondary sewer connections, including link sewers and a 300,000 cubic meter per day (m³/day) wastewater treatment plant in Chengdu.

(2) Leshan Water Supply

Construction of an intake, a 3-km raw water main, one or more water treatment plants with a total capacity of 100,000 m³/day, transmission mains and a pumping station; and strengthening of the water supply distribution network in Leshan.

(3) Leshan Wastewater

Laying of about 18 km of interceptor sewers and steel main, link sewers and connections; and phased construction of 3 pumping stations with a total capacity of 416,000 m³/day, construction of a 0.85-km river crossing in Leshan and preliminary treatment of wastewater.

(4) Leshan Solid Waste Management

Improvements to solid waste management, comprising of solid waste collection, transfer and disposition in landfills in Leshan, through expansion of a landfill; construction of a transfer station, a vehicle storage and repair facility and leachate treatment facilities; and provision of collection and transportation vehicles, containers and landfill operation equipment.

Part B: Tuo River Basin Water Quality Recovery

Improving the quality of water supplied and the treatment of wastewater through:

(1) Deyang Wastewater

Laying of about 7 km of interceptor sewers, link sewers and connections; phased construction of a 100,000 m³/day capacity wastewater treatment plant; and construction of a river crossing in Deyang.

(2) Luzhou Water Supply

(a) Construction in Beijiao, Luzhou, of pumps at the existing intake, a 50,000 m³/day capacity water treatment plant, about 31 km of transmission mains and about 10 km of distribution mains; and improvement of the water supply distribution network in Luzhou.

(b) Construction in Daxikou, Luzhou, of an intake, a water treatment plant of 50,000 m³/day capacity, transmission mains and reservoirs; and strengthening of the water supply distribution network in Luzhou.

Part C: Urban Management Information System

Establishing provincial urban management information systems and municipal infrastructure information systems through the development of:

(1) An office automation support system (OAS) for statistical data collection and analysis; a decision support system (DSS) for infrastructure planning and management;

and an environmental management information system (EMIS) for environmental monitoring and management, at the provincial level.

(2) An urban decision support system (UDSS) for infrastructure planning and management in Deyang and Luzhou.

(3) An infrastructure operations system (IOS) for wastewater management in Leshan and water management in Luzhou; and a database of existing water and wastewater infrastructure for Leshan and Luzhou, by conducting a survey of underground pipes and creating an inventory of related existing facilities.

(4) Baseline data necessary for the establishment of urban management information systems in Leshan and Luzhou, by carrying out topographic mapping of said municipalities.

Part D: Environmental Protection and Rehabilitation

(1) Preservation of the Grand Buddha site in Leshan, including improvement of access to and environmental protection of the site and provision of management support and advisory services.

(2) Improvement of the management, exhibition facilities and environmental conditions of the Sanxingdui Museum in Guanghan.

(3) Establishment of a regional conservation laboratory and an associated training program in Chengdu to improve its conservation, restoration and research capabilities.

Part E: Institutional Strengthening, Training and Construction Supervision

Strengthening the capacity of provincial level agencies concerned with urban environment protection, Project Municipalities (excluding Guanghan) and their respective Utility Company in: (1) project, financial and institutional management and utility operation; and (2) construction management and supervision, through the provision of equipment, consultants' services and training.

Part F: Resettlement

Resettlement and rehabilitation of Affected Persons in connection with the carrying out of Parts A and B of the Project.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (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 Credit or 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 \$7,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$4,000,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 Association 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account or 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

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

(b) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section or

to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association 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 Credit Account or the Loan Account pursuant to the provisions of Section 6.02 of the respective General Conditions; or

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

Thereafter, withdrawal from the Credit Account and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

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

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

