

CONFORMED COPY

LOAN NUMBER 4444 CHA

Project Agreement

(Container Transport Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

HEBEI PROVINCE

INNER MONGOLIA AUTONOMOUS REGION

ZHEJIANG PROVINCE

and

TIANJIN MUNICIPALITY

Dated September 2, 1999

LOAN NUMBER 4444 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 2, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HEBEI PROVINCE (Hebei), INNER MONGOLIA AUTONOMOUS REGION (Inner Mongolia), ZHEJIANG PROVINCE (Zhejiang), and TIANJIN MUNICIPALITY (Tianjin) (Hebei, Inner Mongolia, Zhejiang and Tianjin hereinafter collectively referred to as the Project Provinces, and individually as a Project Province).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to seventy one million Dollars (\$71,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Bank as are set forth in this Agreement;

WHEREAS the Project Provinces, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Each Project Province declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out its Respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and economic practices and environmental standards, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the relevant Project Province shall otherwise agree, said Project Province shall carry out its Respective Part of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 this Agreement.

Section 2.03. (a) 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 this Agreement and its Respective Part of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, each Project Province shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and said Project Province, a plan for the future operation of its Respective Part of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with said Project Province on said plan.

Section 2.04. (a) Each Project Province shall, at the request of the Bank, exchange views with the Bank with regard to the progress of its Respective Part of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) Each Project Province shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its Respective Part of the Project, the accomplishment of the purposes of

Loan, or the performance by said Project Province of its obligations under this Agreement.

ARTICLE III

Financial and Other Covenants

Section 3.01. (a) Each Project Province shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices, the operations, resources and expenditures in respect of its Respective Part of the Project of the departments or agencies of such Project Province responsible for carrying out its Respective Part of the Project or any part thereof.

(b) Each Project Province shall:

(i) have the records and accounts referred to in paragraph (a) of this Section 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; 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.

Section 3.02. Upon each ICD commencing operations, the relevant Project Province shall take all actions necessary to make customs clearance services available at such ICD.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of each Project Province thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify said Project Province thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties

contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Hebei Province:

People's Government of Hebei Province
No. 10 Weiming Street
Shijiazhuang 050053
People's Republic of China

For Inner Mongolia Autonomous Region:

People's Government of Inner Mongolia Autonomous Region
No. 1 Xin Hua Street
Huhhot 010055
People's Republic of China

For Zhejiang Province:

People's Government of Zhejiang Province
No. 1 Sheng Fu Road
Hangzhou 310025
People's Republic of China

For Tianjin Municipality:

People's Government of Tianjin Municipality
No. 167 Dagu Road
Heping District
Tianjin 300040
People's Republic of China

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Hebei, Inner Mongolia or Zhejiang may be taken or executed by a Vice Governor of such Project Province, and on behalf of Tianjin, by the Mayor or a Vice Mayor of said Municipality or such other person or persons as said Vice Governor or Mayor or Vice Mayor, as the case may be, shall designate in writing, and each Project Province shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang
Authorized Representative

HEBEI PROVINCE

By /s/ Zhu Guangyao
Authorized Representative

INNER MONGOLIA AUTONOMOUS REGION

By /s/ Zhu Guangyao
Authorized Representative

ZHEJIANG PROVINCE

By /s/ Zhu Guangyao
Authorized Representative

TIANJIN MUNICIPALITY

By /s/ Zhhu Guangyao
Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of

paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower, excluding goods manufactured in Hong Kong Special Administrative Region.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

The provisions of paragraphs 3.3 and 3.4 of the Guidelines shall apply to: (a) contracts for goods estimated to cost less than \$250,000 equivalent each, and (b) contracts for works estimated to cost less than \$8,000,000 equivalent each up to an aggregate amount not to exceed \$36,600,000 equivalent.

2. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for: (i) works estimated to cost the equivalent of \$1,000,000 or more; or (ii) goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services for the development of an electronic data interchange system and management information system under Part A.2 of the Project which are estimated to cost an aggregate amount of \$199,000 equivalent may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in

paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

Section I. Part A of the Project

A. Project Provinces

1. Each of Hebei, Inner Mongolia and Zhejiang shall establish and thereafter maintain:

(a) an institutional arrangement with composition, functions and responsibilities satisfactory to the Bank, to provide guidance to the respective ICD Enterprises in the implementation of their portions of said Project Province's Respective Part of the Project; and

(b) a Provincial Project Management Office, with functions, responsibilities and resources satisfactory to the Bank, managed and staffed with qualified personnel in adequate number, to assist in, supervise and monitor the implementation by the respective ICD Enterprises of their portions of said Project Province's Respective Part of the Project.

2. Each Project Province shall:

(a) carry out, and cause their Respective ICD Enterprises to carry out, the EAP in a manner satisfactory to the Bank; and

(b) furnish any proposed revision of the EAP to the Bank for its prior approval.

B. ICD Enterprises

For purposes of their Respective Parts of the Project, Hebei, Inner Mongolia and Zhejiang shall make available to each respective ICD Enterprise, directly or through the relevant Municipality, as the case may be, a portion of their Respective Part of the Proceeds of the Loan under an Enterprise Implementation Agreement satisfactory to the Bank. Each such Enterprise Implementation Agreement shall provide, inter alia, that:

1. (a) The ICD Enterprise shall repay a principal amount equal to the sum of: (i) the amount equivalent in Dollars (determined on the dates of withdrawal from the Loan Account, or of payment out of the respective

Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services required for the construction and equipping of the relevant ICD and to be financed out of the proceeds of the Loan, and (ii) an amount equal to a pro rata portion of the amount of the front-end fee;

(b) the ICD Enterprise shall repay to the Project Province the principal amount referred to in sub-paragraph (a) above, in Dollars, over twenty (20) years with a grace period of five (5) years;

(c) the ICD Enterprise shall pay interest on said principal amount outstanding from time to time at a rate equal to the rate of interest applicable to the Loan pursuant to Section 2.06 (a) of the Loan Agreement; and

(d) the ICD Enterprise shall pay a commitment charge on said principal amount not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

2. The ICD Enterprise:

(a) shall carry on its operations and conduct its affairs in accordance with sound management, engineering, technical, financial and economic practices and environmental standards acceptable to the Bank, under the supervision of qualified and experienced management assisted by competent staff in adequate number;

(b) shall at all times operate and maintain its machinery, equipment and other property and, from time to time, promptly as needed, make all necessary repairs and renewals thereof, in accordance with sound engineering, technical, financial and environmental practices;

(c) shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(d) (i) shall maintain its existence and carry on its operations and shall promptly take all necessary measures to acquire, maintain, renew or otherwise exercise any and all rights, powers, privileges or franchises required for the proper conduct of its operations and the performance of its obligations under its Enterprise Implementation Agreement; and (ii) except as the Bank may otherwise agree, shall not amend, suspend or repeal any provision of its respective charter or statute or make any change in its structure, organization or powers or responsibilities which may materially and adversely affect its ability to perform any of its obligations under its Enterprise Implementation Agreement.

3. The ICD Enterprise shall:

(a) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to record separately the operations, resources and expenditures related to its portion of the Project Province's Respective Part of the Project;

(b) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to

the Bank;

(c) 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; and

(d) 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.

4. The ICD Enterprise shall:

(a) procure, with the assistance of CPMO, the goods, works and consultants' services required for its portion of the Project Province's Respective Part of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) use such goods, works and services exclusively to carry out its portion of the Project Province's Respective Part of the Project.

5. Prior to putting its ICD into operation, the ICD Enterprise shall:

(a) adopt an Operational Manual satisfactory to the Bank. For this purpose, the ICD Enterprise shall accept the assistance of CPMO in the preparation of such Operational Manual which shall establish rules and procedures to ensure, inter alia: (i) smooth and safe operation of the container yards; (ii) safe and efficient operation of container handling equipment and tractor trailers; (iii) inspection of containers for proper hand-over; and (iv) protection of the environment in accordance with the provisions of the EAP; and

(b) establish and, thereafter, maintain an environmental management unit managed and staffed with competent personnel in adequate numbers to ensure its implementation of the environment protection measures set forth in its Operational Manual.

6. The ICD Enterprise shall enable the Project Province, CPMO and the Bank to inspect such sites, works and goods included under said Project Province's Respective Part of the Project, the operations thereof, and any relevant records and documents.

