

CONFORMED COPY

LOAN NUMBER 2943-0 CHA
2943-1
2943-2

(Pharmaceuticals Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 22, 1988

LOAN NUMBER 2943-0 CHA
2943-1
2943-2

LOAN AGREEMENT

AGREEMENT, dated December 22, 1988, 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) Parts A and B of the Project will be carried out by Henan Province with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Henan Province a portion of the proceeds of the Loan as provided in this Agreement;

(C) Part C of the Project will be carried out by the Xin Hua and Shanghai Factories, each under a subsidiary loan and project implementation agreement to be entered into with the Borrower pursuant to Section 3.01 (c) of this Agreement, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Xin Hua and Shanghai Factories a portion of 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 Henan Province;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Project Agreement" means the agreement between the Bank and Henan Province 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;

(b) "Subsidiary Loan and Project Implementation Agreements" means the agreements to be entered into between the Borrower and the Xin Hua and Shanghai Factories, respectively, pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan and Project Implementation Agreements;

(c) "Xin Hua Factory" means the Shandong Xin Hua Pharmaceutical Factory, Zhangdian, Shandong, a state enterprise, and any successor thereto;

(d) "Shanghai Factory" means the Shanghai No. 4 Pharmaceutical Factory, Shanghai, a state enterprise, and any successor thereto;

(e) "Zhong Yuan Factory" means the enterprise to be established to operate the facilities constructed under Part A of the Project;

(f) "Zhong Yuan Factory Preparation Office" means the Zhong Yuan Pharmaceutical Factory Preparation Office established by Zhengzhou Municipality, Henan Province on January 5, 1987, to undertake the construction and preparation for operations of the facilities under Part A of the Project, prior to the establishment of the Zhong Yuan Factory;

(g) "Henan Province Special Account" means the account referred to in Section 2.02 (b);

(h) "Xin Hua Factory Special Account" means the account referred to in Section 2.02 (c);

(i) "Shanghai Factory Special Account" means the account referred to in Section 2.02 (d) of this Agreement;

(j) "Special Accounts" means the Henan Province Special Account; the Xin Hua Factory Account, and the Shanghai Factory Special Account; and

(k) "Transfer and Operations Agreement" means the transfer and operations agreement to be entered into between Henan Province and the Zhong Yuan Factory pursuant to Section 2.01 (c) (ii) of the Project 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, an amount in various currencies equivalent to one hundred twenty-seven million dollars (\$127,000,000).

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 and in respect of interest and other charges on the Loan.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in the name of Henan Province, in dollars a special account in a bank and on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Henan Province Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) The Borrower shall, for the purposes of Part C.1 of the Project, open and maintain in the name of Xin Hua Factory, in dollars a special account in a bank and on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Xin Hua Factory Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

(d) The Borrower shall, for the purposes of Part C.2 of the Project, open and maintain in the name of Shanghai Factory, in dollars a special account in a bank and on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Shanghai Factory Special Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

(e) On each of the semi-annual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

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

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 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:

(i) shall carry out Part C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and pharmaceutical industry practices, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project; and

(ii) without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Henan Province to perform in accordance with the provisions of the Project Agreement all the obligations of Henan Province 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 Henan Province to perform such obligations, including the issuance of import licenses on a timely basis, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the equivalent of \$117,500,000 of the proceeds of the Loan to Henan Province for Part A of the Project, on terms and conditions satisfactory to the Bank.

(c) The Borrower shall relend the equivalent of \$5,000,000 of the proceeds of the Loan to the Xin Hua Factory through Shandong Province, and \$4,500,000 to the Shanghai Factory through Shanghai Municipality, each under a subsidiary loan and project implementation agreement, under terms and conditions which shall have been approved by the Bank and which shall include: (i) an interest rate equal to one hundred five percent (105%) of the variable rate applicable under Section 2.05 of this Agreement; (ii) a maturity of fifteen (15) years, including a grace period of five (5) years; (iii) a commitment charge at the rate of three-fourths of one percent (0.75%) per annum; (iv) the foreign exchange risk to be borne by the Xin Hua and Shanghai Factories; and (v) the project implementation responsibilities set forth in Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan and Project Implementation Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan and Project Implementation Agreements to affect the provisions of subparagraphs (c) (i), (ii), (iii) and (iv) above.

