

CONFORMED COPY

LOAN NUMBER 3910 CHA

Loan Agreement

(Inland Waterways Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 31, 1995

LOAN NUMBER 3910 CHA

LOAN AGREEMENT

AGREEMENT, dated August 31, 1995 , between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) The Project Provinces (as defined in Section 1.02(j) of this Agreement) shall carry out the Project, or cause the Project to be carried out, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Project Provinces the proceeds of the Loan as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) The last sentence of Section 3.02 is deleted.

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

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

(c) In Section 6.02, subparagraph (k) is relettered as sub-paragraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

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

(b) "Company Law" means the Borrower's Company Law promulgated on December 29, 1993 and effective as of July 1, 1994, as the same may be amended from time to time.

(c) "Guangxi Province" means Guangxi-Zhuangzu Autonomous Region, a political sub-division of the Borrower.

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

(e) "Hunan Province" means Hunan Province, a political sub-division of the Borrower.

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

(g) "HXNCDC" means the Hunan Xiangjiang Navigation Construction and Development Corporation (Ltd.), a wholly state-owned company established under the Company Law and operating pursuant to Articles of Association dated November 21, 1994 and approved by the Hunan Province Communications Department on November 21, 1994, and Business License Number 18378999-8 issued by the Hunan Province Administration for Industry and Commerce on November 25, 1994.

(h) "HXNCDC Subsidiary Loan Agreement" means the agreement to be entered into between Hunan Province, represented by the Hunan Province Communications Department, and HXNCDC pursuant to Part F.1(a) of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the HXNCDC Subsidiary Loan Agreement; and "HXNCDC Subsidiary Loan" means the loan provided under the HXNCDC Subsidiary Loan Agreement.

(i) "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.

(j) "Project Provinces" means, collectively, Zhejiang Province, Hunan Province and Guangxi Province; and "Project Province" means any of the Project

Provinces.

(k) "Respective Part of the Project" means, in respect of: (i) Guangxi Province, Part A of the Project; (ii) Hunan Province, Part B thereof; and (iii) Zhejiang Province, Part C thereof.

(l) "Respective Proceeds of the Loan" means, in respect of: (i) Guangxi Province, the proceeds of the Loan allocated from time to time to Category (1); (ii) Hunan Province, the proceeds of the Loan allocated from time to time to Category (2); and (iii) Zhejiang Province, the proceeds of the Loan allocated from time to time to Category (3).

(m) "Special Accounts" means, collectively, the Guangxi Special Account, the Hunan Special Account and the Zhejiang Special Account; "Special Account" means, any of the Special Accounts; and "Respective Special Account" means, in respect of (i) Guangxi Province, the Guangxi Special Account, (ii) Hunan Province, the Hunan Special Account and (iii) Zhejiang Province, the Zhejiang Special Account.

(n) "Zhejiang Province" means Zhejiang Province, a political sub-division of the Borrower.

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of two hundred ten million dollars (\$210,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars the following three special deposit accounts in one or more banks acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment: (i) one for purposes of Part A of the Project; (ii) one for purposes of Part B thereof; and (iii) one for purposes of Part C thereof. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause the Project Provinces to perform in accordance with the provisions of the Project Agreement all their respective obligations therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces 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 each Project Province its Respective Proceeds of the Loan on the following principal terms:

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

for said Project Province's Respective Part of the Project and to be financed out of the proceeds of the Loan;

(ii) the Borrower shall recover from said Project Province, the principal amount so made available over a period of twenty (20) years, inclusive of a grace period of five (5) years; and

(iii) the Borrower shall charge (A) interest on the principal amount so made available and withdrawn and remaining unrecovered from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement and (B) a commitment charge on the principal amount so made available 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 each Project Province shall carry out, or cause to be carried out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of its Respective Part of the Project, pursuant to Section 2.03(a) 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) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank's representatives to examine such records and accounts.

(b) The Borrower shall:

(i) have the records and accounts referred to in subparagraph (a)(i) of this Section and those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

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

ARTICLE V

Remedies of the Bank

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

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

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Project Province will be able to perform its respective obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the HXNCDC Subsidiary Loan Agreement has been executed on behalf of the Hunan Province and HXNCDC.

