

CONFORMED COPY

LOAN NUMBER 2784 CHA

Loan Agreement

(Shanghai Machine Tool Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 8, 1987

LOAN NUMBER 2784 CHA

LOAN AGREEMENT

AGREEMENT, dated October 8, 1987, between PEOPLE'S REPUBLIC OF CHINA (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called 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) Part A of the Project will be carried out by Shanghai Machine Tool Corporation (hereinafter called SMTC) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to SMTC part of the proceeds of the Loan as hereinafter provided;

(C) Part B of the Project will be carried out by Shanghai Machine Tool Works (hereinafter called SMTW) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to SMTW part of the proceeds of the Loan as hereinafter provided; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to make the Loan available to the Borrower upon the terms and conditions set forth hereinafter and in the Project Agreement of even date herewith between the Bank and the Corporation (as hereinafter defined);

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. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Shanghai" means the Municipality of Shanghai, a political division of the Borrower, or any successor thereto;
- (b) "SMTC" means Shanghai Machine Tool Corporation, a state-owned enterprise of the Borrower established and operating pursuant to its Charter;
- (c) "SMTC Charter" means the Charter of SMTC, dated January 1, 1986;
- (d) "SMTW" means Shanghai Machine Tool Works, a state-owned enterprise of the Borrower established and operating pursuant to its Charter;
- (e) "SMTW Charter" means the Charter of SMTW, dated January 10, 1986;
- (f) "Corporations" means SMTC and SMTW; and Corporation means either SMTC or SMTW, as the context requires;
- (g) "Charters, means SMTC Charter and SMTW Charter;
- (h) "Project Agreement" means the agreement between the Bank and the Corporations of even date herewith, as the same may be amended from time to time, and such term includes all agreements supplemental to the Project Agreement;
- (i) "Subsidiary Loan Agreements" means the agreements to be entered into pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreements;
- (j) "SMTC Project plants" means the plants of SMTC included in the Project, and enumerated in the Annex to Schedule 2 to this Agreement; and
- (k) "Special Account" means the account referred to in Section 2.02. (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to one hundred million dollars (\$100,000,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, 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 shall, for the purposes of the Project, open, through Shanghai, and thereafter maintain, in dollars, a special account in a bank acceptable to the Bank, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1992 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 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 March 15 and September 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, without any limitation or restriction upon any of its obligations under this Agreement, the Borrower shall cause, through Shanghai, each of the Corporations to perform, in accordance with the provisions of the Project Agreement and the Subsidiary Loan Agreements, all the obligations of the Corporations therein set forth, shall take or cause to be taken all action, including the provision of funds (both local and foreign exchange), facilities, services and other resources, necessary or appropriate to enable each of the Corporations to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02 (a) The Borrower shall relend, through Shanghai, out of the proceeds of the Loan, the equivalent of sixty-four million dollars (\$64,000,000) to SMTC, and thirty-six million dollars (\$36,000,000) to SMTW, under Subsidiary Loan Agreements to be entered into between the Borrower and Shanghai, and Shanghai and SMTC and SMTW, under terms and conditions which shall have been approved by the Bank which shall include, inter alia, those specified in paragraph (b) of this Section.

(b) Except as the Bank shall otherwise agree, the onlending terms and conditions for each of the Corporations shall include: (i) interest rate of 8.5% per annum; (ii) commitment charge calculated in accordance with Section 2.04 of this Agreement; (iii) repayment period of 15 years, including a grace period of 5 years; and (iv) each of the Corporations shall bear the foreign exchange risk for its subsidiary loan.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such a manner as to protect 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 Agreements to affect the provisions of paragraph (b) above.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and technology required for the Project and the employment of engineering firms and consultants to assist in carrying out the Project, to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project, shall be carried out by each of the Corporations pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Remedies of the Bank

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) Either of the Corporations 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 either of the Corporations will be able to perform its obligations under the Project Agreement.

(c) Either of the Charters shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of either of the Corporations to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of either of the Corporations or for the suspension of any of its operations.

(e) Any of the parties to the Subsidiary Loan Agreements shall have failed to perform any of its obligations under the Subsidiary Loan Agreements.

Section 4.02. Pursuant to Section 7.01 of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraphs (a) and (e) of Section 4.01 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 and the respective Corporation; and

(b) any event specified in paragraphs (c) and (d) of Section 4.01 of this Agreement shall occur.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 Borrower's State Council has approved the Loan Agreement; and

(b) the Subsidiary Loan Agreements have been executed on behalf of the Borrower, Shanghai and the respective Corporation.

Section 5.02. 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) the Project Agreement has been duly authorized or ratified by, executed and delivered on behalf of each of the Corporations, and is legally binding upon each of the Corporations in accordance with its terms; and

(b) the Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower, Shanghai and the respective Corporation, and are legally binding upon the Borrower, Shanghai and such Corporation in accordance with their terms.

