

CONFORMED COPY

LOAN NUMBER 4561 CHA

Loan Agreement

(Chongqing Urban Environment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 3, 2000

LOAN NUMBER 4561 CHA

LOAN AGREEMENT

AGREEMENT, dated November 3, 2000, 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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Chongqing (as defined in Section 1.02(c)) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Chongqing, as set forth 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 Chongqing (the Project 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 for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through October 6, 1999 (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Affected Persons" means persons who, on account of any change in land or water use due to works carried out or to be carried out under the Project, would incur the involuntary loss, temporarily or permanently, of shelter, productive assets or access to productive assets, or of income or means of livelihood and, as a consequence, have their living standards or production levels adversely affected; and "Affected Person" means any of the Affected Persons.

(b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) "Chongqing" means the Borrower's Municipality of Chongqing, and any successor thereto.

(d) "CMDC" means Chongqing Municipal Drainage Corporation, Ltd., a state-owned limited liability company established and operating pursuant to its Charter of April 1999 and to Business License No. 5000001800628, dated January 15, 1998, issued by Chongqing Industrial and Commercial Management Bureau, and any successor thereto.

(e) "Chongqing Solid Waste RAP" means the 'Resettlement Action Plan for Chongqing Municipal Solid Waste Component' dated March 2000, which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A(2) of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time in agreement with the Bank.

(f) "CSWM" means Chongqing Solid Waste Management Limited Co., a state-owned limited liability company established and operating pursuant to its Charter of December 12, 1997 and to Business License No. 28488879, dated December 18, 1997, issued by Chongqing Industrial and Commercial Management Bureau, and any successor thereto.

(g) "Chongqing Wastewater RAP" means the 'Resettlement Action Plan for Chongqing Wastewater Component' dated March 2000, which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Parts A(1)(a) and A(1)(b) of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time in agreement with the Bank.

(h) "Environmental Assessment" means the Chongqing Urban Environment Project Environmental Assessment Final Report, dated August 1999, covering Part A of the Project and includes environmental

mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures.

(i) "Fuling" means the city of Fuling in the Borrower's Municipality of Chongqing.

(j) "FDC" means Fuling Drainage Company Ltd., a state-owned limited liability company established and operating pursuant to its Charter of August 27, 1998, and to Business License No. 20851040-5(1-1) dated September 30, 1998, issued by Chongqing Industrial and Commercial Administration Bureau, and any successor thereto.

(k) "Fuling Wastewater RAP" means the 'Resettlement Action Plan for Fuling Wastewater Component' dated March 2000, which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A(3) of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time in agreement with the Bank.

(l) "Industrial Pollution Control Action Plan" means the action plan dated April 2000 setting forth activities to be carried out by Chongqing to control and minimize industrial pollution in the Jialing River Basin in order for surface waters of Chongqing to meet the water quality class-III standard stipulated in the Borrower's "Surface Water Environmental Quality Standard" (GB3838-88).

(m) "Nanbin" means the town of Nanbin located in Shizhu county, in the Borrower's municipality of Chongqing.

(n) "PMO" means the project management office maintained pursuant to the provisions of paragraph 1(a) of Schedule 2 to the Project Agreement.

(o) "Project Agreement" means the agreement between the Bank and Chongqing 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.

(p) "Project Participants" means: (i) collectively, Fuling, Shizhu and Wanzhou; and "Project Participant" means, individually, any of the Project Participants; and (ii) for purposes of Schedule 3 to the Project Agreement, collectively, Chongqing, Fuling, Shizhu and Wanzhou; and "Project Participant" means, individually, any of the Project Participants.

(q) "Resettlement Action Plans" means, collectively, the Chongqing Solid Waste RAP, Chongqing Wastewater RAP, Fuling Wastewater RAP, Shizhu Water Supply RAP and Wanzhou Water Supply RAP.

(r) "Respective RAP" means:

(i) for CMDC: Chongqing Wastewater RAP;

(ii) for CSWM: Chongqing Solid Waste RAP;

(iii) for FDC: Fuling Wastewater RAP;

(iv) for SWSDC: Shizhu Water Supply RAP; and

(v) for WWSC: Wanzhou Water Supply RAP.