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

(a) that the Project Agreement has been duly authorized or ratified by each Project Province and is legally binding upon said Project Province in accordance with its terms; and

(b) that the HXNCDC Subsidiary Loan Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon 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
People's Republic of China

Cable address:

Telex:

FINANMIN
Beijing

22486 MFPRC CN

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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/ Zhou Wenzhong

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell J. Cheetham

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) For Part A of the Project:		
(a) Goods	56,800,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 75% of local expenditures for other items

		procured locally
(b) Works	4,300,000	47%
(c) Consultants' services and training	1,900,000	100%
(d) Unallocated	17,000,000	
(2) For Part B of the Project:		
(a) Goods	53,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Works	26,000,000	47%
(c) Consultants' services and training	1,700,000	100%
(d) Unallocated	9,300,000	
(3) For Part C of the Project:		
(a) Goods	3,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Works	30,000,000	47%
(c) Consultants' services and training	900,000	100%
(d) Unallocated	5,400,000	
TOTAL	210,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement,

except that:

(a) withdrawals, in an aggregate amount not exceeding the equivalent of \$8,500,000, may be made in respect of Category (2) on account of payments made for expenditures before the date of this Agreement but after January 1, 1995; and

(b) withdrawals, in an aggregate amount not exceeding the equivalent of \$3,500,000, may be made in respect of Category (3) on account of payments made for expenditures before the date of this Agreement but after January 1, 1995.

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

(a) goods under contracts costing less than \$500,000 equivalent;

(b) works under contracts costing less than \$3,000,000 equivalent;

(c) services provided by consulting firms under contracts costing less than \$100,000 equivalent;

(d) services provided by individual consultants under contracts costing less than \$50,000 equivalent; and

(e) training; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the organization, management and finances of the agencies responsible for managing inland waterways in the Project Provinces, expand the capacity of such waterways, upgrade the links between such waterways and land transportation networks and expand power generation utilizing such waterways.

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: Guangxi Province

(1) Construction of a dam, shiplock, access road, bridge and administration buildings at Guigang Municipality, removal of shoals and construction of river training and inundation protection facilities between Guigang and Nanning Municipalities and provision of flood and lock gates and related equipment and telecommunications hardware, all so as to improve the navigability of the Xijiang River in Guangxi Province.

(2) Construction of a 120 megawatt capacity hydropower generation facility at the dam constructed under Section (1) of this Part A, installation of related transmission lines and provision of power generating equipment required therefor.

(3) Carrying out of a program to strengthen the organization, management and finances of the agencies responsible for management of inland waterways in Guangxi Province, consisting of: the development and introduction of suitable financial and cost accounting systems and a tariff structure for inland waterway operations designed fully to cover the costs thereof; the development and carrying out of a training program for the staff of such agencies in policy and project development and management of project construction and supervision; and the creation of a company to be responsible for the management of inland waterway operations in Guangxi Province and adoption of appropriate operating policies and procedures therefor.

(4) Development and carrying out of a training program in environmental management

for staff of the agencies of Guangxi Province responsible for environmental protection of the inland waterways in Guangxi Province.

Part B: Hunan Province

(1) Construction of a dam, shiplock, access road, bridge and administrative buildings near Dayuandu Municipality, removal of shoals and construction of river training and inundation protection facilities between Dayuandu and Zhuzhou Municipalities, provision of flood and lock gates and related equipment, handling equipment, navigational aids and markers and telecommunications hardware, and upgrading of the port of Zhuzhou Municipality to provide a general cargo berth and coal terminal, and of the port of Hengyang Municipality to provide three general cargo berths, all in order to increase the navigability of the Xiangjiang River between Hengyang and Zhuzhou Municipalities and improve links between said waterway and land transportation systems.

(2) Construction of a 120 megawatt capacity hydropower generation facility at the dam constructed under Section (1) of this Part B, including provision of power generating equipment required therefor, and installation of related transmission lines.

(3) Carrying out of a program to strengthen the organization, management and finances of HXNCDC, consisting of the development and introduction of suitable financial and cost accounting systems and a suitable tariff structure for inland waterway operations designed fully to cover the costs thereof, and the development and carrying out of a training program for staff of HXNCDC in policy and project development and management of project construction and supervision.

(4) Development and carrying out of a training program in environmental management for staff of Hunan Province and of HXNCDC with responsibilities for environmental protection of the inland waterways in Hunan Province.

