

CONFORMED COPY

LOAN NUMBER 3687 CHA

(Telecommunications Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 25, 1994

LOAN NUMBER 3687 CHA

LOAN AGREEMENT

AGREEMENT, dated April 25, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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;

WHEREAS the Borrower expects to obtain from the Swedish Board for Investments and Technical Support (BITS), a grant in an amount equivalent to one million three hundred thousand dollars (\$1,300,000) to assist in financing Part A of the Project on the terms and conditions to be set forth in an agreement to be entered into between the Borrower and BITS; 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;

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 modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "MOF" means the Borrower's Ministry of Finance and any successor thereto.

(b) "MPT" means the Borrower's Ministry of Posts and Telecommunications and any successor thereto.

(c) "Medium Term Action Program" means the action program to promote reform of the telecommunications sector set out in a letter of September 1993 from the Borrower's Vice Minister of MPT to the Bank.

(d) "Project Administrations" means the Post and Telecommunications Administrations under MPT in the Project Provinces.

(e) "Project Provinces" means the Borrower's provinces of Jiangsu, Heilongjiang and Liaoning.

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, various currencies that shall have an aggregate value equivalent to the amount of two hundred fifty million dollars (\$250,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. 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.

Section 2.03. The Closing Date shall be June 30, 1999 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during 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 determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in 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. (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, shall carry out the Project through MPT and the Project Administrations with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and telecommunications practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out 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 and 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices: (i) the operations, resources and expenditures in respect of the Project of the departments and agencies of the Borrower responsible for carrying out the Project or any part thereof; and (ii) the consolidated financial condition of the telecommunication operating enterprises reporting to the Project Administrations.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(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:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, 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 audit referred to in paragraph (b) of this Section 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

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Loan Agreement has been approved by the Borrower's State Council.

Section 5.02. 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 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 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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Amount of the Loan Allocated (Expressed in Dollar	% of Expenditures to be
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Category	Equivalent)	Financed
(1) Goods	229,400,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(2) Training and consultants' services	300,000	100%
(3) Unallocated	20,300,000	
TOTAL	<u>250,000,000</u>	

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, not exceeding \$1,000,000 equivalent, and training 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 to assist the Borrower: (a) in developing a modern commercial telecommunications sector, through establishment of market-oriented policy, legal and regulatory framework; and (b) in expanding and modernizing the telecommunications infrastructure in areas experiencing rapid market development, through financing of specific investments.

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: TELECOMMUNICATIONS SECTOR REFORM

Supporting the implementation of the Medium Term Action Program, by:

1. developing accounting standards for the telecommunications sector, undertaking pilot application of such standards in two Project Provinces, and developing an implementation plan for national application;
2. undertaking a study of telecommunications tariffs and developing an implementation plan for tariff restructuring;
3. developing the regulatory framework for the sector; and
4. provision of training in respect of the Medium Term Action Program.

PART B: LONG DISTANCE AND LOCAL SWITCHING INVESTMENTS

1. Expanding and improving the long distance fiber optic digital transmission networks in China, by: (a) construction of a fiber optic cable of about 2100 kilometers in North China; and (b) construction of a fiber optic cable of about 4500 kilometers in South China, including construction and equipping of associated facilities.

2. Expanding and improving local exchange switching capabilities under the Project Administrations, by construction and equipping of: (a) about 160,000 lines of digital switching equipment in Heilongjiang Province; (b) about 170,000 lines of digital switching equipment in Liaoning Province; and (c) about 590,000 lines of digital switching equipment in Jiangsu Province, including construction and equipping of associated facilities.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
September 15, 1999	4,675,000
March 15, 2000	4,850,000
September 15, 2000	5,030,000
March 15, 2001	5,215,000
September 15, 2001	5,410,000
March 15, 2002	5,610,000
September 15, 2002	5,815,000
March 15, 2003	6,035,000
September 15, 2003	6,260,000
March 15, 2004	6,490,000
September 15, 2004	6,730,000
March 15, 2005	6,980,000
September 15, 2005	7,240,000
March 15, 2006	7,510,000
September 15, 2006	7,790,000
March 15, 2007	8,080,000
September 15, 2007	8,380,000
March 15, 2008	8,690,000
September 15, 2008	9,010,000
March 15, 2009	9,345,000
September 15, 2009	9,695,000
March 15, 2010	10,055,000
September 15, 2010	10,430,000
March 15, 2011	10,815,000
September 15, 2011	11,215,000
March 15, 2012	11,635,000
September 15, 2012	12,065,000
March 15, 2013	12,515,000
September 15, 2013	12,980,000
March 15, 2014	13,450,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to 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

Part A: International Competitive Bidding

1. 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

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: 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 for goods 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.

(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.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

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

Section II. Consultants' Services

In order to assist in carrying out Part A of the Project, the Borrower shall through MPT 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. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

SCHEDULE 5

Implementation Program

1. Without limitation upon the provisions of Section II of Schedule 4 to this Agreement, the Borrower shall, by June 30, 1994, employ consultants to assist the Borrower in carrying out Parts A.1 and A.2 of the Project.

2. The Borrower shall: (a) undertake and, by June 30, 1995 complete the tariff study under Part A.2 of the Project in accordance with terms of reference agreed with the Bank; and (b) immediately thereafter, prepare and furnish to the Bank an implementation plan for tariff restructuring taking into account the findings of the said study.

3. The Borrower shall: (a) develop accounting standards under Part A.1 of the Project under terms of reference agreed with the Bank; (b) by December 31, 1995, undertake pilot application of said standards in two Project Provinces; and (c) immediately thereafter, prepare and furnish to the Bank an implementation plan for national application of the said accounting standards taking into account the experiences of the pilot applications as aforesaid.

4. The Borrower shall carry out the training under Part A.4 of the Project in a manner satisfactory to the Bank.

5. The Borrower shall monitor various telecommunication performance indicators in the Project Provinces and various other provinces and autonomous regions in accordance with annual targets agreed with the Bank.

6. (a) The Borrower shall ensure that the consolidated financial condition of telecommunication operating enterprises reporting to each of the Project Administrations shall meet the following financial requirements:

(i) Except as the Bank shall otherwise agree, each of the Project Administrations shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1993, funds from internal sources

equivalent to not less than 40% of the annual average of its capital expenditures incurred, or expected to be incurred, for that year, the previous fiscal year and the two next following fiscal years.

(ii) Before May 31 in each of its fiscal years, each of the Project Administrations shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (i) above in respect of such year and the next following fiscal year and shall furnish to the Bank a copy of such review upon its completion.

(iii) If any such review shows that one of the Project Administrations would not meet the requirements set forth in sub-paragraph (i) for its fiscal years covered by such review, it shall promptly take all necessary measures (such as adjustments of the structure or levels of its tariffs) in order to meet such requirements.

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

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to operations, connection fees, surcharges, net non-operating income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) 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.

(iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.

(iv) The term "current assets excluding cash" means all assets other than cash 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.

(v) 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.

(vi) 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.

(vii) The term "capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations.

(viii) Whenever for the purposes of this Section 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 Borrower shall:

(a) by May 31 in each year, commencing May 31, 1994, prepare and furnish to the Bank for review, until completion of the Project, a rolling long-term financial plan of each of the Project Administrations (including projected income statements, sources and uses of funds and balance sheets and the consolidated financial conditions of the telecommunications operating enterprises reporting to the Project Administrations) covering a period of at least five years; and

(b) thereafter, exchange views with the Bank on its financial position.

