

CONFIRMED COPY

LOAN NUMBER 4597 CHA

Loan Agreement

(Huai River Pollution Control Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 24, 2001

LOAN NUMBER 4597 CHA

LOAN AGREEMENT

AGREEMENT, dated September 24, 2001, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by the Borrower's Provinces of Anhui and Shandong (collectively, the Project Provinces and individually, a Project Province) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to each of the Project Provinces, as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and the Project Provinces (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through October 6, 1999 (the General Conditions), constitute an integral part of this Agreement.

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

(a) "AEMC" means the Anhui Environmental Monitoring Center established by Anhui Environmental Protection Bureau in 1978, and any successor thereto.

(b) "Affected Persons" means persons who on account of the execution of the Project had or would have their: (i) standard of living adversely affected; or (ii) 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 (iii) business, occupation, work or place of residence or habitat adversely affected, and "Affected Person" means any of the Affected Persons.

(c) "Anhui" means the Borrower's Province of Anhui, and any successor thereto.

(d) "Anhui EA" means the 'Consolidated Environment Assessment for the Huai River Water Pollution Control Project, Anhui Component' dated August 2000 covering Part A.1 of the Project and includes environmental mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures.

(e) "Anhui RAP" means the 'Consolidated Resettlement Action Plan for Anhui Province Component' dated November 2000 which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A.1 of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time in agreement with the Bank.

(f) "Bengbu WWC" means Bengbu Sewerage Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 21, 2001 and to Business License No. 3403001001256, dated September 20, 2000, issued by Bengbu Industrial and Commercial Management Bureau, and any successor thereto.

(g) "Bozhou WWC" means Bozhou Drainage Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 23, 2001, and to Business License No. 3412811000791 dated February 29, 2000, issued by Bozhou Industrial and Commercial Management Bureau, and any successor thereto.

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

(i) "Chengwu PM" means Chengwu Hongdao Paper Industry Company Limited, a limited liability company, majority-owned by the state and established and operating pursuant to its Charter of December 2000 and to Business License No. 3729241800-586, dated January 18, 2001, issued by Chengwu County Industrial and Commercial Management Bureau, and any successor thereto.

(j) "Environmental Assessments" means, collectively, the Anhui EA and the Shandong EA.

(k) "Feicheng WWC" means Feicheng Kanglong Wastewater Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of December 6, 2000, and to Business License No. 3709831801346 dated September 25, 2000, issued by Feicheng Municipal Industrial and Commercial Management Bureau,

and any successor thereto.

(l) "Fuyang WWC" means Fuyang Sewerage Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 20, 2001, and to Business License No. 3421001000699, dated September 8, 2000, issued by Fuyang Industrial and Commercial Management Bureau, and any successor thereto.

(m) "Guoyang WWC" means Guoyang Urban Drainage Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 23, 2001, and to Business License No. 3412231000807 dated May 9, 2000, issued by Guoyang Industrial and Commercial Management Bureau, and any successor thereto.

(n) "Heze WWC" means Heze Wastewater Treatment Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of December 2000 and to Business License No. 3729011801019 dated February 18, 2000, issued by Heze Industrial and Commercial Management Bureau, and any successor thereto.

(o) "Huaibei WWC" means Huaibei Sewage Discharge Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 18, 2001, and to Business License No. 3406001031077 dated October 26, 2000, issued by Huaibei Municipal Industrial and Commercial Management Bureau, and any successor thereto.

(p) "Huainan WWC" means Huainan City Sewerage and Wastewater Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 20, 2001, and to Business License No. 3404001100980 dated October 12, 2000, issued by Huainan Industrial and Commercial Management Bureau, and any successor thereto.

(q) "Juxian WWC" means Juxian Lu Yuan Drainage Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of December 2000 and to Business License No. 3711221800550 dated October 13, 2000, issued by Juxian Industrial and Commercial Management Bureau, and any successor thereto.

(r) "Luan WWC" means Luan Drainage Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 23, 2001, and to Business License No. 3424001000398 dated September 7, 2000, issued by Luan Industrial and Commercial Management Bureau, and any successor thereto.

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

(t) "Project Agreement" means the agreement between the Bank and the Project Provinces 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.

