

CONFORMED COPY

LOAN NUMBER 4530 CHA

Project Agreement

(Smallholder Cattle Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

ANHUI PROVINCE HEBEI PROVINCE HENAN PROVINCE SHANXI PROVINCE

Dated March 17, 2000

LOAN NUMBER 4530 CHA

PROJECT AGREEMENT

AGREEMENT, dated March 17, 2000 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ANHUI PROVINCE (Anhui), HEBEI PROVINCE (Hebei), HENAN PROVINCE (Henan) and SHANXI PROVINCE (Shanxi) (Anhui, Hebei, Henan and Shanxi hereinafter collectively referred to as the Project Provinces, and individually referred to as a Project Province).

WHEREAS: by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to ninety-three million five hundred thousand Dollars (\$93,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Bank as are set forth in this Agreement;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of the Project

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

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

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Each Project Province shall carry out 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 Agreement.

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

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

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

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

(b) Each Project Province shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by said Project Province of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each Project Province shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the carrying out of its Respective Part of the Project.

(b) Each Project Province shall:

(i) have its 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.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

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

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

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

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable Address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Anhui Province:

Anhui Provincial Finance Bureau
238 Funanxi Road
Hefei, Anhui 230061
People's Republic of China

For Hebei Province:

Hebei Provincial
Finance Department
Zhonghua Street
Shijiazhuang
Hebei Province
People's Republic of China

For Henan Province:

Henan Provincial Finance Department
No. 27 Jingsan Road

Jinshui District
Zhengzhou City 450002
Henan Province
People's Republic of China

For Shanxi Province:

Shanxi Provincial Finance Bureau
No. 345 Yingze Street
Taiyuan 030001
People's Republic of China

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

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

ANHUI PROVINCE
HEBEI PROVINCE HENAN PROVINCE
SHANXI PROVINCE

By /s/ Zhu Guangyao

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Good and Works

Part A: General

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

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods to be procured under contracts

awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. Works

(a) National Competitive Bidding.

Works estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$9,800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Small Works.

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$5,040,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

(c) Force Account.

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$36,020,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

2. Goods

(a) Limited International Bidding.

Equipment which the Bank agrees can only be purchased from a limited number of suppliers and estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

(b) National Competitive Bidding.

Contracts for goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$4,650,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) International Shopping.

Breeding bulls and deep-frozen cattle embryos, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(d) National Shopping.

Goods (including livestock) other than those listed in the foregoing subparagraphs (a) and estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$88,690,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to the following contracts:

(a) contracts for goods estimated to cost \$200,000 or more per contract and contracts for works estimated to cost \$2,000,000 or more per contract, both procured under international competitive bidding procedures in accordance with the provisions of Part B.1 of this Section;

(b) contracts for goods procured under limited international bidding procedures in accordance with the provisions of Part C.2(a) of this Section;

(c) the first three contracts for works procured by each Project Province under national competitive bidding procedures in accordance with the provisions of Part C.1(a) of this Section; and

(d) contracts for works procured under national competitive bidding procedures in accordance with the provisions of Part C.1 of this Section and estimated to cost \$400,000 or more per contract.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the

Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

SCHEDULE 2

Implementation Program

Project Management

1. In order to ensure the proper carrying out of its Respective Part of the Project, each Project Province shall:

(a) establish by September 1, 2000, and thereafter maintain, with terms of reference, membership and other resources acceptable to the Bank, a technical and producer advisory group to be responsible for provision of guidance on technical and commercial aspects of cattle and beef production, and

(b) at all times continue to maintain, with terms of reference, membership (or staffing, as the case may be) and other resources acceptable to the Bank:

(i) a project leading group, headed by a Vice Governor, to be responsible for overall Project coordination and provision of policy guidance on issues arising under its Respective Part of the Project; and

(ii) a project management office to be responsible for the overall management of its Respective Part of the Project, including coordination of procurement where appropriate, and monitoring and evaluation of progress in implementing said Respective Part of the Project.

Project Implementation at Local Levels

2. Each Project Province shall ensure that local governments at all levels within its jurisdiction shall take, or cause to be taken, all actions, including provision of funds, facilities, services and other resources, necessary or appropriate to enable

each Project Province to fully implement its Respective Part of the Project.

