Project Agreement

(Chongqing Small Cities Infrastructure Improvement Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CHONGQING MUNICIPALITY

Dated September 10, 2005
PROJECT AGREEMENT

AGREEMENT, dated September 10, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CHONGQING MUNICIPALITY (Chongqing).

WHEREAS by the Loan Agreement of even date herewith between People’s Republic of China (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of one hundred eighty million Dollars ($180,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Chongqing agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Chongqing, in consideration of 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 Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Chongqing declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement and to this end shall carry out, and shall cause to be carried out by the Project Participants and Project Companies, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and social and environment standards acceptable to the Bank, 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 Bank and Chongqing shall otherwise agree, Chongqing shall carry out,
and shall cause to be carried out, the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) Chongqing shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 2.03. (a) Chongqing shall carry out, and shall cause to be carried out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Chongqing shall:

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

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

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

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

ARTICLE III

Financial Covenants

Section 3.01. (a) Chongqing shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with
consistently applied accounting standards acceptable to the Bank, adequate to reflect the
operations, resources and expenditures related to the Project.

(b) Chongqing shall:

(i) have the records, accounts and financial statements referred to in
paragraph (a) of this Section for each fiscal year (or other period
agreed to by the Bank), audited, in accordance with consistently
applied auditing standards acceptable to the Bank, by
independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later
than six (6) months after the end of each such year (or such other
period agreed to by the Bank): (A) certified copies of the
financial statements referred to in paragraph (a) of this Section,
for such year (or such other period agreed to by the Bank), as so
audited; and (B) an opinion on such statements by said auditors,
in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such
records and accounts and the audit of such financial statements,
and concerning said auditors, as the Bank may from time to time
reasonably request.

Section 3.02. (a) Without limitation upon Chongqing’s progress reporting
obligations set out in paragraph 15 of Schedule 2 to this Agreement, Chongqing shall
prepare and furnish to the Bank, financial monitoring reports, in form and substance
satisfactory to the Bank, which sets forth sources and uses of funds for the Project, both
cumulatively and for the period covered by each said report, showing separately funds
provided under the Loan, and explains variances between the actual and planned uses of
such funds.

(b) The first such financial monitoring report shall be furnished to the Bank
not later than forty-five (45) days after the end of the first calendar semester after the
Effective Date, and shall cover the period from the incurrence of the first expenditure
under the Project through the end of such first calendar semester; thereafter, each
financial management report shall be furnished to the Bank not later than forty-five (45)
days after each subsequent calendar semester, and shall cover such calendar semester.
ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

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

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

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

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

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

Cable address: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (1-202) 477-6391
For Chongqing:

Chongqing World Bank Project Management Office
14/F Sun of Asia Mansion
248 Renmin Road, Yuzhong District
Chongqing, 400014
People’s Republic of China

Facsimile:

86-23-63877822

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

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People’s Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ David Dollar

Authorized Representative

CHONGQING MUNICIPALITY

By /s/ Mr. Huang Qifan

Authorized Representative
SCHEDULE 1

Procurement and Consultants’ Services

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. (a) Each contract for works estimated to cost less than $15,000,000 equivalent; and (b) each contract for goods estimated to cost less than $500,000 equivalent, may be procured under contracts awarded on the basis of National Competitive Bidding and in accordance with the following additional provisions:

   The procedures to be followed for National Competitive Bidding shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:
(i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in the Borrower’s country, except for civil works contracts that are estimated to cost less than $2,000,000 equivalent each and for goods contracts that are estimated to cost less than $300,000 equivalent each, which may be advertised in a provincial daily newspaper. Such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.

(ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.

(iii) All bidders that meet the qualification criteria set out in the prequalification document shall be allowed to bid and there shall be no limit on the number of pre-qualified bidders.

(iv) All bidders shall be required to provide security in an amount sufficient to protect the Borrower or Chongqing, as the case may be, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.

(v) The time for opening of all bids shall be the same as the deadline for receipt of such bids.

(vi) All bids shall be opened in public; all bidders shall be offered an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.

(vii) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower or Chongqing, as the case may be.

(viii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined: (A) to be substantially responsive to the bidding
documents; and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.

(ix) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.

(x) Re-bidding should not be allowed solely because the number of bids is less than three (3).

2. **Shopping.** Works estimated to cost less than $300,000 equivalent per contract for the implementation of Part D of the Project and goods estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

**Section III. Particular Methods of Procurement of Consultants’ Services**

A. **Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $300,000 equivalent per contract may comprise entirely national consultants.

B. **Other Procedures**

1. **Quality-based Selection.** Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. **Individual Consultants.** Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the
circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

**Section IV. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.
SCHEDULE 2

Implementation Program

Project Management

1. Chongqing shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:

   (a) The Leading Group, which is headed by the Deputy Mayor and composed of representatives from the Municipal Development and Reform Commission, Construction Commission, Finance Bureau and Environmental Protection Bureau, responsible for providing overall policy guidance and support for the preparation and implementation of the Project.

   (b) The Project Management Office, established in the Chongqing Development and Reform Commission, responsible for: (i) overall Project coordination, management and monitoring; (ii) annual budget preparation; (iii) Project-wide quality assurance; (iv) Project progress reporting; (v) interagency coordination and procurement support; and (vi) training facilitation.

   (c) The Project Participants’ Project Management Office established by each Project Participant, responsible for coordination and supervision of activities under the Project to be implemented within their jurisdiction.