(s) "SWSDC" means Shizhu Urban Construction (Group) Water Supply and Drainage Limited Company, a state-owned limited liability company established and operating pursuant to its Charter of December 14, 1998, which was approved on December 24, 1998, by Shizhu Construction Commission; and to Business License No. 21395127-2 dated March 8, 1999, issued by Shizhu Industrial and Commercial Administration Bureau, and any successor thereto.

(t) "Shizhu Water Supply RAP" means the 'Resettlement Action Plan for Shizhu Water Supply Component' dated March 2000, which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A(5) of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time in agreement with the Bank.

(u) "Special Account" means the account referred to in Section 2.02(b) of this Agreement.

(v) "Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between each of Chongqing, Fuling, Shizhu and Wanzhou and its respective Utility Company pursuant to paragraph 6 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes schedules to said agreements; and "Subsidiary Loan Agreement" means, individually, any of the Subsidiary Loan Agreements.

(w) "Utility Company" means in respect of:

(i) Chongqing: CMDC and CSWM;

(ii) Fuling: FDC;

(iii) Shizhu: SWSDC; and

(iv) Wanzhou: WWSC,

collectively, referred to as "Utility Companies."

(x) "Utility Company's Respective Part of the Project" means:

(i) for CMDC: Parts A(1)(a), A(1)(b), E and F of the Project;

(ii) for CSWM: Parts A(2), E and F of the Project;

(iii) for FDC: Parts A(3), E and F of the Project;

(iv) for SWSDC: Parts A(5), E and F of the Project; and

(v) for WWSC: Part A(4) and F of the Project.

(y) "Wanzhou" means the city of Wanzhou in the Borrower's Municipality of Chongqing.

(z) "WWSC" means Wanzhou Water Supply Company, a state-owned enterprise established and operating pursuant to its Charter of June 8,

1961, and to Business License No. 20790, dated October 12, 1999, issued by Wanzhou Industrial and Commercial Administration Bureau, and any successor thereto.

(aa) "Wanzhou Water Supply RAP" means the 'Resettlement Action Plan for Wanzhou Water Supply Component' dated March 2000, which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A(4) of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time in agreement with the Bank.

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 million Dollars (\$200,000,000).

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 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 and 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, 2006, 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 2.07 of this

Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollar 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) three-fourths of one percent (3/4 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 2.06, 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 new 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 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. 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 this Agreement, shall cause Chongqing to perform in accordance with the provisions of the Project Agreement all the obligations of Chongqing therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Chongqing 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 Chongqing on the following principal terms:

(i) The principal amount so made available shall be the amount in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn.

(ii) The Borrower shall recover: (A) the principal amount so made available; and (B) an amount equal to one percent (1%) of the Loan from Chongqing over a period of twenty (20) years, inclusive of a grace period of five (5) years.

(iii) The Borrower shall charge 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 the provisions of Section 2.06 of this Agreement.

(iv) The Borrower shall charge a commitment fee on such principal amount of the Loan 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 Chongqing pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial 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) 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 or payment out of the Special 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 of expenditures 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.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a)(i) of this Section, including 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(p) of the General Conditions, the following additional events are specified:

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

(c) Any of the parties to any of the Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in paragraph (a) or (c) 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 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, the Subsidiary

Loan Agreements have been executed on behalf of Chongqing, Fuling and Shizhu and each of their respective Utility Companies.

Section 6.02. The following events are specified as additional matters, within the meaning of Section 12.02 (b) 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 Chongqing and is legally binding upon Chongqing in accordance with its terms.

(b) Each of the Subsidiary Loan Agreements referred to in Section 6.01 has been duly authorized or ratified by each of the parties thereto and is legally binding on said parties in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

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:	Telex:	Facsimile:
FINANMIN Beijing	22486 MFPRC CN	68551125

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD 477-6391 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202)

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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Guangyao

