

CONFORMED COPY

LOAN NUMBER 4356-CHA

Loan Agreement

(Tri-Provincial Highway Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 18, 1998

LOAN NUMBER 4356-CHA

LOAN AGREEMENT

AGREEMENT, dated December 18, 1998, 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, has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by the Project Provinces with the Borrower's assistance and, as part of such assistance, the Borrower will make available to each Project Province the proceeds of the Loan as provided 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 the Project Provinces;

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 December 2, 1997) (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 have the respective meanings therein set forth and the following additional terms have the following meanings wherever used in this Agreement:

(a) "Affected Person" means a person who on account of the execution of the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural or grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, and "Affected Persons" means collectively all persons who qualify as an Affected Person.

(b) "Baiyinchagan-Fengzhen Highway" means the highway between Baiyinchagan and Fengzhen in Inner Mongolia to be constructed under Part A.1 of the Project.

(c) "Baotou-Dongsheng Highway" means the highway between Baotou and Dongsheng in Inner Mongolia to be constructed under Part A.1 of the Project.

(d) "Gansu" means the Borrower's Province of Gansu.

(e) "Gansu EAP" means the Environmental Action Plan for the Liugouhe-Zhonghe and Xujiamo-Gulang sections of the National Trunk Road 312 in Gansu Province, prepared by the Project Office of Gansu Provincial Communications Department and dated December 1997, which sets out environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures.

(f) "Gansu RAP" means the Resettlement Action Plan for the Liugouhe-Zhonghe and Xujiamo-Jiepaicun sections of the National Trunk Road 312 in Gansu Province, prepared by the Project Office of Gansu Provincial Communications Department and dated May 1998, which sets out the procedures governing land acquisition, resettlement and compensation, as well as monitoring and reporting arrangements to ensure compliance with said plan.

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

(h) "Guyaozi-Wangquanliang Highway" means the highway between Guyaozi and Wangquanliang in Ningxia to be constructed under Part C.1 of the Project.

(i) "Inner Mongolia" means the Borrower's Autonomous Region of Inner Mongolia.

(j) "Inner Mongolia EAPs" means, collectively: (i) the Environmental Action Plan for the Baiyinchagan-Fengzhen section of National Road Route 208; and (ii) the Environmental Action Plan for the Baotou-Dongsheng section of National Road Route 210, each prepared by the Communications Department of Inner Mongolia Autonomous Region and dated December 1997, which set out environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures, and "Inner Mongolia EAP" means either of the Inner Mongolia EAPs.

(k) "Inner Mongolia RAP" means, collectively: (i) the Resettlement Action Plan for the Baiyinchagan-Fengzhen section of National Road Route 208; and (ii) the Resettlement Action Plan for the Baotou-Dongsheng section of National Road Route 210, each prepared by the Communications Department of Inner Mongolia Autonomous Region and dated December 1997, which set out the procedures governing land acquisition, resettlement and compensation, as well as monitoring and reporting arrangements to ensure compliance with said plans, and "Inner Mongolia RAP" means either of the Inner Mongolia RAPs.

(l) "Inner Mongolia Special Account" means the account referred to in Section 2.02 (b) (i) of this Agreement.

(m) "Liugouhe-Zhonghe Expressway" means the expressway between Liugouhe and Zhonghe in Gansu to be constructed under Part B.1 of the Project.

(n) "Ningxia" means the Borrower's Autonomous Region of Ningxia Hui.

(o) "Ningxia EAPs" means, collectively: (i) the Environmental Action Plan for the Guyaozi-Wangquanliang Highway; and (ii) the Environmental Action Plan for the Yanchi-Xingren Highway, each dated December 1997, which set out environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures, and "Ningxia EAP" means either of the Ningxia EAPs.

(p) "Ningxia RAP" means the Resettlement Action Plan for Guyaozi-Wangquanliang Highway Project, and the Resettlement Action Plan for Yanchi-Xingren Highway Project, both dated December 1997, which set out the procedures governing land acquisition, resettlement and compensation, as well as monitoring and reporting arrangements to ensure compliance with said plans, and "Ningxia RAP" means either of the Ningxia RAPs.

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

(r) "Project Agreement" means the agreement between the Bank and the Project Provinces 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.

(s) "Project Provinces" means, collectively, Inner Mongolia, Gansu and Ningxia; and "Project Province" means any of the Project Provinces.

