

CONFIRMED COPY

CREDIT NUMBER 3251 CHA
LOAN NUMBER 4496 CHA

Project Agreement

(Sichuan Urban Environment Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

SICHUAN PROVINCE

Dated January 9, 2001

CREDIT NUMBER 3251 CHA
LOAN NUMBER 4496 CHA

PROJECT AGREEMENT

AGREEMENT, dated January 9, 2001, among the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and Sichuan Province (Sichuan).

WHEREAS (A) 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 lend to the Borrower an amount in various currencies equivalent to one million five hundred thousand Special Drawing Rights (SDR 1,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Sichuan agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by the Loan Agreement of even date herewith between the Borrower and the Bank, the Bank has agreed to make available to the Borrower an amount equal to one hundred million Dollars (\$100,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Sichuan agrees to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Sichuan, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, and the Bank's entering into the Loan 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, the Loan Agreement and the General Conditions (as so defined in the Development Credit Agreement and the Loan Agreement, respectively) have the respective meanings therein set forth, and, wherever used in this Agreement (except in Section 5.03, paragraph 5 of Schedule 2 to this Agreement and Part A.2 of Section I and Section II of Schedule 1 to this Agreement), reference to the Association, the Credit or the Credit Account shall also be deemed as reference to the Bank, the Loan and the Loan Account, respectively.

ARTICLE II

Execution of the Project;

Section 2.01. (a) Sichuan declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall:

(i) cause Chengdu to carry out Parts A(1) and F of the Project, of which Part A(1) shall be carried out through Chengdu Drainage Company;

(ii) cause Leshan to carry out Parts A(2), A(3), A(4) and F of the Project, of which Part A(2) shall be carried out through Leshan Water Supply Company, Part A(3) shall be carried out through Leshan Wastewater Treatment Company and Part A(4) shall be carried out through Leshan Environmental Sanitation and Management Bureau;

(iii) cause Deyang to carry out Parts B(1) and F of the Project, of which Part B(1) shall be carried out through Deyang Sewage Treatment Corporation;

(iv) cause Luzhou to carry out Parts B(2) and F of the Project, of which Part B(2) shall be carried out through Luzhou Water Supply Company;

(v) carry out Part C(1) of the Project;

(vi) cause Deyang and Luzhou to carry out Part C(2) of the Project;

(vii) cause Leshan and Luzhou to carry out Part C(3) of the Project;

(viii) cause Leshan and Luzhou to carry out Part C(4) of the Project;

(ix) cause Leshan to carry out Part D(1) of the Project;

(x) cause Guanghan to carry out Part D(2) of the Project;

(xi) carry out Part D(3) of the Project; and

(xii) carry out, and cause the Project Municipalities (excluding Guanghan) and their respective Utility Companies to carry out, Part E of the Project,

all 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 the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and Sichuan shall otherwise agree, Sichuan shall carry out the Project, or carry out the Project through the Project Municipalities, in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

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 this Agreement.

Section 2.03. (a) Sichuan 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 referred to in Section 1.01 of the Development Credit Agreement and Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions referred to in Section 1.01 of the Loan Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions referred to in Section 1.01 of the Development Credit Agreement and Section 9.08 of the General Conditions referred to in Section 1.01 of the Loan Agreement, and without limitation thereto, Sichuan shall:

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

(ii) afford the Association a reasonable opportunity to exchange views with Sichuan on said plan.

Section 2.04. (a) Sichuan shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) Sichuan shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by Sichuan of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Sichuan shall maintain, or maintain through the Project Municipalities, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of Sichuan responsible for carrying out the

Project or any part thereof.

(b) Sichuan shall, or shall through the Project Municipalities:

(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 Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) 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 Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof, as the Association 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 both the Development Credit Agreement and the Loan Agreement become effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of Sichuan thereunder shall terminate on the earlier of the following two dates:

(i) the date on which both the Development Credit Agreement and the Loan Agreement shall terminate; or

(ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement or the Loan Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify Sichuan of this event.