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

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 Dollars)	% of Expenditures to be Financed
(1) Works under Part A of the Project by:		
(a) CMDC	66,500,000	36%
(b) CSWM	5,700,000	36%
(c) FDC	5,400,000	36%
(d) WWSC	4,000,000	36%
(e) SWSDC	1,800,000	36%
(2) Other works	1,600,000	36%
(3) Goods under Part A(4) expenditures, of the Project for expenditures WWSC and 75% of for other locally	3,000,000	100% of foreign 100% of local (ex-factory cost) local expenditures items procured
(4) Other goods expenditures, expenditures and 75% of for other	80,000,000	100% of foreign 100% of local (ex-factory cost) local expenditures

			items procured
locally			
(5)	Consultants' services and training under Part E of the Project for WWSC	500,000	100%
(6)	Other consultants' services and training	19,500,000	100%
(7)	Fee	2,000,000	Amount due under Section 2.04 of the Loan Agreement
(8)	Unallocated	10,000,000	
	TOTAL	200,000,000	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be "foreign expenditures; and

(b) the term "local expenditures" means any expenditures that are not foreign expenditures.

3. Notwithstanding the provisions of paragraph 1 above:

(a) no withdrawals shall be made in respect of payments made for expenditures under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$5,000,000 for expenditures by CMDC under Part A(1) of the Project, FDC under Part A(3) of the Project and Chongqing under Part E of the Project may be made in respect of Categories (1)(a), (1)(c), (2) and (6) on account of payments made for expenditures before that date but after January 1, 2000;

(b) no withdrawals shall be made in respect of payments made for expenditures by each Utility Company under Categories 1(a), 1(b), 1(c), 1(d) and 1(e) until such Utility Company shall have entered into agreements, acceptable to the Bank, in accordance with Section II of Schedule 1 to the Project Agreement, with consultancy firms for the provision of training, institutional and financial technical assistance services and construction supervision services under Part E of the Project; and

(c) with respect to WWSC, no withdrawals shall be made in respect of payments made for expenditures by WWSC under Categories 1(d), (3) and (5) until the Bank shall have notified the Borrower of its receipt of evidence satisfactory to it that a Subsidiary Loan Agreement has been entered into between Wanzhou and WWSC and that said Subsidiary Loan Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon Wanzhou and WWSC in accordance with its terms.

4. The Bank may require withdrawals from the Loan Account to be made

on the basis of statements of expenditure for expenditures for:

(a) works under contracts costing less than \$6,000,000 equivalent each;

(b) goods under contracts costing less than \$500,000 equivalent each;

(c) consultants' services under contracts with firms or individuals, each costing less than \$100,000 equivalent or \$50,000 equivalent respectively; and

(d) training, regardless of the cost thereof,

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

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Chongqing in the first phase of its long term environmental improvement program to: (a) improve urban environmental services with a view to reducing environmental degradation of its water and land resources; (b) provide an adequate supply of safe water to its growing urban population and economy; (c) maintain water quality at levels which are compatible with the needs of the wider Yangtze River basin; and (d) manage and conserve its historical sites.

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: Urban Infrastructure

Improve the quality of the water supply through the management of wastewater and solid waste disposals and treatment of water supplied as set out below.

(1) Chongqing wastewater management

Carry out in selected areas in Chongqing:

(a) Rehabilitation and construction of about 50 kilometers (km) of a wastewater collection network;

(b) Construction of: (i) about 70 km of primary interceptors, including about 7 km of tunnels and a siphon under the Changjiang River; and (ii) two preliminary wastewater treatment facilities (a facility at Tangjiatuo with a final capacity 400,000 cubic meter per day (m³/d) and another facility at Jiguanshi with a final capacity of 1,650,000 m³/d) and ancillary outfalls; and

(c) A program of actions to reduce primary industrial pollution, including monitoring of industrial pollutant discharges, enforcement of standards applicable to such discharges and development of a sustainable industrial pollution control strategy, all designed to ensure that

surface waters meet the water quality class-III standard.

(2) Chongqing Solid Waste Management.

Expansion and improvement of solid waste management service in selected areas in Chongqing through: (a) provision of waste collection vehicles; (b) construction, as appropriate, of capping, gas ventilation and leachate control facilities for the phasing out of existing dump sites in Qinongchun, Xinlong, Renjinwan and Jigongtai; (c) construction of a new sanitary landfill with a 1,500 tons per day capacity at Chanshenqiao and provision of training for the operation and management of said landfill; and (d) provision of landfill operating equipment.