7. (a) Except as the Project Province and the Bank shall otherwise agree, the ICD Enterprise shall not, starting in fiscal year 2002, incur any debt, unless the net revenues of said ICD Enterprise for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least two (2) times the estimated maximum debt service requirements of said ICD Enterprise for any succeeding fiscal year on all debts of said ICD Enterprise, including the debt incurred.

(b) For the purposes of this paragraph 7:

(i) The term "debt" means any indebtedness of the ICD Enterprise maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed incurred: (A) under a loan contract or agreement or other instrument providing

for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations; and (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding depreciation, other non-cash operating charges and interest and other charges.

(iv) The term "debt service requirements" means the aggregate amount of repayments of and interest and other charges on debt.

8. (a) Except as the Project Province and the Bank shall otherwise agree, the ICD Enterprise shall maintain for each of its fiscal years starting in: (i) fiscal year 2002, a ratio of total operating expenses to total operating revenues not higher than 100%; and (ii) fiscal year 2005, a ratio not higher than 85%.

(b) For the purposes of this paragraph 8:

(i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a basis acceptable to the Bank of the current gross value of the ICD Enterprise's fixed assets in operation, but excluding interest and other charges on debt.

(ii) The term "total operating revenues" means revenues from all sources related to operations.

(iii) The average current gross value of the ICD Enterprise's fixed assets in operation shall be calculated as one half of the sum of the gross value of said Enterprise's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

9. The ICD Enterprise shall, with the assistance of CPMO:

(a) prepare and furnish by December 31 of each year commencing in 2000 through 2003, an updated annual business plan for the operation, maintenance and sustainability of its ICD, to the Bank for its review and comment; and thereafter

(b) implement such business plan taking into consideration the Bank's comments thereon.

10. The ICD Enterprise shall, with the assistance of CPMO:

(a) prepare and, by no later than March 1, 2002, furnish to the Bank for its review and comment, a strategy for future capital

mobilization; and thereafter

(b) implement such strategy taking into consideration the Bank's views thereon, including implementing, where recommended and developed under the guidance of the CPMO, a plan to attract a broader category of potential investors, which shall include private sector investors, in such ICD Enterprise.

C. Hebei, Inner Mongolia and Zhejiang, directly or through the Relevant Municipalities, shall exercise their rights under the respective Enterprise Implementation Agreements in such manner as to protect the interests of the Bank and such Project Province and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, such Project Provinces shall not amend, assign, abrogate or waive any of the respective Enterprise Implementation Agreements or any provision thereof.

Section II. Part B of the Project

For purposes of Part B of the Project, Tianjin shall enter into an implementation agreement with the Port Authority, satisfactory to the Bank. Such implementation agreement shall provide, inter alia, that:

1. Tianjin shall make available to the Port Authority its Respective Part of the Proceeds of the Loan on the following principal terms:

(a) the Port Authority shall repay a principal amount equal to the sum of: (A) the amount equivalent in Dollars (determined on the dates of withdrawal from the Loan Account, or payment out of the respective Special Account) of the value of the currency or currencies so withdrawn or paid out, and (B) an amount equal to a pro rata portion of the amount of the fee referred to in Section 2.04 of the Loan Agreement;

(b) the Port Authority shall repay, in Dollars, the principal amount referred to in sub-paragraph (a) above over a period of twenty (20) years, inclusive of a grace period of five (5) years;

(c) Tianjin shall charge interest on said 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 2.06 (a) of the Loan Agreement; and

(d) Tianjin shall charge a commitment charge on said principal amount not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

2. The Port Authority:

(a) shall carry on its operations and conduct its affairs in accordance with sound management, engineering, technical, financial and economic practices and environmental standards acceptable to the Bank, under the supervision of qualified and experienced management assisted by competent staff in adequate number;

(b) shall at all times operate and maintain its machinery, equipment and other property and, from time to time, promptly as needed, make all necessary repairs and renewals thereof, in accordance with sound engineering, technical, financial and environmental practices;

(c) shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for insurance against such

risks and in such amounts as shall be consistent with appropriate practice;

(d) (i) shall maintain its existence and carry on its operations and shall promptly take all necessary measures to acquire, maintain, renew or otherwise exercise any and all rights, powers, privileges or franchises required for the proper conduct of its operations and the performance of its obligations under the Tianjin Implementation Agreement; and (ii) except as the Bank may otherwise agree, shall not amend, suspend or repeal any provision of its respective charter or statute or make any change in its structure, organization or powers or responsibilities which may materially and adversely affect its ability to perform any of its obligations under the Tianjin Implementation Agreement.