(e) Without limitation upon the provisions of paragraph (a) (i) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part C of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

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 4 to this 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 Parts A and B of the Project shall be carried out by Henan Province pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall furnish to the Bank for comment, by December 31, 1990 or such later date as the Borrower and the Bank may agree, an industry-wide program for the introduction of good pharmaceutical manufacturing practice during the Eighth Five Year Plan (1991-1995), and shall thereafter exchange views with the Bank at the request of either party on changes in said program, particularly in light of the experience under Part C of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the Xin Hua and Shanghai Factories to maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations and financial condition.

(b) (i) The Borrower shall cause the Xin Hua and Shanghai Factories to have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, and the Borrower shall cause the records and accounts for the Special Accounts for each fiscal year to be audited, all in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank.

(ii) The Borrower shall furnish or cause to be furnished to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements of the Xin Hua and Shanghai Factories for such year as so audited; and (B) the report of such audits and the audit of the Special Accounts by said auditors, of such scope and in such detail as the Bank shall have reasonably requested.

(iii) The Borrower shall furnish or cause to be furnished to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause the Xin Hua and Shanghai Factories and Henan Province to:

(i) maintain, in accordance with paragraph (a) of this Section and Section 4.01 (a) of the Project Agreement, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and in Section 4.01 (b) of the Project Agreement and that the report of such audit contains 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.

ARTICLE V

Remedies of the Bank

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

(a) Henan Province 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 Henan Province will be able to perform its obligations under the Project Agreement.

(c) Any party to the Subsidiary Loan and Project Implementation Agreements shall have failed to perform its obligations under such Agreements.

(d) Either party to the Transfer and Operations Agreement shall have failed to perform its obligations under the Transfer and Operations Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Zhong Yuan Factory, the Xin Hua Factory or the Shanghai Factory or for the suspension of any of their 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), (c) or (d) 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) any event specified in paragraph (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 and Project Implementation Agreements have been executed on behalf of the Borrower and the Xin Hua and Shanghai Factories, respectively; and

(b) the Borrower's State Council has approved the Loan Agreement.

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 Henan Province, and is legally binding upon Henan Province in accordance with its terms and, in particular, that Henan Province has the legal capacity to cause the Zhong Yuan Factory to carry out Part A of the Project, and to enter into the Transfer and Operations Agreement; and

(b) that the Subsidiary Loan and Project Implementation Agreements have been duly authorized or ratified by the Borrower and the Xin Hua and Shanghai Factories, respectively, and are legally binding upon the Borrower and the Xin Hua and Shanghai Factories in accordance with their 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

Representatives 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:

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Han Xu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Javed Burki

Acting Regional Vice President
Asia

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
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Part A of the Project:

(1) Goods	90,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Consultants' services, overseas visits and training	500,000	100%
(3) Interest and other charges on the Loan accrued on or before February 14, 1992	19,300,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(4) Unallocated	7,700,000	

Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
Category	

Part C.1 of the Project:

(5) Goods	3,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 75% of local expenditures for other items procured locally
(6) Consultants' services and training	300,000	100%
(7) Unallocated	700,000	

Part C.2 of the Project:

(8) Goods	3,900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 75% of local expenditures for other items procured locally
(9) Consultants' services and training	500,000	100%

(10) Unallocated	500,000
	<hr/>
TOTAL	127,000,000

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in expanding pharmaceutical production with modern technology, improving the quality of pharmaceutical products and their manufacturing practice, modifying drug supply patterns in line with demand and increasing the export potential for the pharmaceutical subsector.