Section 5.03. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. 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 representatives there unto duly authorized, 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

Authorize Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu

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
Part A of the Project		
(1) Equipment, materials and spare parts (excluding proprietary items)	48,200,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost)
(2) Consultants' services for Parts A.1 and A.3 of the Project	3,100,000	100% of foreign expenditures
(3) Licensing and proprietary items	4,100,000	100% of foreign expenditures
(4) Overseas training and visits, and consultants' services for training	3,200,000	100%
(5) Unallocated	5,400,000	
Part B of the Project		
(6) Equipment, materials and spare parts (excluding proprietary items)	26,600,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost)
(7) Consultants' services for Parts B.1 and B.3 of the Project	1,800,000	100% of foreign expenditures
(8) Licensing and proprietary items	4,000,000	100% of foreign expenditures
(9) Overseas training and visits, and	1,300,000	100%

consultants'
services for
training

(10)Unallocated 2,300,000

TOTAL 100,000,000

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$250,000, may be made in respect of Categories (2), (4), (7) and (9) on account of payments made for expenditures before that date but after October 1, 1986.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) rationalization, upgrading and improving the quality of products and increasing the manufacturing efficiency of the Corporations through physical restructuring of SMTW's plant and SMTC's Project plants; (ii) manufacturing of precision machines; (iii) expansion of design and engineering capabilities of SMTC's and SMTW's research institutes; and (iv) improving the Corporations' (including their plants and institutes) management systems.

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 - SMTC:

1. Rehabilitation and modernization of SMTC's Project plants and research institute.
2. Technology transfer for manufacturing new machine tools and other products.
3. Establishment of modern management systems.
4. Overseas and local training.

Part B - SMTW:

1. Rehabilitation and modernization of SMTW's foundry, machine tool and measuring equipment manufacturing shops and research institute.
2. Technology transfer for manufacturing of advanced grinding machines and measuring equipment.
3. Establishment of modern management systems.
4. Overseas and local training.

* * *

The Project is expected to be completed by June 30, 1992.

ANNEX

Except as the Borrower and the Bank shall otherwise agree, SMTC Project plants shall consist of:

Shanghai No. 1 Machine Tool Foundry
Shanghai No. 3 Machine Tool Foundry
Shanghai No. 5 Machine Tool Foundry
Shanghai Machine Tool Forging Plant
Shanghai No. 1 Machine Tool Accessory Factory
Shanghai No. 3 Machine Tool Accessory Factory
Shanghai No. 6 Machine Tool Accessory Factory
Shanghai Machine Tool Gear Manufacturing Plant
Shanghai Level Works
Shanghai Grinding Wheel Manufacturer
Shanghai No. 2 Machine Tool Works
Shanghai No. 3 Machine Tool Works
Shanghai No. 4 Machine Tool Works
Shanghai No. 8 Machine Tool Works
Shanghai Metal-forming Works
Shanghai No. 2 Metal-forming Works

SCHEDULE 3

Amortization Schedule

Date of Payment Due	Payment of Principal (Expressed in dollars)*
On each March 15 and September 15 beginning September 15, 1992 through September 15, 2006	3,335,000
On March 15, 2007	3,285,000

* The figures in this column 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 percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to 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 before maturity	0.30
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 and Technology

Part A: International Competitive Bidding

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. Items or groups of items estimated to cost the equivalent of not more than \$200,000 per contract, up to an aggregate amount not exceeding the equivalent of

\$7,000,000 may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three qualified suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

2. Technology transfer comprising royalty, licensing and associated equipment, including those of a proprietary nature, estimated to cost up to an aggregate amount of \$11,100,000 equivalent shall be procured through limited competition or from a single source, as appropriate, in accordance with procedures acceptable 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: (i) the first 15 contracts to be awarded in accordance with Part A of this Schedule; and (ii) each contract estimated to cost the equivalent of more than \$1,000,000 and to be awarded in accordance with Part A of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply; provided, however, that, where payments for such contract are to be made out of the proceeds of the Special Account, the two conformed copies of the contract required to be furnished to the Bank, pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines, shall be furnished to the Bank prior to the making of the first payment out of the 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; provided, however, that, where payments for such contract are to be made out of the proceeds of the Special Account, the two conformed copies of the contract required to be furnished to the Bank, together with the other information specified therein, shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 (the Special Account Schedule) to this Agreement.

(c) The provisions of the preceding paragraphs (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.

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist in carrying out the Project, the Borrower shall employ engineering firms and consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank.

2. 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

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (6), (7), (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 \$3,000,000 to be withdrawn from the Loan Account and deposited in 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 in 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 directly by the Borrower from the Loan Account in accordance with the provisions of 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 have been or 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 pursuant to paragraph 4 of this Schedule, 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.