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 referred to in Section 1.01 of the Development Credit Agreement, or under the General Conditions referred to in Section 1.01 of the Loan Agreement.

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 addresses 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Sichuan:

Sichuan Provincial People's Government
37 Nan Xin Street
Chengdu 610016
Sichuan Province
People's Republic of China

Cable address:

2639, Chengdu

Telex:

60108 SCFAO CN

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of Sichuan may be taken or executed by its Governor or Vice-Governor, or by such other person or persons as Sichuan shall designate in writing, and Sichuan shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. As long as the Bank has not given notice to the contrary to Sichuan and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of Sichuan to consult with, and to furnish information, documents, plans, reports, records and statements to, the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to, Sichuan shall be satisfied to the extent such obligations are fulfilled by the Association; and

(c) all actions taken (including the giving of approvals or granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Loan Agreement, and in the name and on behalf of both the Association and the Bank.

Section 5.04. 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 DEVELOPMENT ASSOCIATION
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

SICHUAN PROVINCE

By /s/ Zhu Guangyao

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) 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, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. For the purposes of the procurement of goods or works to be financed in whole or in part out of the proceeds of the Credit, the references in paragraphs 1.6 and 1.8 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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 and works 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 works and goods shall be grouped in bid packages, each estimated to cost \$6,000,000 equivalent or more and \$400,000 equivalent or more respectively.

(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 or the Macau Administrative Region of the Borrower).

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$6,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$6,000,000 equivalent per contract, up to an aggregate amount not to exceed \$39,300,000 equivalent; and (b) goods estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$2,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,100,000 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 Association 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 Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for: (i) works estimated to cost the equivalent of \$6,000,000 or more; and (ii) goods estimated to cost the equivalent of \$400,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

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

1. Consultants' services shall be procured in accordance with: (a) 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, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provision of the following Parts of this Section II.

2. For the purposes of the procurement of consultants' services to be financed in whole or in part out of the proceeds of the Credit, the references in paragraphs 1.6 and 1.8 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. 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.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Parts C and D of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for under Parts C and D of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Least-cost Selection

Services under Part C of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines and which are estimated to cost less than \$50,000 equivalent per contract may 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 Association 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 Association 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 Association, 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 \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (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 consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines

shall apply.

(c) 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 Association 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

For the purposes of Section 2.01(b) of this Agreement, the Implementation Program shall consist of the provisions set forth or referred to below.

Project Management

1. In order to ensure the proper carrying out of the Project, Sichuan shall:

(a) continue to maintain:

(i) a project management office (the Project Management Office, also referred to as 'PMO'), with functions satisfactory to the Association, staffed by qualified personnel in adequate numbers, to be responsible for: the overall coordination, management, supervision and quality assurance of Project execution; the supervision of the procurement of goods and services thereunder; the preparation and furnishing to the Association of reports and other information thereon; and annual budget preparation for the Project; and

(ii) an urban management information systems center (also referred to as 'UMIS'), with functions satisfactory to the Association, staffed by qualified personnel in adequate numbers, to be responsible for carrying out Sichuan's activities under Part C of the Project.

(b) ensure that each Project Municipality (excluding Guanghan) shall:

(i) continue to maintain a project office with functions satisfactory to the Association, staffed by qualified personnel in adequate numbers, to be responsible for: the coordination and supervision of the execution of its and its Utility Company's Respective Part of the Project; the supervision of the procurement of goods and services under its and its Utility Company's Respective Part of the Project; and the preparation and furnishing to PMO of reports and other information thereon; and

(ii) establish urban management information system centers (also referred to as "UMIS Centers") in accordance with a program acceptable to the Association and, thereafter, maintain such UMIS Centers with functions satisfactory to the Association, staffed by qualified personnel in adequate numbers, to be responsible carrying out their respective activities under Part C of the Project.