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: Zhong Yuan Pharmaceutical Factory

1. Construction and equipping of the Zhong Yuan Pharmaceutical Factory at Zhong Yuan, Henan Province, for the production of common and modified starches, dextrose monohydrate and anhydrous dextrose, sorbitol, Vitamin C and other products.

2. Training of operations, maintenance and marketing staff for the Zhong Yuan Factory, through training inside and outside China and provision of consultants' services.

Part B: Henan Province Pharmaceutical Quality Control Center

Improving pharmaceutical product quality control in Henan Province through construction and equipping of a Quality Control Center at Zhengzhou, Henan Province, including laboratories and an animal breeding center.

Part C: Good Pharmaceutical Manufacturing Practice

1. Improving operational standards to good pharmaceutical manufacturing practice levels at the Xin Hua Pharmaceutical Factory, Shandong Province, through: (a) construction and equipping of a building for formulation operations, a storage facility, and an in-process and pilot plant laboratory; (b) upgrading production control systems; (c) related training of staff; and (d) provision of consultants' services for Part C.1 (a), (b) and (c) above.

2. Improving operational standards to good pharmaceutical manufacturing practice levels at the No. 4 Pharmaceutical Factory, Shanghai Municipality, through: (a) construction and equipping of a building for formulation operations, an in-process laboratory and quality control laboratory; (b) upgrading production control systems; (c) related training of staff; and (d) provision of consultants' services for Part C.2 (a), (b) and (c) above.

* * * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due				Payment of Principal (Expressed in dollars)*
	Part A of the Project	Part C.1 of the Project	Part C.2 of the Project	Total
February 15, 1994	2,145,000	85,000	90,000	2,320,000
August 15, 1994	2,225,000	85,000	95,000	2,405,000
February 15, 1995	2,315,000	90,000	95,000	2,500,000
August 15, 1995	2,405,000	95,000	100,000	2,600,000
February 15, 1996	2,495,000	100,000	105,000	2,700,000
August 15, 1996	2,590,000	100,000	110,000	2,800,000
February 15, 1997	2,690,000	105,000	110,000	2,905,000
August 15, 1997	2,795,000	110,000	115,000	3,020,000
February 15, 1998	2,905,000	115,000	120,000	3,140,000
August 15, 1998	3,015,000	120,000	125,000	3,260,000
February 15, 1999	3,130,000	125,000	130,000	3,385,000
August 15, 1999	3,255,000	125,000	135,000	3,515,000
February 15, 2000	3,380,000	130,000	140,000	3,650,000
August 15, 2000	3,510,000	135,000	145,000	3,790,000
February 15, 2001	3,645,000	145,000	150,000	3,940,000
August 15, 2001	3,785,000	150,000	160,000	4,095,000
February 15, 2002	3,930,000	155,000	165,000	4,250,000
August 15, 2002	4,085,000	160,000	170,000	4,415,000
February 15, 2003	4,240,000	165,000	175,000	4,580,000
August 15, 2003	4,405,000	170,000	185,000	4,760,000
February 15, 2004	4,575,000	180,000	190,000	4,945,000
August 15, 2004	4,750,000	185,000	200,000	5,135,000
February 15, 2005	4,935,000	195,000	205,000	5,335,000
August 15, 2005	5,125,000	200,000	215,000	5,540,000
February 15, 2006	5,320,000	210,000	220,000	5,750,000
August 15, 2006	5,530,000	215,000	230,000	5,975,000
February 15, 2007	5,740,000	225,000	240,000	6,205,000
August 15, 2007	5,965,000	235,000	250,000	6,450,000
February 15, 2008	6,195,000	240,000	260,000	6,695,000
August 15, 2008	6,420,000	250,000	270,000	6,940,000

* The figures in these columns represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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	0.30

before maturity	
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I: Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. (a) Items or groups of items estimated to cost less than the equivalent of \$200,000 per contract may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

(b) Items or groups of items estimated to cost less than the equivalent of \$50,000 per contract may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

(c) The aggregate amount of contracts procured under paragraphs (a) and (b) above shall not exceed \$15,000,000.