(u) "Project Company" means in respect of: (i) Bengbu Municipality: Bengbu WWC; (ii) Bozhou Municipality: Bozhou WWC; (iii) Fuyang Municipality: Fuyang WWC; (iv) Guoyang Municipality: Guoyang WWC; (v) Huaibei Municipality: Huaibei WWC; (vi) Huainan Municipality: Huainan WWC; (vii) Luan Municipality: Luan WWC; (viii) Suzhou Municipality: Suzhou WWC; (ix) Feicheng Municipality: Feicheng WWC; (x) Heze Municipality: Heze WWC and Chengwu PM; (xi) Rizhao Municipality: Rizhao WWC; and (xii) Juxian County: Juxian WWC, collectively, referred to as "Project Companies."

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

(i) for Bengbu WWC, Bozhou WWC, Fuyang WWC, Guoyang WWC, Huaibei WWC, Huainan WWC, Luan WWC, and Suzhou WWC: Parts A.1 and A.3 of the Project;

(ii) for Feicheng WWC, Heze WWC, Rizhao WWC, and Juxian WWC: Parts B.1 and B.3 of the Project; and

(iii) for Chengwu PM: Part B.2 of the Project.

(w) "Project Participants" means collectively: (i) the Municipalities of Bengbu, Bozhou, Fuyang, Guoyang, Huaibei, Huainan, Luan and Suzhou, and successor thereto, in Anhui, and (ii) Municipalities of Feicheng, Heze and Rizhao and Juxian County, and any successor thereto, in Shandong; and "Project Participant" means, individually, any of the Project Participants.

(x) "Project Provinces" means, collectively, Anhui and Shandong; and "Project Province" means, individually, any of the Project Provinces.

(y) "Rizhao WWC" means Rizhao Drainage Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of December 2000 and to Business License No. 3711001800328 dated September 29, 2000, issued by Rizhao Industrial and Commercial Management Bureau, and any successor thereto.

(z) "Resettlement Action Plans" means, collectively, the Anhui RAP and the Shandong RAP.

(aa) "Respective EA" means:

(i) for Bengbu WWC, Bozhou WWC, Fuyang WWC, Guoyang WWC, Huaibei WWC, Huainan WWC, Luan WWC, and Suzhou WWC: Anhui EA; and

(ii) for Feicheng WWC, Heze WWC, Rizhao WWC, and Juxian WWC: Shandong EA.

(bb) "Respective Project Participants" means: (i) for Anhui, collectively, the Municipalities of Bengbu, Bozhou, Fuyang, Guoyang, Huaibei, Huainan, Luan and Suzhou, and successor thereto; and (ii) for Shandong, collectively, the Municipalities of Feicheng, Heze and Rizhao and Juxian County, and any successor thereto.

(cc) "Respective RAP" means:

(i) for Bengbu WWC, Bozhou WWC, Fuyang WWC, Guoyang WWC, Huaibei WWC, Huainan WWC, Luan WWC, and Suzhou WWC: Anhui RAP; and

(ii) for Feicheng WWC, Heze WWC, Rizhao WWC, and Juxian WWC: Shandong RAP.

(dd) "Shandong" means the Borrower's Province of Shandong, and any successor thereto.

(ee) "Shandong EA" means the 'Consolidated Environment Assessment for the Huai River Water Pollution Control Project, Shandong Component' dated August 2000 covering Parts B.1 and B.2 of the Project and includes environmental mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures.

(ff) "Shandong RAP" means the 'Consolidated Resettlement Action Plan for Shandong Province Component' dated November 2000 which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Parts B.1 and B.2 of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time in agreement with the Bank.

(gg) "Special Accounts" means the two (2) accounts referred to in Section 2.02(b) of this Agreement, and "Special Account" means individually, any of the Special Accounts.

(hh) "Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between each of the Project Participants and its respective Project Company pursuant to paragraph 4 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.

(ii) "Suzhou WWC" means Suzhou Urban Wastewater Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of February 22, 2001, and to Business License No. 3422001000324 dated August 16, 2000, issued by Suzhou Municipal Industrial and Commercial Management 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, an amount equal to one hundred five million five hundred thousand dollars (\$105,500,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for 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 and to be financed out of the proceeds of the Loan.