(t) "Respective EAP" means, in respect of: (i) Inner Mongolia, the Inner Mongolia EAPs; (ii) Gansu, the Gansu EAP; and (iii) Ningxia, the Ningxia EAPs.

(u) "Respective Part of the Project" means, in respect of: (i) Inner Mongolia, Part A of the Project; (ii) Gansu, Part B of the Project; and (iii) Ningxia, Part C of the Project.

(v) "Respective Proceeds of the Loan" means, in respect of: (i) Inner Mongolia, the proceeds of the Loan allocated from time to time to Category 1; (ii) Gansu, the proceeds of the Loan allocated from time to time to Category 2; and (iii) Ningxia, the proceeds of the Loan allocated from time to time to Category 3, as set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(w) "Respective RAP" means, in respect of: (i) Inner Mongolia, the Inner Mongolia RAP; (ii) Gansu, the Gansu RAP; and (iii) Ningxia, the Ningxia RAP.

(x) "RIPA Sub-project" means a specific investment project for the rehabilitation or construction of a rural road segment selected for financing under Part A.2, Part B.2 or Part C.2 of the Project in accordance with Part B of Schedule 2 to the Project Agreement.

(y) "Special Accounts" means, collectively, the Inner Mongolia Special Account, the Gansu Special Account and the Ningxia Special Account; and "Special Account" means any of the Special Accounts.

(z) "Xujiamo-Jiepaicun Highway" means the highway between Xujiamo and Jiepaicun in Gansu to be constructed under Part B.1 of the Project.

(aa) "Yanchi-Xingren Highway" means the highway between Yanchi and Xingren in Ningxia to be constructed under Part C.1 of the Project.

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 this Agreement, an amount equal to two hundred thirty million Dollars (\$230,000,000).

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 described in Schedule 2 to this Agreement 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 the following three special deposit accounts, each in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment:

(i) one for purposes of Part A of the Project (the Inner Mongolia Special Account);

(ii) one for purposes of Part B of the Project (the Gansu Special Account); and

(iii) one for purposes of Part C of the Project (the Ningxia Special Account). Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to 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 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars 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) one half of one percent ($1/2$ 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 2.05, 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 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 2.06. Interest and other charges shall be payable March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause each Project Province to perform in accordance with the provisions of the Project Agreement all the obligations of said Project Province therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Project Province 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 available to each Project Province its Respective Proceeds of the Loan on the following principal terms:

(i) the principal amount so made available shall be the amount withdrawn from the Loan Account or paid out of the respective Special Account, on account of the cost of goods, works and services required for such Project Province's Respective Part of the Project and to be financed out of the proceeds of the Loan;

(ii) each Project Province shall repay the principal amount so made available to it over a period of twenty (20) years, inclusive of a grace period of five (5) years; and

(iii) the Borrower shall charge each Project Province:

(A) interest on the principal amount so made available and withdrawn and remaining unpaid from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement; and

(B) a commitment charge on the principal amount 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 each Project Province in respect of its Respective Part of the Project 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) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Accounts 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) Any Project Province 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 any Project Province will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified, namely that the event specified in paragraph (a) 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 is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Project Agreement has been duly authorized or ratified by each Project Province, and is legally binding upon such Project Province in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

PEOPLE'S REPUBLIC OF CHINA

/s/ Li Zhaoxing

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ Jean-Michel Severino

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Inner Mongolia Autonomous Region		
(a) Civil works under Part A.1 of the Project	63,000,000	38%
(b) Supply and installation of equipment under Part A.1 of the Project	1,700,000	75%
(c) Goods under Part A of the Project	2,300,000	100% of foreign expendi- tures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(d) Consultants' services and training under Part A of the Project	3,400,000	100%
(e) Unallocated for Part A of the Project	9,600,000	
(2) Gansu Province		
(a) Civil works under Part B.1 of the Project	73,700,000	49%
(b) Supply and installation of equipment under Part B.1 of the Project	4,100,000	75%
(c) Goods under Part B of the Project	7,400,000	100% of foreign expen- ditures and 100% of local expenditures (ex-factory cost) and 75% of local expendi- tures for other items procured locally
(d) Consultants' services and training under Part B of the Project	2,800,000	100%
(e) Unallocated for Part B of the Project	12,000,000	

(3) Ningxia Hui Autonomous Region		
(a) Civil works under Part C.1 of the Project	37,700,000	37%
(b) Supply and installation of equipment under Part C.1 of the Project	900,000	75%
(c) Goods under Part C of the Project	2,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(d) Consultants' services and training under Part C of the Project	2,800,000	100%
(e) Unallocated for Part C of the Project	6,000,000	
TOTAL:	230,000,000	
	=====	

