

CONFORMED COPY

CREDIT NUMBER 2457-CHA

CWSC and CSC
Project Agreement

(Changchun Water Supply and Environmental Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CHANGCHUN WATER SUPPLY COMPANY

and

CHANGCHUN SEWERAGE COMPANY

Dated March 18, 1993

CREDIT NUMBER 2457-CHA

CWSC and CSC
PROJECT AGREEMENT

AGREEMENT, dated March 18, 1993, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and CHANGCHUN WATER SUPPLY COMPANY (CWSC) and CHANGCHUN SEWERAGE COMPANY (CSC).

WHEREAS by the Development Credit Agreement of even date herewith between People's Republic of China (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eighty-six million six hundred thousand Special Drawing Rights (SDR 86,600,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that CWSC and CSC (the Companies) agree to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS the Companies, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has 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 Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. Each Company declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and to this end, CWSC shall carry out Parts A, D.1(a) and (b), and E of the Project, and CSC shall carry out Parts B, D.1(c) and (d) of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for each Company to carry out its respective Parts of the Project.

Section 2.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 1 to the Changchun Project Agreement.

Section 2.03. Each Company shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Parts of the Project each Company shall carry out.

Section 2.04. Each Company shall duly perform all its obligations under its respective Subsidiary Loan Agreement. Except as the Association shall otherwise agree, each Company shall not amend, abrogate, assign or waive its respective Subsidiary Loan Agreement, or any provision thereof.

Section 2.05. (a) Each Company shall, at the request of the Association, exchange views with the Association with regard to the progress of carrying out the Parts of the Project for which each Company is responsible, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) Each Company shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of carrying out its respective Parts of the Project, the accomplishment of the purposes of the Credit, or the performance by each such Company of its obligations under this Agreement.

Section 2.06. Each Company shall acquire the land required for carrying out its respective Parts of the Project on a timely basis.

Section 2.07. (a) Each Company shall assist Changchun in the carrying out of Part E of the Project, the resettlement of persons affected by the construction of civil works under its respective Parts of the Project.

(b) Each Company shall carry out or cause to be carried out, all measures, necessary or appropriate, to mitigate any negative environmental impact related to construction of civil works under its respective Parts of the Project, as set forth in the Environmental Impact Assessment Report for the Changchun Water Supply and Environmental Project.

Section 2.08. (a) CWSC shall enter into and duly perform all its obligations under the Changchun Water Supply Contract.

(b) CWSC shall enter into a contract with Jilin ("Jilin Water Supply Contract"), under terms and conditions satisfactory to the Association, which shall include, without limitation, the following provisions:

(i) Jilin shall ensure that water is made available from the

Xinlicheng Reservoir to CWSC at appropriate prices and in adequate quantities sufficient to meet the household and industrial water requirements of Changchun; and

(ii) Jilin shall cause the Xinlicheng Reservoir dam and related structures to be periodically inspected in accordance with sound engineering practices in order to determine whether there are any deficiencies in the condition of such structures, or in the quality and adequacy of maintenance or methods of operations of the same, which may endanger their safety. To this end, Jilin shall, by December 31, 1993, provide to the Association for its review, appropriate arrangements for inspection, maintenance and operation.

(c) CWSC shall exercise its rights under each of the Water Supply Contracts in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association may otherwise agree, CWSC shall not assign, amend, abrogate or waive the Water Supply Contracts or any provision thereof.

Section 2.09. (a) In the event that CWSC shall enter into a contract with CWRC ("CWRC O & M Contract) for purposes of operating and maintaining the completed civil works under Part A.1 of the Project, the terms and conditions of such Contract shall be satisfactory to the Association.

(b) CWSC shall exercise its rights under the CWRC O & M Contract in such manner as to protect the interests of the Borrower and the Association and accomplish the purposes of the Credit, and except as the Association may otherwise agree, CWSC shall not assign, amend, abrogate or waive the CWRC O & M Contract or any provision thereof.

ARTICLE III

Management and Operations of the Companies

Section 3.01. Each Company shall carry on its operations and conduct its affairs in accordance with its Charter and sound administrative, financial, industry, and environmental practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. Each Company shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, industry, and environmental practices.

Section 3.03. Each Company shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. (a) Each Company shall, by December 31, 1993, hire consultants, under terms of reference satisfactory to the Association, to assist in improving its management and operations.

(b) Each Company shall, by December 31, 1994, provide the Association with an action plan, acceptable to the Association, including a time schedule for taking action to improve its management and operations.

(c) Each Company shall thereafter implement its action plan in accordance with its terms.

(d) Without limitation to the reporting requirements of the General Conditions in this Agreement, each Company shall submit to the Association, semiannual reports, in such detail and scope as shall be acceptable to the Association, on the progress achieved in carrying out its action plan.

Section 3.05. Each Company shall implement, by December 31, 1994, (i) a program to computerize planning, billing and collecting water charges in the case of CWSC, and sewerage fees in the case of CSC, and to forecast demands, resources and revenues, and (ii) a management information system, with monthly information on water demand, revenues and costs.

ARTICLE IV

Financial Covenants

Section 4.01. Each Company shall (a) maintain records and accounts adequate to reflect in accordance with sound accounting practices, its operations and financial condition.

(b) (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall reasonably request from time to time.

Section 4.02. Each Company and the Association shall, from time to time, at the request of either party, exchange views with regard to the water and sewer services pricing policies, and its plans in respect of the overall development of the water supply and sewer services sectors.

Section 4.03. (a) Each Company shall extend billing and collection of water charges in the case of CWSC, and sewerage fees in the case of CSC, to all household and industrial users in accordance with the applicable water supply or sewerage tariff.

(b) CWSC agrees that it shall bill and collect water charges, combined with sewerage fees on behalf of CSC, in a single, unified billing of household and industrial users.

Section 4.04. (a) Except as the Association shall otherwise agree, each Company shall produce for each of its fiscal years after its fiscal year ending in 1993, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) an amount for debt service requirements or provision for depreciation, whichever is higher.

(b) Before September 1 in each of its fiscal years, each Company shall, on the basis of forecasts prepared by such Company and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that such Company would not meet the requirements set forth in paragraph (a) for the Company's fiscal years covered by such review, the Company shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For purposes of this Section:

- (i) the terms "total revenues" means the sum of total operating revenues and net non-operating income;
- (ii) the term "total operating revenues" means revenues from all sources related to operations;
- (iii) 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;
- (iv) the term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes;
- (v) the term "provision for depreciation" means depreciation calculated on a basis acceptable to the Association, and shall exclude interest and other charges on debt;
- (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; and
- (vii) 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 Association.

Section 4.05. Without limitation to the provisions of Section 4.04 above, CWSC shall, by January 1, 1993, increase the water supply tariff for household users by 20 fen per 1,000 liters consumed, and for industrial users by 30 fen per 1,000 liters consumed.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of each Company thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify each Company of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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 Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

For CWSC:

Changchun Water Supply Company
53 Dajing Road
Changchun, Jilin Province
People's Republic of China

Telex:

83109 JLF BCN

For CSC:

Changchun Sewerage Company
46 Pingzhi Street
Changchun, Jilin Province
People's Republic of China

Telex:

83109 JLF BCN

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of each Company may be taken or executed by the Director of such Company or such other person or persons as the Director shall designate in writing, and each Company shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji

Regional Vice President
East Asia and Pacific

CHANGCHUN WATER SUPPLY COMPANY
CHANGCHUN SEWERAGE COMPANY

By /s/ Zhao Xixin

Authorized Representative

