

CONFORMED COPY

LOAN NUMBER 3987 CHA

Loan Agreement

(Second Shanghai Sewerage Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 9, 1996

LOAN NUMBER 3987 CHA

LOAN AGREEMENT

AGREEMENT, dated May 9, 1996, 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 will be carried out by Shanghai (as defined in Section 1.02(g) of this Agreement) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Shanghai the proceeds of the Loan as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee

Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 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) "Category" means a category of items to be financed out of the proceeds of the Loan set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) "Environmental Assessment" means Shanghai's environmental assessment of the Project dated May 25, 1995, setting out, inter alia, environmental protection and mitigation measures and administrative and monitoring arrangements to ensure the implementation of the Project in an environmentally sound manner, as said assessment may be revised from time to time in accordance with the provisions of Part B.5 of Schedule 3 to the Project Agreement.

(c) "Institutional Development and Training Action Plan" means the Sewerage Company's time-bound action plan dated December 14, 1995, for the implementation of Part B of the Project.

(d) "Project Agreement" means the agreement between the Bank and Shanghai of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(e) "Resettlement Action Plan" means Shanghai's resettlement action plan for the Project dated July 1995 setting out inter alia, the procedures governing land acquisition, resettlement and compensation, as well as the reporting and monitoring arrangements to ensure compliance with the said plan, all aimed at improving or at least restoring the living standards of affected people, as the same may be revised from time to time in accordance with the provisions of Part B.5 of Schedule 3 to the Project Agreement.

(f) "Sewerage Company" means the Shanghai Municipal Sewerage Company Ltd., a solely state-owned limited liability company, established and operating pursuant to its Charter dated August, 1995 and approved by the Shanghai Municipal Engineering Administration Bureau in November 1995, and to Business License No. 010042700 dated December 7, 1995, issued by the Shanghai Administration Bureau of Industry and Commerce.

(g) "Shanghai" means the Borrower's Municipality of Shanghai.

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

(i) "Subsidiary Loan Agreement" means the agreement to be entered into between Shanghai and the Sewerage Company pursuant to Part B.1 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 Subsidiary Loan Agreement; and "Subsidiary Loan" means the loan provided under the Subsidiary Loan Agreement.

(j) "Wastewater Connection Action Plan" means the action plan dated December 14, 1995, providing for the enhanced collection of wastewater flows and the connection thereof to Shanghai's wastewater system, as said plan may be revised from time to time in accordance with the provisions of Part B.5 of Schedule 3 to the Project Agreement.

(k) "Yuan" means the currency unit of the Borrower.

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 two hundred fifty million dollars (\$250,000,000).

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 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 a special deposit account in a financial institution and on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special 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, 2002 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 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 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London Interbank offered rate for six-month deposits in dollars 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) one half of one percent ($1/2$ 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 2.05, 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 amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective upon the expiration 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 2.06. Interest and other charges shall be payable semi-annually on April 15 and October 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Shanghai to perform in accordance with the provisions of the Project Agreement all the obligations of Shanghai 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 Shanghai to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

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

- (i) the principal amount so made available to Shanghai shall be denominated and repayable in dollars;
- (ii) the Borrower shall recover such principal amount 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 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 Section 2.05 of the Loan Agreement; and
 - (B) a commitment charge on such principal amount 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) in respect of the Project shall be carried out by Shanghai 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) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the

Loan Account was made; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account 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 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) Shanghai 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 Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Shanghai will be able to perform its obligations under the Project Agreement.

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

(d) The charter or business license of the Sewerage Company, both as referred to in Section 1.02 (f) of this Agreement, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Sewerage Company to perform any of its obligations under the Subsidiary Loan Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Sewerage Company or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a) or (c) 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; and

(b) the events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur.

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) the Subsidiary Loan Agreement has been executed on behalf of Shanghai and the Sewerage Company; and

(b) the wastewater tariffs of the Sewerage Company have been increased to at least Yuan 0.14 per cubic meter for residential waste-water producers and Yuan 0.34 per cubic meter for non-residential wastewater producers and have been reflected in the bills sent by the Sewerage Company to such producers.