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 that region shall be deemed to be "foreign expenditures"; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$2,000,000 equivalent; (b) goods under contracts costing less than \$250,000 equivalent; (c) consultants' services under contracts with firms or individuals costing less than \$100,000 equivalent and \$50,000 equivalent respectively; and (d) training; 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 the Borrower and the Project Provinces: (a) to increase the efficiency and safety of traffic in highway priority corridors in order to facilitate faster socio-economic development; (b) to provide improved access to targeted poor counties; (c) to improve highway sector institutional capacity; and (d) to improve the safety of road transport.

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 objective:

Part A: Inner Mongolia Autonomous Region

1. Main Highways

Construction of: (i) a highway of about 103 kilometers (km) between Baotou and Dongsheng (the Baotou-Dongsheng Highway), of which 92 km are a four-lane Class 1 highway and 11 km are a two-lane highway, and about 14 km of linking roads at interchanges along the Baotou-Dongsheng Highway; and (ii) a two-lane Class 2 highway of about 142 km from Baiyinchagan to Fengzhen (the Baiyinchagan-Fengzhen Highway) and about 5 km of linking roads along the Baiyinchagan-Fengzhen Highway; including the supply and installation of electronic, electrical and mechanical equipment for toll collection, traffic monitoring, telecommunications and lighting, and the construction of service areas, toll stations and administration and management buildings.

2. Road Improvement for Poverty Alleviation

Carrying out of specific investment projects for the rehabilitation and construction of about 840 km of rural road segments to provide improved access to targeted poor counties in Inner Mongolia.

3. Institutional Strengthening

Strengthening the capacity of the Inner Mongolia Autonomous Region Communications Department and its affiliated institutions in the areas of highway planning, design, supervision of highway construction, highway and equipment maintenance, financial management, operations and management of highways, traffic engineering and related matters through the provision of training, consultants' services and equipment.

4. Road Safety

Implementation and evaluation of a program for road safety improvement in Inner Mongolia, through provision of equipment and consultants' services, such program consisting of:

(a) improvement of traffic safety coordination among the different responsible institutions;

(b) enhancement of the capacity of Inner Mongolia Autonomous Region Communications Department to analyze traffic accidents in order to determine the main causes of accidents and identify priority measures for preventive action, and carrying out of a study of the effects of different highway design features on highway accidents;

(c) identification, design and carrying out of a pilot program for improvement of accident black spots; and

(d) development of a highway design safety manual.

5. Resettlement

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

Part B: Gansu Province

1. Main Highways

Construction of: (i) a four-lane expressway of about 34 km between Liugouhe and Zhonghe (the Liugouhe-Zhonghe Expressway) to serve as a by-pass for the city of Lanzhou, and a linking road of about 1.3 km between the Liugouhe-Zhonghe Expressway and the street network of the city of Lanzhou; and (ii) a two-lane Class 2 highway of about 64 km from Xujiamo to Jiepaicun (the Xujiamo-Jiepaicun Highway); including the supply and installation of electronic, electrical and mechanical equipment for toll collection, traffic monitoring, telecommunications and lighting, and the construction of service areas, toll stations and administration and management buildings.

2. Road Improvement for Poverty Alleviation

Carrying out of specific investment projects for the rehabilitation and

construction of about 800 km of rural road segments to provide improved access to targeted poor counties in Gansu Province.

3. Institutional Strengthening

Strengthening the capacity of Gansu Provincial Communications Department and its affiliated institutions in the areas of highway planning, design, supervision of highway construction, highway and equipment maintenance, financial management, operations and management of highways, traffic engineering and related matters through the provision of training, consultants' services and equipment.

4. Road Safety

Implementation and evaluation of a program for road safety improvement in Gansu, through provision of equipment and consultants' services, such program consisting of:

(a) improvement of traffic safety coordination among the different responsible institutions;

(b) enhancement of the capacity of Gansu Provincial Communications Department to analyze traffic accidents in order to determine the main causes of accidents and identify priority measures for preventive action;

(c) identification, design and carrying out of a pilot program for improvement of accident black spots;

(d) development of a highway maintenance safety manual; and

(e) development of improved safety audit procedures for highways.