Part C: Zhejiang Province

(1) Expansion and upgrading of the following four major channels, including construction of bridges, in order to expand their capacity: the channels from Beijing Municipality to Hangzhou Municipality, from Changxing Municipality through Huzhou Municipality to Shanghai Municipality, from Hangzhou Municipality to Shanghai Municipality and from Zhapu Municipality through Jiaxing Municipality to Suzhou Municipality.

(2) Construction of a port in Hangzhou Municipality with bulk cargo-handling facilities, a port in Jiaxing Municipality with a rail-water transfer facility and a railway-waterway transfer terminal at Huzhou Municipality's port, all so as to improve links between water and land transportation systems, and provision of cargo-handling equipment required to increase the productivity and efficiency of these ports.

(3) Carrying out of a program to strengthen the organization, management and finances of the agencies responsible for management of inland waterways in Zhejiang Province, consisting of the development and introduction of suitable financial and cost accounting systems and a suitable tariff structure for inland waterway operations designed fully to cover the costs thereof, and the development and carrying out of a training program for staff of these agencies in policy and project development and management of project construction and supervision.

(4) Development and carrying out of a training program in environmental management for staff of the agencies of Zhejiang Province responsible for environmental protection of the inland waterways in said province.

* * *

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

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
March 1, 2001	4,040,000
September 1, 2001	4,180,000
March 1, 2002	4,330,000
September 1, 2002	4,485,000
March 1, 2003	4,640,000
September 1, 2003	4,805,000
March 1, 2004	4,975,000
September 1, 2004	5,155,000
March 1, 2005	5,335,000
September 1, 2005	5,525,000
March 1, 2006	5,720,000
September 1, 2006	5,925,000
March 1, 2007	6,135,000
September 1, 2007	6,350,000
March 1, 2008	6,575,000
September 1, 2008	6,810,000
March 1, 2009	7,050,000
September 1, 2009	7,300,000
March 1, 2010	7,560,000
September 1, 2010	7,825,000
March 1, 2011	8,105,000
September 1, 2011	8,390,000
March 1, 2012	8,690,000
September 1, 2012	9,000,000
March 1, 2013	9,315,000
September 1, 2013	9,645,000
March 1, 2014	9,990,000
September 1, 2014	10,345,000
March 1, 2015	10,710,000
September 1, 2015	11,090,000

* The figure in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Section 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04(b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55

More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

(a) The term "eligible Categories" means, in respect of: (i) the Guangxi Special Account, Categories (1)(a), (1)(b) and (1)(c); (ii) the Hunan Special Account, Categories (2)(a), (2)(b) and (2)(c); and (iii) the Zhejiang Special Account, Categories (3)(a), (3)(b) and (3)(c).

(b) The term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement.

(c) The term "Authorized Allocation" means, in respect of each of the Special Accounts, the following amounts to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule: (i) the Guangxi Special Account, an amount equivalent to \$3,000,000; (ii) the Hunan Special Account, an amount equivalent to \$3,000,000; and (iii) the Zhejiang Special Account, an amount equivalent to \$2,000,000; provided, however, that unless the Bank shall otherwise agree: (i) the Authorized Allocation for the Guangxi Special Account shall be limited to an amount equivalent to \$1,000,000, until the aggregate amount of withdrawals under Categories (1)(a), (1)(b) and (1)(c) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of Part A of the Project shall be equal to or exceed the equivalent of \$6,000,000; (ii) the Authorized Allocation for the Hunan Special Account shall be limited to an amount equivalent to \$1,000,000, until the aggregate amount of withdrawals under Categories (2)(a), (2)(b) and (2)(c) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of Part B of the Project shall be equal to or exceed the equivalent of \$6,000,000; and (iii) the Authorized Allocation for the Zhejiang Special Account shall be limited to an amount equivalent to \$700,000, until the aggregate amount of withdrawals under Categories (3)(a), (3)(b) and (3)(c) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of Part C of the Project shall be equal to or exceed the equivalent of \$4,000,000.

2. Payments out of the Special Accounts 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 in respect of said Special Account and subsequent withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of said Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into said Special Account of an amount or amounts which do not exceed the aggregate amount of said Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into said Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of said Special Account, the Borrower shall

furnish to the Bank requests for deposits into said Special Account at such intervals as the Bank shall specify.

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

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into 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 said Special Account;

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the Part of the Project in respect of which a Special Account was established, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of said Part of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation in respect of said Special Account.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for said Part of the Project 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 each Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