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 Shanghai, and is legally binding upon Shanghai in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by Shanghai and the Sewerage Company and is legally binding upon Shanghai and the Sewerage Company in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (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 the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	135,000,000	56%
(2) Goods	80,000,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 75% of local expen- ditures for other items procured locally
(3) Consultants' services and training)))	100%
(a) for construction management services	6,500,000)	
(b) other	16,000,000)	
(4) Unallocated	12,500,000	
TOTAL	250,000,000 =====	

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 withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made on account of payments made for expenditures before that date but after August 1, 1995.

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

- (a) for works under contracts not exceeding \$6,000,000 equivalent each;
- (b) for goods under contracts not exceeding \$500,000 equivalent each;
- (c) for consultants' services under contracts not exceeding \$100,000 for firms, and \$50,000 for individual consultants; and
- (d) for 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 environmental conditions and environmental management in Shanghai with a view to providing a safe environmental setting enabling long-term sustainable economic growth.

The Project, which constitutes part of Shanghai's long-term environmental improvement program, 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: Urban Infrastructure Investments

1. Improving sewerage and sanitation conditions in the urban areas of Shanghai, through:

- (a) construction of a trunk conveyor sewerage system, including secondary conveyor sewers, access shafts, pumping facilities and domestic, industrial and enterprise collection and connection systems;
- (b) installation of telemetry and control equipment;
- (c) rehabilitation of existing sewerage systems; and
- (d) provision of sewerage system maintenance equipment and management facilities.

2. Improving wastewater treatment and disposal systems at Bailonggang, through construction of:

- (a) a wastewater treatment facility with a capacity of about 1.7 million cubic meters per day, comprising, inter alia, screens, grit removal facilities and pilot scale plant;
- (b) an outfall pump station with a capacity of about 1.7 million cubic meters per day; and
- (c) an outfall facility with a capacity of about 1.7 million cubic meters per day with deep water diffuser outlet system into the Yangtze River.

Part B: Institutional Development and Studies

1. Strengthening of the institutional capacity of the Sewerage Company, through:
 - (a) implementation of a comprehensive training program for its staff in the areas of finance, environmental monitoring, management information, project management and construction supervision and provision of equipment required therefor; and
 - (b) provision of technical assistance in accounting and organizational and information systems for the Sewerage Company.
2. Carrying out of:
 - (a) studies on wastewater management and wastewater infrastructure planning; and
 - (b) feasibility and preparation studies for future wastewater infrastructure projects.

* * * * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3
Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)
October 15, 2001	5,220,000
April 15, 2002	5,380,000
October 15, 2002	5,545,000
April 15, 2003	5,710,000
October 15, 2003	5,885,000
April 15, 2004	6,065,000
October 15, 2004	6,250,000
April 15, 2005	6,440,000
October 15, 2005	6,635,000
April 15, 2006	6,835,000
October 15, 2006	7,045,000
April 15, 2007	7,260,000
October 15, 2007	7,480,000
April 15, 2008	7,705,000
October 15, 2008	7,940,000
April 15, 2009	8,180,000
October 15, 2009	8,430,000
April 15, 2010	8,685,000
October 15, 2010	8,950,000
April 15, 2011	9,225,000
October 15, 2011	9,505,000
April 15, 2012	9,790,000
October 15, 2012	10,090,000
April 15, 2013	10,395,000
October 15, 2013	10,710,000
April 15, 2014	11,040,000
October 15, 2014	11,375,000
April 15, 2015	11,720,000
October 15, 2015	12,075,000
April 15, 2016	12,435,000

* 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 Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3);

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

(c) the term "Authorized Allocation" means an amount equivalent to \$15,000,000 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 equivalent to \$10,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$100,000,000.

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 Bank 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 Bank 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 Bank shall, on behalf of the Borrower, withdraw from 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 Bank requests for deposits into the 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 the 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 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 the 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 the 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 Account;

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

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

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

(A) provide such additional evidence as the Bank may request; or

(B) deposit into the 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 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 Bank 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 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 the 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.

[Redacted]