5. Resettlement

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

Part C: Ningxia Hui Autonomous Region

1. Main Highways

(a) Construction of: (i) a highway of about 94 km between Guyaozi and Wangquanliang (the Guyaozi-Wangquanliang Highway) of which about 83 km between Guyaozi and Yanchi provide two lanes for traffic movement on a four-lane Class 1 subgrade and about 11 km between Yanchi and Wangquanliang are a two-lane Class 2 highway, and about 6.7 km of linking roads at interchanges along the Guyaozi-Wangquanliang Highway; and (ii) an Ordinary Class 2 highway of about 250 km from Yanchi to Xingren in Gansu Province (the Yanchi-Xingren Highway); including the supply and installation of electronic, electrical and mechanical equipment for toll collection, traffic monitoring, telecommunications and lighting, and the construction of service areas, toll stations and administration and management buildings.

2. Road Improvement for Poverty Alleviation

Carrying out of specific investment projects for the rehabilitation and construction of about 250 km of rural road segments to provide improved access to targeted poor counties in Ningxia Hui Autonomous Region.

3. Institutional Strengthening

Strengthening the capacity of Ningxia Hui Autonomous Region Communications Department and its affiliated institutions in the areas of highway planning, design, supervision of highway construction, highway and equipment maintenance, financial management, operations and management of highways, traffic engineering and related matters through the provision of training, consultants' services and equipment.

4. Road Safety

Implementation and evaluation of a program for road safety improvement in

Ningxia Hui Autonomous Region, through provision of equipment and consultants' services, such program consisting of:

- (a) improvement of traffic safety coordination among the different responsible institutions;
- (b) enhancement of the capacity of Ningxia Hui Autonomous Region Communications Department to analyze traffic accidents in order to determine the main causes of accidents and identify priority measures for preventive action;
- (c) identification, design and carrying out of a pilot program for improvement of accident black spots; and
- (d) development of a highway construction manual.

5. Resettlement

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

* * * * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
March 15, 2004	4,870,000
September 15, 2004	5,015,000
March 15, 2005	5,160,000
September 15, 2005	5,315,000
March 15, 2006	5,470,000
September 15, 2006	5,635,000
March 15, 2007	5,800,000
September 15, 2007	5,970,000
March 15, 2008	6,145,000
September 15, 2008	6,330,000
March 15, 2009	6,515,000
September 15, 2009	6,710,000
March 15, 2010	6,905,000
September 15, 2010	7,110,000
March 15, 2011	7,320,000
September 15, 2011	7,535,000
March 15, 2012	7,760,000
September 15, 2012	7,990,000
March 15, 2013	8,225,000
September 15, 2013	8,470,000
March 15, 2014	8,720,000
September 15, 2014	8,975,000
March 15, 2015	9,240,000
September 15, 2015	9,515,000
March 15, 2016	9,795,000
September 15, 2016	10,085,000
March 15, 2017	10,385,000
September 15, 2017	10,690,000
March 15, 2018	11,005,000
September 15, 2018	11,340,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in respect of: (i) the Inner Mongolia Special Account, Category 1; (ii) the Gansu Special Account, Category 2; and (iii) the Ningxia Special Account, Category 3, 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, in respect of: (i) the Inner Mongolia Special Account, an amount equal to \$6,000,000; (ii) the Gansu Special Account, an amount equal to \$7,000,000; and (iii) the Ningxia Special Account, an amount equal to \$4,000,000, in each case to be withdrawn from the Loan Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, (x) the Authorized Allocation for the Inner Mongolia Special Account shall be limited to an amount equal to \$3,000,000, until the aggregate amount of withdrawals from the Loan Account allocated to Category 1 plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Part A of the Project shall be equal to or exceed \$25,000,000; (y) the Authorized Allocation for the Gansu Special Account shall be limited to an amount equal to \$4,000,000, until the aggregate amount of withdrawals from the Loan Account allocated to Category 2 plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Part B of the Project shall be equal to or exceed \$35,000,000; and (z) the Authorized Allocation for the Ningxia Special Account shall be limited to an amount equal to \$2,500,000, until the aggregate amount of withdrawals from the Loan Account allocated to Category 3 plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Part C of the Project shall be equal to or exceed \$17,000,000.

2. Payments out of the Special Accounts 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 any Special Account has been duly opened, withdrawals of the Authorized Allocation in respect of such Special Account and subsequent withdrawals to replenish such 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 relevant 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 paragraph 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 any 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 any 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 such 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 Category for the Part of the Project in respect of which such Special Account was established, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to such Part of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation in respect of such Special Account. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category for such Part of the Project 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 such 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 any 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 such 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 such 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 any 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 any 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.