(b) The Borrower may open and maintain in Dollars, the following two (2) separate special deposit accounts, in one or more commercial banks acceptable to the Bank, and on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment: (i) one such account for purposes of carrying out under Part A of the Project (Anhui's Special Account); and (ii) one such account for purposes of carrying out Part B of the Project (Shandong's Special Account). Deposits into and payments out of each Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005, 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollar for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a

percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project 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 each Project Province to perform in accordance with the provisions of the Project Agreement all the obligations of the Project Province 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 each Project Province to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to each Project Province 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.
- (ii) The Borrower shall recover: (A) the principal amount so made available; and (B) an amount equal to one percent (1%) of the Loan from each Project Province 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 this 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 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 Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by each Project Province 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 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) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of 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 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(p) of the General Conditions, the following additional events are specified:

(a) Any Project Province shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events that have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Project Province 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(k) of the General Conditions, the following additional event is specified, namely, that 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 Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) Subsidiary Loan Agreements have been executed on behalf of at least six (6) of the Project Participants in Anhui and each of their respective Project Companies; and

(b) Subsidiary Loan Agreements have been executed on behalf of at least three (3) of the Project Participants in Shandong and each of their respective Project 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 Bank:

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

(b) Each of the Subsidiary Loan Agreements referred to in Section 6.01 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:	Telex:	Facsimile:
FINANMIN Beijing	22486 MFPRC CN	68551125

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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/ Ju Kuilin

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works under Part A of the Project by:		
(a) Bengbu WWC	7,700,000	44%
(b) Bozhou WWC	5,300,000	42%

	(c) Fuyang WWC	8,280,000	44%
	(d) Guoyang WWC	6,920,000	47%
	(e) Huaibei WWC	5,350,000	40%
	(f) Huainan WWC	5,970,000	44%
	(g) Luan WWC	7,370,000	49%
	(h) Suzhou WWC	3,410,000	38%
(2)	Works under Part B of the Project by:		
	(a) Feicheng WWC	1,780,000	27%
	(b) Heze WWC	3,000,000	24%
	(c) Rizhao WWC	5,240,000	36%
	(d) Juxian WWC	980,000	47%
(3)	Goods under Part A of the Project for:		
	(a) Bengbu WWC	2,370,000)	
	(b) Bozhou WWC	2,130,000)	
	(c) Fuyang WWC	2,330,000)	100% of foreign
		)	expenditures,
	(d) Guoyang WWC	1,190,000)	100% of local
		)	expenditures
	(e) Huaibei WWC	2,830,000)	(ex-factory
		)	cost) and
	(f) Huainan WWC	1,860,000)	65% of local
		)	expenditures
	(g) Luan WWC	1,090,000)	for other items
		)	procured
	(h) Suzhou WWC	2,170,000)	locally
)	
	(i) Anhui's PMO and AEMC	730,000)	
(4)	Goods under Parts B.1 and B.3 of the Project for:		
	(a) Feicheng WWC	3,310,000)	100% of foreign
		)	expenditures,
	(b) Heze WWC	7,920,000)	100% of local
		)	expenditures
	(c) Rizhao WWC	5,170,000)	ex-factory cost)
		)	and 65% of
		)	local expendi-
		)	tures for other
		)	items procured
		)	locally
(5)	Goods under Part B.2 of the Project	4,900,000	100% of foreign expenditures, 100% of local

			expenditures (ex- factory cost) and 65% of local expenditures for other items procured locally
(6)	Consultants' services and training under Part A of the Project	3,545,000	100%
(7)	Consultants' services and training under Part B of the Project	1,600,000	100%
(8)	Fee	1,055,000	Amount due under Section 2.04 of the Loan Agreement
	TOTAL	105,500,000	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be "foreign expenditures"; and

(b) the term "local expenditures" means any expenditures that are not foreign expenditures.

3. Notwithstanding the provisions of paragraph 1 above:

(a) subject to subparagraphs (b) and (c) below, no withdrawals shall be made in respect of payments made for expenditures under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$5,400,000 for expenditures under Parts A.1, B.1 and B.2 of the Project may be made in respect of Categories (1), (2), (6) and (7) on account of payments made for expenditures before that date but after January 1, 2001;

(b) no withdrawals shall be made in respect of payments made for expenditures by:

(i) any Project Company under Category (1) until Anhui shall have entered into agreements, acceptable to the Bank, in accordance with Section II of Schedule 1 to the Project Agreement, with consultancy firms for the provision of: (A) training, institutional and financial technical assistance services; and (B) design review, construction management and quality control technical assistance services under Part A.3 of the Project;

(ii) any Project Company under Category (2) until Shandong shall have entered into agreements, acceptable to the Bank, in accordance with Section II of Schedule 1 to the Project Agreement, with consultancy firms for the provision of: (A) training, institutional and financial technical assistance services; and (B) design review, construction management and quality control technical assistance services under Part B.3 of the Project; and

(c) no withdrawals shall be made in respect of payments made for expenditures by any Project Company under Categories (1), (2), (3) (4) and (5) until the Bank shall have notified the Borrower of its receipt of evidence satisfactory to it that a Subsidiary Loan Agreement has been entered into between said Project Company and its respective Project Participant and that said Subsidiary Loan Agreement has been duly

ratified by the parties thereto and is legally binding upon the parties in accordance with its terms.