Part A of the Project - Cross-breeding Plans

3. (a) Under Part A(1)(c) of the Project, Henan and Shanxi shall each prepare, under guidelines acceptable to the Bank, and furnish to the Bank not later than December 31, 2001, for its review, a program designed to ensure continued upgrading of its indigenous cattle breeds and enhance commercial cattle production, together with a time-bound action plan for the implementation of such program.

(b) Under Part A(1)(d) of the Project, each Project Province shall prepare, under guidelines acceptable to the Bank, and furnish to the Bank not later than December 31, 2001, for its review, a program designed to maximize cattle performance through a comprehensive medium-term cross-breeding strategy, together with a time-bound action plan for the implementation of such program.

(c) Each of the Project Provinces shall afford the Bank a reasonable opportunity to review the program and action plan prepared by said Project Province pursuant to either paragraph 3(a) or paragraph 3(b) or both paragraphs (as the case maybe) of this Schedule; and thereafter, implement said program in accordance with said plan, taking into account the Bank's views on the matter.

Part D of the Project - Forage Enhancement Technologies

4. In order to ensure sustainable production of livestock under the Project, each Project Province shall implement a program of supporting services, acceptable to the Bank, designed to provide the technology and skills necessary to convert crop residues into improved quality feed for its livestock, and with respect to Sub-projects under Part B(1) or B(2) of the Project, the Project Province concerned shall implement said program prior to the procurement of livestock by any household Beneficiary under its Sub-project.

Part D of the Project - Fee for Services

5. Each Project Province declares its commitment to the policy of ensuring full cost recovery of all services provided by its animal husbandry and veterinary stations and artificial insemination stations and facilities under Part D(1)(a) of the Project. To that end, said Project Province shall prepare, through its Animal Husbandry Bureau and in accordance with guidelines acceptable to the Bank a schedule of fees for such services designed to recover the operating cost of said stations' and facilities' breeding and livestock support services, together with a time-bound action plan for the introduction of such fees, and furnish the same to the Bank not later than December 1, 2000, for its review. Thereafter, said Project Province shall: (i) establish and collect such service fees in accordance with such action plan, taking into account the views of the Bank in the matter; and (ii) review said fees in consultation with the Bank at regular intervals not exceeding one year each, and based on such review, adjust them as necessary in order to continue to give effect to the policy referred to above in this paragraph.

Part D of the Project - Training and Research and Development

6. (a) The Project Provinces shall carry out all training and research and development under Part D of the Project in accordance with a program acceptable to the Bank. To that end, each Project Province shall: (i) not later than December 1 in each calendar year, furnish to the Bank an annual action plan for the implementation of the training and research and development program under its Respective Part of the Project during the next following calendar year, prepared in accordance with terms of reference acceptable to the Bank; and (ii) thereafter promptly implement such training and research and development program during said following year as shall have been approved by the Bank.

(b) Further to the foregoing, each Project Province shall carry out a training program acceptable to the Bank designed to ensure that at least 40% of those farmers who receive training each year under Part D(2) of the Project are women.

Resettlement

7. Each Project Province shall carry out its Respective Part of the Project with the objective of avoiding, where feasible, any change in land or water use that would result in the involuntary loss by persons of shelter, of productive assets or access to productive assets, or of income or means of livelihood. To that end, said Project Province shall give due attention to said objective in the review of investment projects within its jurisdiction proposed for inclusion in the Project as Sub-projects. If, during its review of any such Sub-project, said Project Province determines that such change in land or water use would nevertheless be unavoidable, it shall take the following actions, and confirm to the Bank that such actions have been taken, prior to the commencement of said Sub-project:

(a) said Project Province shall prepare a resettlement action plan, on the basis of policies, planning principles, institutional arrangements and design criteria acceptable to the Bank, so as to improve the living standards and production levels of such persons, and furnish such action plan to the Bank for approval; and

(b) said Project Province shall ensure that such resettlement action plan as shall have been approved by the Bank shall be carried out prior to the commencement of such works.

Sub-projects

8. Each Project Province shall:

(a) appraise and monitor Sub-projects in accordance with policies and procedures acceptable to the Bank;

(b) make Sub-loans in accordance with procedures and on terms and conditions acceptable to the Bank, which shall include those set forth in the Annex to this Schedule; and

(c) (i) open, not later than the date on which it shall receive the first repayment under any Sub-loan made by it, and thereafter maintain, a separate account on its books in accordance with guidelines acceptable to the Bank; (ii) credit all amounts paid under the Sub-loans made by it under Part B(1) or B(2) of the Project to such account promptly upon receipt thereof; and (iii) utilize all such amounts not then required by it to pay amounts to the Borrower pursuant to Section 3.01(b) of the Loan Agreement exclusively for the purpose of making additional loans under said Parts of the Project in accordance with guidelines acceptable to the Bank.