Resettlement Action Plan and Environmental Assessment

2. Sichuan shall take and, where appropriate, shall through the Project Municipalities take, all measures necessary to ensure that the Project shall be carried out in accordance with the Resettlement Action Plan and the Environmental Assessment.

3. Sichuan shall ensure that any proposed revision of the Resettlement Action Plan or the Environmental Assessment shall be furnished to the Association for prior approval.

Industrial Pollution Control Action Plan

4. Sichuan shall:

(a) carry out its part, and shall cause Chengdu, Deyang, Leshan and Luzhou to carry out their respective parts, of the Industrial Pollution Control Action Plan, in a manner satisfactory to the Association; and

(b) not modify or amend the Industrial Pollution Control Action Plan without the prior concurrence of the Association.

Financial Arrangements

5. Sichuan shall make available to Leshan the proceeds of the Credit under arrangements satisfactory to the Association, which shall include, without limitation, the following principal terms:

(a) The principal amount so made available to Leshan:

(i) shall be the equivalent in terms of Special Drawing Rights (determined on the date, or respective dates, of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn on account of Part D(1) of the Project; and

(ii) shall be repaid in a foreign currency selected by Sichuan in amounts equivalent (as of the date, or respective dates, of repayment) to the amount in Special Drawing Rights so made available.

(b) Sichuan shall recover such principal amount over a period of seventeen (17) years, inclusive of a grace period of five (5) years.

(c) Sichuan shall charge a service charge on such principal amount, withdrawn and outstanding from time to time at a rate to the service charge applicable to the Credit pursuant to the provisions of Section 2.05 of the Credit Agreement.

(d) Sichuan shall charge a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to the commitment charge applicable to the Credit pursuant to the provisions of Section 2.04 of the Credit Agreement.

6. Sichuan shall allocate to each Project Municipality an amount of the Loan under arrangements satisfactory to the Association, which shall include, without limitation, the following principal terms:

(a) The principal amount so made available to each Project Municipality shall be the amount in Dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of said Project Municipality's Respective Part of the Project and its Utility

Company's Respective Part of the Project.

(b) Sichuan shall recover such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years.

(c) Sichuan 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 Section 2.06 of the Loan Agreement.

(d) Sichuan shall charge a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to the commitment charge applicable to the Loan pursuant to the provisions of Section 2.05 of the Loan Agreement.

Subsidiary Loan Agreements

7. Sichuan shall cause each of the Project Municipalities (excluding Guanghan) to relend the portions of the proceeds of the Loan, which was allocated to it pursuant paragraph 6 of this Schedule for the purposes of carrying out its Utility Company's Respective Part of the Project, to its Utility Company under a subsidiary loan agreement to be entered into between said Project Municipality and its Utility Company: (a) on the principal terms set forth in Section I of Schedule 3 to this Agreement; and (b) under conditions which shall have been approved by the Association, and which shall include, without limitation, those set forth in Section II of Schedule 3 to this Agreement.

8. (a) Sichuan shall ensure that each Project Municipality shall cause its Utility Company to:

(i) perform, in accordance with the provisions of the Subsidiary Loan Agreement to which said Utility Company is a party, all of the obligations of said Utility Company therein set forth;

(ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Utility Company to perform such obligations; and

(iii) not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Sichuan shall, and shall cause each Project Municipality to, exercise its rights under each Subsidiary Loan Agreement to which it is a party in such manner as to protect the interests of the Borrower, the Bank, Sichuan and said Project Municipality and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Loan Agreement to which Sichuan or said Project Municipality is a party or any provision thereof.

Water Supply and Wastewater Supply Distribution Systems (Parts A and B of the Project)

9. For the purpose of carrying out Parts A and B of the Project, Sichuan shall cause each Project Municipality, through its appropriate Utility Company, to implement said Utility Company's time-bound investment program, acceptable to the Association, to strengthen such Project Municipality's water supply distribution and wastewater collection systems.