3. The Port Authority shall, with the assistance of CPMO:

(a) procure the goods, works and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) use such goods, works and services exclusively to carry out Part B of the Project.

4. The Port Authority shall:

(a) maintain, or cause to be maintained, records and accounts adequate to: (i) reflect in accordance with sound accounting practices its operations and financial condition, and the operations and financial condition of THCC; and (ii) record separately the operations, resources and expenditures in respect of Part B of the Project;

(b) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(c) 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; and

(d) 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.

5. Except as the Bank shall otherwise agree, the Port Authority shall maintain for each of its fiscal years, starting from fiscal year 2002 onward, a ratio of total operating expenses to total operating revenues not higher than 100%.

6. (a) Except as the Bank shall otherwise agree, the Port Authority shall cause THCC to maintain for each of its fiscal years starting from: (i) fiscal year 2002, a ratio of total operating expenses to total operating revenues not higher than 95%; and (ii) fiscal year 2005, a ratio not higher than 80%.

(b) For the purposes of paragraph 5 above and this paragraph 6:

(i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a basis acceptable to the Bank of the current gross value of the fixed assets of the Port Authority or THCC, as the case may be, in operation, but excluding interest and other charges on debt.

(ii) The term "total operating revenues" means revenues from all sources related to operations.

(iii) The average current gross value of the fixed assets of the Port Authority or THCC, as the case may be, in operation shall be calculated as one half of the sum of the gross value of the fixed assets of the Port Authority or THCC, as the case may be, in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

7. (a) Except as the Bank shall otherwise agree, the Port Authority shall cause THCC, starting from fiscal year 2000 onward, to not incur any debt if after the incurrence of such debt the ratio of debt to equity shall be greater than 1:2.

(b) For purposes of this paragraph 7:

(i) The term "debt" means any indebtedness of THCC maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement on the date the agreement providing for such guarantee has been entered into.

(iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of THCC not allocated to cover specific liabilities.

8. The Port Authority shall:

(a) carry out, and cause THCC to carry out, the EAP in respect of Part B of the Project, in a manner satisfactory to the Bank;

(b) furnish any proposed revision of said EAP to the Bank for its prior approval; and

(c) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of said EAP.

9. In respect of Part B.2 (a) of the Project, the Port Authority shall:

(a) by no later than October 31, 2000 develop an action plan for

the establishment of an institutional and operational framework to enhance competition between the existing operators of container handling facilities at the port of Tianjin;

(b) provide such plan to the Bank for its review and comment; and thereafter

(c) take appropriate steps to implement such plan taking into consideration the Bank's view thereon.

10. In respect of Part B.2 (b) of the Project, the Port Authority shall:

(a) by no later than May 31, 2000 develop under terms of reference acceptable to the Bank a strategy to enhance berth utilization and productivity and provide such strategy to the Bank for its review and comments; and thereafter

(b) take appropriate steps to implement such strategy taking into consideration the Bank's view thereon.

11. The Port Authority shall implement its action plan for the corporatization of THCC in a manner satisfactory to the Bank.

Section III. Monitoring and Evaluation

Each Project Province shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of its Respective Part of the Project and the achievement of the objectives thereof;

(b) (i) prepare, under terms of reference satisfactory to the Bank, and furnish, through the CPMO, to the Bank, (i) on April 30 and October 31 of each year commencing on October 31, 1999 a semi-annual report, and (ii) on April 31, 2001, a mid-term report, in each case integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) above, on the progress achieved in the carrying out of its Respective Part of the Project during the period preceding the date of each such report and setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank and the CPMO, by such later date as the Bank shall request, each report referred to in sub-paragraph (b) above, and, thereafter, take all measures required to ensure the efficient implementation of its Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