Reporting and Monitoring

9. Each Project Province shall carry out the following reporting and monitoring activities in respect of its Respective Part of the Project :

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

(b) Said Project Province shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, the following reports:

(i) semi-annual reports, not later than September 1 and March 1 in each year: (A) integrating the results of the monitoring and evaluation activities, performed pursuant to subparagraph (a) of this paragraph, on the physical and financial progress achieved in the carrying out of its Respective Part of Project during the preceding calendar semester; and (B) setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the then current calendar semester; and

(ii) a mid-term report, not later than December 31, 2002, summarizing the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph on the physical and financial progress achieved in the carrying out of

its Respective Part of the Project to date, and setting forth the measures recommended to ensure the efficient completion out of its Respective Part of the Project and the achievement of the objectives thereof during the period following the date of such report.

(c) After furnishing:

(i) each report referred to in subparagraph (b)(i) of this paragraph, said Project Province shall review said report with the Bank, and promptly take all measures required to ensure the efficient completion of its Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter; and

(ii) the report referred to in subparagraph (b)(ii) of this paragraph, said Project Province shall review said report with the Bank, by March 31, 2003, or such later date as the Bank shall request, and, thereafter, take all measures required to ensure the efficient completion of its Respective Part the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

ANNEX to SCHEDULE 2

Sub-loans

A. Eligibility

Each investment project proposed for inclusion in a Project Province's Respective Part of the Project as a Sub-project shall qualify as a Sub-project eligible for financing out of the proceeds of the Loan only if said Project Province has determined, in accordance with guidelines acceptable to the Bank that the conditions set forth below in this Part A have been met; and, in the case of (1) a Sub-project under Part B(1) or B(2) of the Project (but excluding Sub-projects to be financed by additional loans made pursuant to paragraph 8(c) of Schedule 2 to this Agreement) and (2) a Sub-project under Part B(3), C(1) or C(2) of the Project, the Bank has notified said Project Province of the Bank's approval of said Sub-project.

Beneficiary Eligibility

1. In the case of a Sub-project under Part B(1), B(2) or B(3)(a) of the Project, the Beneficiary is a household which:

(a) is creditworthy; and

(b) and has the technical skills and experience required for the carrying out of the Sub-project for which said Sub-loan is to be made.

2. In the case of a Sub-project under Part B(3)(b), C(1) or C(2) of the Project, the Beneficiary is an enterprise which:

(a) is an entity possessing independent, legal person status, with authority to borrow and carry out said Sub-project and operates commercially with responsibility for its profits and losses;

(b) is creditworthy and has a sound financial structure and has undertaken to finance not less than 30% of the cost of its Sub-project in the form of equity contributions;

(c) has the organization, management, staff and other resources required for the efficient carrying out of its operations, including its respective Sub-project;

(d) has the technical skills and experience required for the carrying out of its respective Sub-project; and

(e) in the case of a Beneficiary proposing to carry out a Sub-project under

Part C(2) of the Project, (i) has developed a suitable marketing plan for its output; and (ii) has taken appropriate steps to establish a beef grading and quality assurance program (including a time-bound action plan for its implementation), designed to ensure that such program is fully operational in all of its processing plants not later than 3 years after the completion of the Sub-project.

Sub-project Eligibility

3. In the case of a Sub-project to be carried out under Part B(1), B(2), B(3), C(1) or C(2) of the Project, said Sub-project:

(a) is technically feasible, and economically, financially and commercially viable;

(b) (i) is in compliance with the Environmental Management and Monitoring Plan, and all laws and regulations of the Borrower relating to health, safety and environmental protection; and (ii) has been prepared in accordance with the recommendations of an environmental impact assessment of the Sub-project that has been (A) approved by the environmental protection bureau responsible for the locality in which said Sub-project is located, and (B) furnished to the Bank;

(c) if, as a result of any works to be carried out under said Sub-project, any persons would suffer the involuntary loss of shelter, productive assets, access to productive assets, income or means of livelihood, a resettlement action plan for all said persons: (i) has been prepared in accordance with the provisions of paragraph 7(a) of Schedule 2 to this Agreement; and (ii) has been furnished to, and approved by, the Bank;

(d) in the case of a Sub-project to be carried out under Part B(1), B(2) or B(3) of the Project, is in compliance with livestock production guidelines acceptable to the Bank; and

(e) in the case of a Sub-project to upgrade or expand feedlots under Part B(3) of the Project, all feedlots to be so upgraded or expanded shall have a holding capacity not to exceed 500 head of cattle per production cycle.

