

CONFORMED COPY

LOAN NUMBER 4027 CHA

Loan Agreement

(Second Henan Provincial Highway Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 13, 1996

LOAN NUMBER 4027 CHA

LOAN AGREEMENT

AGREEMENT, dated, September 13, 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 Henan Province (Henan) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Henan 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;

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 (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) "Expressways" means the roads, including the linking roads and related facilities, to be constructed or upgraded under Part A of the Project;

(b) "Expressway EAPs" means, collectively, (i) the Environmental Action Plan-National Trunk Road from Lianyungang to Huoerguosi, Luoyang-Sanmenxia Expressway, referred to under Part A (1) of the Project, dated December 1995; (ii) the Environmental Action Plan-National Trunk Road from Lianyungang to Huoerguosi, Shaanxi-Henan Connection Road, referred to under Part A (3) of the Project, dated December 1995; and (iii) the Environmental Action Plan-Luoyang-Sanmenxia Expressway Linking Road Projects, referred to under Part A (2) of the Project, dated November 1995; which set out environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures; and "Expressway EAP" means any one of the Expressway EAPs;

(c) "Expressway RAPs" means, collectively, (i) the Luoyang-Sanmenxia Expressway Resettlement Action Plan (Final Revision); (ii) the Land Acquisition and Resettlement Plan for the Linking Highway of Luoyang-Sanmenxia Expressway under Henan Provincial Highway Project II; and (iii) the Yangjia-Baijiazhai Connection Road Resettlement Action Program (Revision), each dated December 1995, under Parts A (1), (2) and (3) of the Project respectively, which set out the procedures governing land acquisition, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with said plans; and "Expressway RAP" means any one of the Expressway RAPs;

(d) "First Year RIPA Environmental Action Plans" means (i) the Environmental Action Plan-The First Package of RIPA Projects, Category I Projects, and (ii) the Environmental Action Plan-The First Package of RIPA Projects, Category II Projects, each dated November 1995, in respect of RIPA (as hereinafter defined) Sub-projects included in the work plan for the first year of implementation of Part B of the Project, setting out environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures;

(e) "First Year RIPA Resettlement Action Plan" means the Land Acquisition and Resettlement Plan for Road Improvement Program for Poverty Alleviation (RIPA) under Henan Provincial Highway Project II (First Package), dated December 1995, in respect of RIPA Sub-projects included in the work plan for the first year of implementation of Part B of the Project, setting out procedures governing land acquisition, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with said plan;

(f) "HPCD" means the Henan Provincial Communications Department, a department of the Henan Provincial Government, and any successor thereto;

(g) "Luoyang-Sanmenxia Expressway" means the road to be constructed between Luoyang and Sanmenxia in Henan under Part A (1) of the Project;

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

(i) "RIPA" means Henan's Road Improvement for Poverty Alleviation Program to rehabilitate, upgrade and construct road systems in selected counties in Henan in order to provide the rural population of such counties better access to the main provincial highways;

(j) "RIPA Sub-project" means a rural road project covering a number of road segments selected for financing under Part B of the Project in accordance with Part B of Schedule 2 to the Project Agreement;

(k) "Shaanxi" means Shaanxi Province, a political sub-division of the Borrower, and any successor thereto;

(l) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(m) "Yangjia-Baijiazhai Connection Road" means the road between Yangjia and Baijiazhai in Henan to be constructed under Part A (3) of the Project.

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 and ten million dollars (\$210,000,000).

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 commercial bank 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 December 31, 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 per cent (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 the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Henan to perform in accordance with the provisions of the Project Agreement all the obligations of Henan 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 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 Henan on the following principal terms:

(i) the principal amount so made available to Henan shall be the amount withdrawn from the Loan Account or paid out of the Special Account, on account of the cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan;

(ii) Henan shall repay the principal amount so made available to it over a period of twenty (20) years, inclusive of a grace period of five (5) years; and

(iii) the Borrower shall charge: (A) interest on the principal amount so made available and withdrawn and remaining unpaid from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement; and (B) a commitment charge on the principal amount so made available and not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Henan pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other 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 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) Henan 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 Henan will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, 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, namely that the Project Agreement has been

duly authorized or ratified by Henan and is legally binding upon Henan in accordance with its terms.