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

- (a) works under contracts costing less than \$5,000,000 equivalent each;
- (b) goods under contracts costing less than \$200,000 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 Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve water quality in the Huai River Basin by assisting the Project Provinces in improving their collection and treatment of wastewater in a sustainable manner.

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: Anhui Wastewater Management

Improve the management of wastewater in Anhui as set out below.

1. Construction of wastewater collection and treatment facilities, including about 650 kilometers (km) of sewers, 27 pumping stations, 2 wastewater treatment plants, and other ancillary facilities, and provision of sewer-maintenance and other ancillary equipment in the Municipalities of Bengbu, Bozhou, Fuyang, Guoyang, Huaibei, Huainan, Luan and Suzhou.
2. Enhancement of AEMC's water pollution monitoring capacity by: (a) upgrading its laboratory equipment; (b) providing vehicles for field sampling; and (c) providing consultants' services and training to improve the technical and managerial skills of relevant staff.
3. Strengthening the institutional capacity of relevant provincial and municipal level agencies and of Project Companies in project preparation, management and supervision, all through the provision of equipment, consultants' services and training.

Part B: Shandong Wastewater Management

Improve the management of wastewater in Shandong as set out below.

1. Construction of wastewater collection and treatment facilities, including about 169 km of sewers, 7 pumping stations, 3 wastewater treatment plants, and other ancillary facilities, and provision of sewer-maintenance and other ancillary equipment in the Municipalities of Feicheng, Heze and Rizhao and Juxian County.
2. Construction of an industrial wastewater treatment plant at Chengwu Paper Mill in Heze Municipality.
3. Strengthening the institutional capacity of relevant provincial and municipal

level agencies and of Project Companies in project preparation, management and supervision, all through the provision of equipment, consultants' services and training.

Part C: Resettlement

Resettlement and rehabilitation of Affected Persons in connection with the carrying out of Parts A.1, B.1 and B.2 of the Project.

* * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
December 15, 2006	2,055,000
June 15, 2007	2,125,000
December 15, 2007	2,200,000
June 15, 2008	2,275,000
December 15, 2008	2,355,000
June 15, 2009	2,435,000
December 15, 2009	2,520,000
June 15, 2010	2,610,000
December 15, 2010	2,700,000
June 15, 2011	2,795,000
December 15, 2011	2,890,000
June 15, 2012	2,990,000
December 15, 2012	3,095,000
June 15, 2013	3,200,000
December 15, 2013	3,310,000
June 15, 2014	3,425,000
December 15, 2014	3,545,000
June 15, 2015	3,670,000
December 15, 2015	3,795,000
June 15, 2016	3,925,000
December 15, 2016	4,060,000
June 15, 2017	4,205,000
December 15, 2017	4,350,000
June 15, 2018	4,500,000
December 15, 2018	4,655,000
June 15, 2019	4,815,000
December 15, 2019	4,985,000
June 15, 2020	5,155,000
December 15, 2020	5,335,000
June 15, 2021	5,525,000

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

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in respect of each of the two (2) Special Accounts, the respective Categories set forth in the Annex to this Schedule;

(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, in respect of each of the two (2) Special Accounts, the respective amount set forth as the Authorized Allocation for each Special Account in the Annex to this Schedule, to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount set forth in the Annex to this Schedule as the "Initial Deposit" in respect of the Authorized Amount 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 amount set forth in said Annex as the "Aggregate Amount" in respect of the Authorized Allocation.

2. Payments out of each 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 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 the Special Accounts of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Accounts such amount or amounts as the Borrower shall have requested.

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

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

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

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

(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 for said Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

Annex
To
Schedule 4

Special Account	Eligible Categories	Authorized Allocation (Expressed in US\$)	Initial Deposit (Expressed in US\$)	Aggregate Amount (Expressed in US\$)
Anhui's Special Account	(1), (3) and (6)	7,000,000	5,000,000	25,000,000
Shandong's Special Account	(2), (4), (5) and (7)	3,500,000	3,000,000	10,000,000