Terms and Conditions of Sub-loans

Terms of Sub-loans

1. Each Sub-loan shall be denominated in Renminbi (RMB Sub-loan), except for a Sub-loan for a Sub-project under Part C(2) of the Project which may be denominated either in Dollars (USD Sub-loan) or in Renminbi (RMB Sub-loan), and shall be made by the Project Province in which the Sub-project is located on the following principal terms:

(a) The principal amount of each USD Sub-loan made to a Beneficiary for a Sub-project shall be equal to 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 such Sub-project and to be financed out of the proceeds of the Loan. Said Beneficiary shall: repay such principal amount in USD over a period not exceeding: (i) ten (10) years, inclusive of a grace period of three (3) years, where said Beneficiary is an existing commercial enterprise; and (ii) over a period not exceeding fifteen (15) years, inclusive of a grace period of five (5) years, where said Beneficiary is a newly-established commercial enterprise, and shall be charged interest on such principal amount withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.06 of the Loan Agreement.

(b) The principal amount of each RMB Sub-loan made to a Beneficiary for a Sub-project shall be the equivalent in terms of RMB (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account (as the case may be)) of the amount so withdrawn or paid out on account of the cost of goods, works and services required for such Sub-project and to be financed out of the proceeds of the Loan. Said Beneficiary: (i) shall be charged interest on such principal amount withdrawn and outstanding from time to time at a rate not less than the then prevailing rate charged by the Agricultural Bank of China for similar

investments; and (ii) shall repay such principal amount in Renminbi over such period as shall be consistent with the then prevailing terms made by the Agricultural Bank of China for similar investments.

Conditions of Sub-loans

2. Each Sub-loan shall be made on conditions whereby the Beneficiary thereof shall undertake to perform the following obligations:

(a) Said Beneficiary shall: (i) carry out its operations, including its Sub-project, with due diligence and efficiency, in accordance with sound technical, financial and managerial practices, and consistent with health, safety, livestock development and environmental practices acceptable to the Bank, and provide promptly as needed the funds and other resources required for the purpose, and maintain adequate records and accounts; and (ii) in the case of a Beneficiary of a Sub-loan under Part B(1) or B(2) of the Project for cattle breeding or fattening, undertake to participate in the program of forage enhancement referred to in paragraph 4 of Schedule 2 to this Agreement in accordance with the provisions of such paragraph.

(b) If, as a result of any works to be carried out under its Sub-project, any persons would suffer the involuntary loss of shelter, productive assets, access to productive assets, income or means of livelihood, said Beneficiary shall take and cause to be taken all measures necessary to ensure that the living standards and productive capacity of all such persons shall be increased in accordance with the resettlement plan referred to above in Part A.3(c) of this Annex.

(c) Said Beneficiary shall procure the goods and services required for its Sub-project (directly or through said Project Province) in accordance with the provisions of Schedule 1 to this Agreement, and utilize said goods and services exclusively in the carrying out of its Sub-project.

(d) Said Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover the hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be payable in a currency freely usable by the enterprise to replace or repair such goods.

(e) Said Beneficiary shall enable the Bank to inspect the goods and the sites and works included in its respective Sub-project, the operation thereof and any relevant records and documents.

(f) Said Beneficiary shall at all times maintain and operate its equipment and facilities, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and industry practices.

(g) Said Beneficiary shall furnish to the Bank all such information as the Bank may reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from its Sub-project.

(h) Each Beneficiary of a Sub-project under Part C(2) of the Project shall carry out the beef grading and quality assurance program referred to in Part A.2(e) of this Annex in accordance with the action plan referred to in such paragraph.

3. Each Project Province shall exercise its rights in relation to each Sub-project for which it shall have made a Sub-loan in such manner as to protect its interests and the interests of the Bank, to comply with its obligations under this Agreement and achieve the objectives of the Project.