(3) Fuling Wastewater Management

Construction in Fuling of: (a) a system of interceptors, including about 5 km of primary interceptors and an inverted siphon; and (b) a preliminary treatment facility and an ancillary outfall.

(4) Wanzhou Water Supply

Carry out in Wanzhou City:

(a) Construction of: (i) a raw water treatment facility at Tongziyuan, with an initial capacity of 50,000 m³/d, including an intake with a capacity of 125,000 m³/d and water pumping stations; and (ii) an intake with a capacity of 100,000 m³/d to supply raw water to the existing No. 1 and No. 3 Water Treatment Facilities;

(b) Expansion in the capacity of No. 3 Water Facility to increase the volume of water treated from 40,000 m³/d to 100,000 m³/d;

(c) Rehabilitation and expansion of the treated water distribution network, including installation of booster pumps and construction of associate reservoirs; and

(d) Construction of a wastewater interceptor culvert and an outfall to prevent pollution of the raw water supply to intakes.

(5) Nanbin Water Supply

Carry out the following in Nanbin City, Shizhu County:

(a) Construction of a water intake with a capacity of 30,000 m³/d, a water treatment facility with an initial capacity of 18,000 m³/d and transmission lines to transport treated water from said treatment facility to the existing treated water distribution network; and

(b) Rehabilitation and expansion of the existing treated water distribution network.

Part B: Water Quality Monitoring

Improving water quality monitoring through: (a) establishment of a water quality monitoring station; (b) provision of equipment to facilitate water quality monitoring; and (c) training of staff on the use of such equipment and improved monitoring techniques.

Part C: Urban Management Information Systems

Improve the management of urban construction and development through:

(1) Establishment of a city-wide geographic information systems (GIS) focusing on the Chongqing main urban area by providing consultants' services, training and equipment to develop: (a) a base mapping information system; (b) a wastewater information system; and (c) a solid waste information system; and

(2) Strengthening of the Urban Management Information System Center by providing consultants' services, training and equipment to: (a) develop technical leadership and guidelines for data management, exchange and coordination among the urban development and environment bureaus within the Chongqing municipal government; and (b) develop and implement decision support systems for the Chongqing Construction Commission.

Part D: Environmental Rehabilitation

Improve cultural heritage site management and conservation through: (a) reconstruction, restoration and upgrading, on a pilot basis, of cultural monuments selected from Chongqing's Cultural Heritage Strategic Master Plan; (b) provision of training and equipment; and (c) campaigns to promote heritage conservation awareness.

Part E. Institutional Strengthening, Training and Construction Supervision

Strengthening the institutional capacity of municipal and city level agencies and of Utility Companies in: (1) project preparation, management, financial management, sewer mapping and updating, sector training in water sector and utility operations, river basin environmental management and information dissemination to the public; and (2) construction management and supervision, all through the provision of equipment, consultants' services and training.

Part F. Resettlement

Resettlement and rehabilitation of Affected Persons in connection with the carrying out of Part A of the Project.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
February 15, 2006	3,985,000
August 15, 2006	4,115,000
February 15, 2007	4,255,000
August 15, 2007	4,395,000
February 15, 2008	4,540,000
August 15, 2008	4,695,000
February 15, 2009	4,850,000
August 15, 2009	5,010,000
February 15, 2010	5,175,000

August 15, 2010	5,350,000
February 15, 2011	5,530,000
August 15, 2011	5,710,000
February 15, 2012	5,900,000
August 15, 2012	6,100,000
February 15, 2013	6,300,000
August 15, 2013	6,510,000
February 15, 2014	6,730,000
August 15, 2014	6,955,000
February 15, 2015	7,185,000
August 15, 2015	7,425,000
February 15, 2016	7,670,000
August 15, 2016	7,925,000
February 15, 2017	8,190,000
August 15, 2017	8,465,000
February 15, 2018	8,745,000
August 15, 2018	9,035,000
February 15, 2019	9,335,000
August 15, 2019	9,650,000
February 15, 2020	9,970,000
August 15, 2020	10,300,000

* 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), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$12,000,000 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 \$8,000,000 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 \$75,000,000.

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 para-graph 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, 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 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 [respective] 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.