Leshan Solid Waste Collection and Disposal Services (Part A(4) of the Project)

10. For the purpose of carrying out Part A(4) of the Project, Sichuan shall cause Leshan, through Leshan Environmental Sanitation Management Bureau, to:

(a) furnish to the Association for comments by July 1, 2001:

(i) results of the study, carried out in accordance with terms of reference satisfactory to the Association, on user fees and charges necessary to recover the full costs of providing solid waste collection and disposal services to industrial and commercial users; and

(ii) a draft time-bound action plan, based on the results of said study and its recommendations, for the recovery of said full costs commencing on October 1, 2001; and

(b) thereafter, implement said action plan, taking into account the Association's comments.

Institutional Development and Training

11. Sichuan shall carry out, and shall cause each Project Municipality to carry out, Part E of the Project in accordance with a time-bound action plan acceptable to the Association and said action plan shall not be modified without the agreement of the Association.

Monitoring and Reporting

12. Sichuan shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project, including the Resettlement Action Plan and the Environmental Assessment, as well as the achievement of the objectives thereof;

(b) prepare, under terms of reference acceptable to the Association, and furnish to the Association, the following semi-annual reports on January 31 and July 31 in each year, beginning on January 31, 2001, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 12(a) of this Schedule 2, based on the semi-annual progress reports prepared by the municipal project offices and UMIS Centers referred to in paragraph 1(b) of this Schedule 2, on the physical and financial progress achieved in the carrying out of the Project during the preceding semester (the report due on July 31, 2004 to summarize progress achieved during the period, January 31, 2001 through June 30, 2004) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) after furnishing each report referred to in paragraph 12(b) of this Schedule 2, review said report with the Association (the report due on July 31, 2004, shall be reviewed with the Association by September 30, 2004, or such later date as the Association shall request), and promptly take all measures required to ensure the efficient completion of the Project (including, when applicable, the carrying out of the Resettlement Action Plan and the Environmental Assessment) and the achievement of the objectives minutes thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

SCHEDULE 3

Principal Terms and Conditions of the Subsidiary Loan Agreements

For the purposes of paragraph 7 of Schedule 2 to this Agreement, the terms of availability of the Loan proceeds shall be those set forth in Section I of this Schedule 3 and the Subsidiary Loan Agreements shall be entered into on the conditions set forth in Section II of this Schedule 3.

Section I. Terms of Availability

1. The principal amount of each Loan made by a Project Municipality to its Utility Company, shall be the amount in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of said Utility Company's Respective Part of the Project.
2. Each Utility Company shall repay such principal amount over a period of not more than fifteen (15) years, inclusive of a grace period of five (5) years.
3. Each Loan from the Project Municipality to its utility company shall bear interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.06 of the Loan Agreement.
4. The Project Municipality concerned shall charge a commitment charge on such principal amount, not withdrawn from time to time at a rate not less than the commitment charge applicable to the Loan pursuant to Section 2.05 of the Loan Agreement.

Section II. Conditions

The Subsidiary Loan Agreements shall include the following principal conditions.

1. Each Utility Company shall undertake to:
 - (a) carry out the Utility Company's Respective Part of the Project with due diligence and efficiency and in accordance with:
 - (i) appropriate technical, financial, engineering and public utility practices; and
 - (ii) appropriate health, safety and environmental standards acceptable to the Association, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and
 - (b) without limitation on the foregoing take all measures necessary to ensure that its Utility Company's Respective Part of the Project shall be implemented in accordance with its respective resettlement plan under the Resettlement Action Plan and the Environmental Assessment.
2. Each Utility Company shall undertake to procure the goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods and services exclusively in the carrying out of its Utility Company's Respective Part of the Project.
3. Each Utility Company shall undertake to enable the Association, Sichuan and the Project Municipality concerned to inspect such goods and the sites and works included in its Utility Company's Respective Part of the Project, the operation thereof, and any relevant records and documents.
4. Each Utility Company shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover 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 made payable in a currency freely usable by the Utility Company to replace or repair such goods.
5. Each Utility Company shall undertake to:
 - (a) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition;
 - (b) have its 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 and the Project Municipality concerned;