Section 6.02. 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/ Zhou Wenzhong

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell Cheetham

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar)	% of Expenditures to be Financed
(1) Civil works		
(a) under Part A of the Project	129,000,000	40%
(b) under Part B of the Project	20,200,000	28%
(c) under Part C of the Project	900,000	36%
(2) Supply and installation of electronic, electric and mechanical equipment under Part A of the Project	17,200,000	80%
(3) Goods	6,200,000	100% of foreign expenditures, 100% of local (ex-factory cost) and 75% of local ex- penditures for other items procured locally
(4) Consultants' services and training	6,900,000	100%
(5) Unallocated	29,600,000	
TOTAL	210,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above:

(a) no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals on account of payments made for expenditures before that date but after January 1, 1996 may be made in an aggregate amount not to exceed \$600,000; and

(b) no withdrawals under Category (1) (b) shall be made in respect of payments made for expenditures for any RIPA Sub-project until such Sub-project has been approved by the Bank in accordance with Part C of Schedule 2 to the Project Agreement.

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

- (a) goods under contracts costing less than \$250,000 equivalent;
- (b) works under contracts costing less than \$2,000,000 equivalent;
- (c) consultants' services under contracts with firms or individuals costing less than \$100,000 equivalent and \$50,000 equivalent, respectively; and
- (d) training;

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to support the continuing development of road infrastructure in Henan in order to stimulate economic activity; (b) to assist in the implementation of Henan's poverty alleviation strategy for the poorer counties by the provision of better road access; (c) to increase the safety of road transport in Henan; and (d) to improve highway sector institutional capacity in Henan.

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: Construction and Upgrading of Expressways

- (1) Construction of a four-lane expressway of about 136 kilometers (km) between Luoyang and Sanmenxia in Henan, including the supply and installation of electrical, electronic and mechanical equipment for toll collection, telecommunications and lighting facilities and the construction of service areas and management and maintenance buildings.
- (2) Construction of about 17 km of linking roads at interchanges along the Luoyang-Sanmenxia Expressway.
- (3) Construction of a two-lane expressway of about 6 km between Yangjia and Baijiazhai in Henan.
- (4) Provision of equipment for the operation and maintenance of the Luoyang-Sanmenxia Expressway.

Part B: Road Improvement for Poverty Alleviation

Carrying out of sub-projects for the rehabilitation and construction of about 1,700 km of rural road segments under Henan's Road Improvement for Poverty Alleviation Program in order to provide the rural population of poorer counties better access to the main provincial highways.

Part C: Institutional Strengthening and Training

- (1) Institutional development and strengthening of HPCD and affiliated institutions in the areas of highway design, construction supervision, operation and maintenance; project implementation management; traffic engineering and safety; highway planning and financial management, through the provision of training, consultants' services and equipment and the expansion of the physical facilities and functional capabilities of the Henan Scientific Research Institute.
- (2) Carrying out of a study with a view to formulate recommendations for the improvement of the organization, management and maintenance of high-grade highways in Henan.

Part D: Road Safety Program

Implementation of a program for road safety improvement consisting of: (a) improvement of traffic safety coordination among the different responsible institutions, (b) enhancement of capacity to report and analyze traffic accidents, (c) a pilot accident black spot improvement program, and (d) a study on accident contributing factors, through the provision of technical assistance and training, including equipment required therefor.

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
February 15, 2002	4,500,000
August 15, 2002	4,630,000
February 15, 2003	4,765,000
August 15, 2003	4,900,000
February 15, 2004	5,040,000
August 15, 2004	5,185,000
February 15, 2005	5,335,000
August 15, 2005	5,490,000
February 15, 2006	5,650,000
August 15, 2006	5,810,000
February 15, 2007	5,980,000
August 15, 2007	6,150,000
February 15, 2008	6,330,000
August 15, 2008	6,510,000
February 15, 2009	6,695,000
August 15, 2009	6,890,000
February 15, 2010	7,090,000
August 15, 2010	7,295,000
February 15, 2011	7,505,000
August 15, 2011	7,720,000
February 15, 2012	7,940,000
August 15, 2012	8,170,000
February 15, 2013	8,405,000
August 15, 2013	8,645,000
February 15, 2014	8,895,000
August 15, 2014	9,150,000
February 15, 2015	9,415,000
August 15, 2015	9,685,000
February 15, 2016	9,965,000
August 15, 2016	10,260,000

* 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), (3) and (4) 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 \$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 \$12,000,000 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 \$50,000,000.

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 of the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in 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.