2. Goods for process design which are proprietary may be procured through direct purchase under negotiated contracts in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to

the Guidelines shall apply. Where payments for such contract are to be made out of any of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of such Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of any of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of the relevant Special Account Schedule.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Loan Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist in carrying out the Project, the Borrower shall cause the Xin Hua and Shanghai Factories to employ, and Henan Province shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Implementation Program for Part C of the Project

The Borrower shall, through Shandong Province cause the Xin Hua Factory, and through Shanghai Municipality cause the Shanghai Factory, both to fulfill the obligations set forth below. To that end, and except as the Borrower and the Bank shall otherwise agree, these obligations shall be included in the Subsidiary Loan and Project Implementation Agreements.

1. The Xin Hua and Shanghai Factories shall carry out Parts C.1 and C.2 of the Project, respectively, with due diligence and efficiency and in accordance with appropriate administrative, financial, engineering and pharmaceutical industry practices, and shall provide, promptly as needed, the funds, facilities and other resources required for their respective Parts of the Project.

2. The Borrower shall cause the Xin Hua and Shanghai Factories to furnish detailed implementation schedules for their respective Parts of the Project to the Bank promptly after basic designs are completed.

3. The Borrower shall cause the Xin Hua and Shanghai Factories to furnish to the Bank for comment, by June 30, 1989, training programs for Part C.1 (c) and C.2 (c) of the Project, and thereafter, to carry out Parts C.1 (c) and C.2 (c) of the Project in accordance with training programs agreed with the Bank.

4. The Xin Hua and Shanghai Factories shall jointly employ and share proportionally the cost of the consultants' services for Parts C.1 (a) and (b) and C.2 (a) and (b) of the Project.

5. The Xin Hua and Shanghai Factories shall:

(a) carry on their operations and conduct their affairs in accordance with sound administrative, financial and pharmaceutical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

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

6. The Borrower shall cause the Xin Hua and Shanghai Factories to comply with the following financial covenants.

(a) Except as the Borrower and the Bank shall otherwise agree:

(i) neither of the Factories shall incur any debt, unless the net revenues of such Factory 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 1.5 times the estimated maximum debt service requirements of such Factory for any succeeding fiscal year on all debt of the Factory, including the debt to be incurred;

(ii) neither of the Factories shall incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 60 to 40;

(iii) each Factory shall maintain a ratio of current assets to current liabilities of not less than 1.3;

(iv) before October 31 in each of its fiscal years, each Factory shall, on the basis of forecasts satisfactory to the Bank, review whether it would meet the requirements set forth in subparagraph (iii) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion; and

(v) if any such review shows that such Factory would not meet the requirements set forth in subparagraph (iii) for the fiscal years covered by such review, such Factory shall promptly take all necessary measures in order to meet such requirements.

(b) For the purposes of paragraph (a) above:

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

(ii) Debt shall be deemed to be 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 adjusted to take account of the Factory's prices in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

- (iv) The term "net non-operating income" means the difference between:
- (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of such Factory not allocated to cover specific liabilities.
- (vii) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (viii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (ix) Whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

7. The Xin Hua and Shanghai Factories shall provide to the Borrower for furnishing to the Bank:

- (a) their accounts and audited financial statements and other information as required pursuant to Section 4.01 of this Agreement; and
- (b) the progress reports and project completion report as required pursuant to Section 9.07 of the General Conditions in respect of Part C of the Project.

SCHEDULE 6

Henan Province Special Account

1. For the purposes of this Schedule:

- (a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) 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; or

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

(b) 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 any expenditure or in any 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, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

SCHEDULE 7

Xin Hua Factory Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) 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; or

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

(b) 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 any expenditure or in any 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, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

SCHEDULE 8

Shanghai Factory Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (8) and (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) 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; or

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

(b) 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 any expenditure or in any 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, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