(c) furnish to Sichuan, the Project Municipality concerned, and to the Association, as soon as available, but in any case not later than six months after the end of each such year:

(i) certified copies of said financial statements and accounts for such year as so audited; and

(ii) the report of such audit by said auditors in such scope and detail as Sichuan, the Association and/or said Project Municipality shall have reasonably requested; and

(d) prepare and furnish to the Association, Sichuan, and the Project Municipality concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Association, Sichuan, and/or said Project Municipality shall reasonably request.

6. The Leshan Water Supply Company and Luzhou Water Supply Company shall for each fiscal year as of 2001, undertake:

(a) to produce total revenues, equivalent to not less than the sum of:

(i) its total operating expenses; and

(ii) increases in working capital other than cash, debt service requirements and 20% of the annual average of its capital expenditures incurred, or expected to be incurred, for the current year, the previous fiscal year and the next following fiscal year;

(b) to review, before September 30 in each fiscal year as of fiscal 2001, and on the basis of forecasts prepared by it and satisfactory to the Association, whether it would meet the requirements set forth in subparagraph (a) hereof, in respect of such year and the next following fiscal year and furnish to the Association the results of such review upon its completion; and

(c) if any such review shows that it would not meet the requirements set forth in subparagraph (a) hereof for the fiscal years covered by such review, promptly to take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

7. The Chengdu Drainage Company, Deyang Sewage Treatment Corporation and Leshan Wastewater Treatment Company shall for each fiscal year as of 2001, undertake:

(a) to produce total revenues, equivalent to not less than the sum of:

(i) its total operating expenses; and

(ii) the amount by which debt service requirements exceeds the provision for depreciation;

(b) to review, before September 30 in each fiscal year as of fiscal 2001, and on the basis of forecasts prepared by it and satisfactory to the Association, whether it would meet the requirements set forth in subparagraph (a) hereof, in respect of such year and the next following fiscal year and furnish to the Association the results of such review upon its completion; and

(c) if any such review shows that it would not meet the requirements set forth in subparagraph (a) hereof for the fiscal years covered by such review, promptly to take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

8. Each Utility Company shall undertake not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least 1.3

times its estimated debt service requirements in such year on all of its debt including the debt to be incurred.

9. Each Project Municipality shall have the right to suspend or terminate the right of each Utility Company to which it has made a Subsidiary Loan to the use of the proceeds of such Subsidiary Loan upon failure by said Utility Company to perform its obligations under its respective Subsidiary Loan Agreement.

10. For purposes of this Schedule:

(a) The term "total revenues" means the terms of total operating revenues and net non-operating income.

(b) The term "total operating revenues" means revenues from all sources related to operations.

(c) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and, except for water supply companies, provision for depreciation on a straight line basis at a rate of not less than 3.3% per annum of the average current gross value of the Utility Company's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt.

(d) The average current gross value of the Utility Company's fixed assets in operation shall be calculated as one half of the sum of the gross value of its fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

(e) 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.

(f) The term "debt" means any indebtedness of the Utility Company maturing by its terms more than one year after the date on which it is originally incurred.

(g) Debt shall be deemed to be incurred:

(i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and

(ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(h) The term "net revenues" means the difference between:

(i) the sum of revenues from all sources related to operations and net non-operating income, and

(ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(i) The term "net non-operating income" means the difference between:

(i) revenues from all sources other than those related to operations; and

(ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.

(j) The term "reasonable forecast" means a forecast prepared by the Utility Company not earlier than twelve months prior to the incurrence of the debt in

question, which both the Bank and said Utility Company accept as reasonable and as to which the Association has notified said Utility Company of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of said Utility Company.

(k) 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.

(l) 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.

(m) 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.

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

11. Whenever, for the purposes of this Schedule, 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.