Resettlement, Environment Protection and Dam Safety Measures

2. Chongqing shall:

   (a) take, and shall cause the Project Participants and the Project Companies to take, all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently in carrying out the Project;

   (b) for this purpose, implement, and cause the Project Participants and the Project Companies to implement the Resettlement Action Plan, in a manner satisfactory to the Bank; and

   (c) provide, and cause the Project Participants and the Project Companies to provide, to the Bank for its prior concurrence, any proposed modification or waiver of the Resettlement Action Plan, prior to putting into effect such modification or waiver.
3. Chongqing shall implement, and shall cause:

   (a) The Project Participants and the Project Companies to implement, the Environmental Management Plan in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards.

   (b) Dianjiang, Yongchuan and Jiulongpo districts to carry out the time-bound dam safety measures set out in the Environmental Management Plan, in a manner satisfactory to the Bank.

4. Chongqing shall, and shall cause the Project Participants and the Project Companies to:

   (a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the Environmental Management Plan and the Resettlement Action Plan and the achievement of the objectives of said plans, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;

   (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by February 15 and August 15 of each year, commencing on February 15, 2006, semi-annual reports of the results of the monitoring and evaluation activities referred to in sub-paragraph (a) above, together with any revisions proposed to be introduced into said plans in order to achieve their respective objectives; and

   (c) introduce such revisions into said plans as shall have been agreed with the Bank.

Financial Arrangements

5. Chongqing shall allocate to each Project Participant and to each of CESC and CWRC an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms.

   (a) Chongqing shall make available the principal amount, which has been allocated to each Project Participant and to each of CESC and CWRC, 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 the Project Companies’ Respective Parts of the Project;

   (b) Chongqing shall recover: (i) such principal amount so made available; and (ii) an amount equal to one percent (1%), or such other percentage as may be determined by the Bank from time to time pursuant to Section 2.04 of the Loan Agreement, of such principal amount, over a period of twenty (20) years, inclusive of a grace period of five (5) years;
(c) Chongqing 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; and

(d) Chongqing shall charge a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

Subsidiary Loan Agreements

6. Chongqing shall:

(a) Lend the portion of the proceeds of the Loan, which was allocated to CESC and CWRC pursuant to paragraph 5 of this Schedule for the purpose of carrying said Project Companies’ Respective Parts of the Project under a subsidiary loan agreement to be entered into between Chongqing and each of CESC and CWRC: (i) on the principal terms set forth in paragraph 5 of this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Section II of Schedule 3 to this Agreement.

(b) Cause each Project Participant to re lend the portions of the proceeds of the Loan, which was allocated to it pursuant to paragraph 5 of this Schedule for the purposes of carrying out its Respective Project Companies’ Respective Parts of the Project, to each of its Respective Project Companies under a subsidiary loan agreement to be entered into between said Project Participant and each of its Respective Project Companies: (i) on the principal terms set forth in Section I of Schedule 3 to this Agreement; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Section II of Schedule 3 to this Agreement.

7. (a) Chongqing shall:

(i) Cause each of CESC and CWRC to: (A) perform, in accordance with the provisions of the Subsidiary Loan Agreement to which it is a party, all of its obligations therein set forth; (B) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each of CESC and CWRC to perform such obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance.

(ii) Ensure that each Project Participant causes each of its Respective Project Companies to: (A) perform, in accordance with the provisions of the Subsidiary Loan Agreement to which said Project Company is a party, all of the obligations of said Project Company therein set forth; (B) take or cause to be taken all
action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Company to perform such obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Chongqing shall:

(i) Exercise its rights under the Subsidiary Loan Agreements entered into with each of CESC and CWRC in such manner as to protect the interests of the Borrower, the Bank and Chongqing, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any of said Subsidiary Loan Agreements or any provision thereof.

(ii) Cause each Project Participant to exercise, its rights under each Subsidiary Loan Agreement to which said Project Participant is a party in such manner as to protect the interests of the Borrower, the Bank, Chongqing and said Project Participant, 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 said Project Participant is a party or any provision thereof.

Part E of the Project

8. Chongqing shall implement, and cause to be implemented, Part E of the Project in accordance with a schedule acceptable to the Bank and shall ensure that each of the Project Participants fully cooperates in the carrying out of said Part of the Project. Any proposed revision to said schedule shall be made only with the prior approval of the Bank.

Operations and Maintenance Plans for Parts B, C and D of the Project

9. Chongqing shall cause each of Nanchuan, Qianjiang, Rongchang, Shizhu, Tongnan, Yubei, CESC, NDCC, RWDC, SWPC and TRDC to: (a) furnish to the Bank by January 1, 2007, a plan, prepared in accordance with terms of reference acceptable to the Bank, for the future operation and maintenance (including financing plan) of the flood control embankments, roads, structures and facilities constructed under Parts B, C and D of the Project; and (b) thereafter, implement said plan taking into account the Bank’s comments thereon.
Water resources study

10. Chongqing shall: (a) commencing no later than March 1, 2006, carry out the following, in accordance with terms of reference satisfactory to the Bank (which include formulation of policies and recommendations to implement the results): (i) a study on water resources management; and (ii) further assessment of all available water resources and the feasibility of exploiting additional water resources; (b) furnish to the Bank by January 1, 2007, the results of said study and assessment; and (c) by July 1, 2007, begin implementation of the recommendations of said study and assessment, taking into account the Bank’s comments thereon.

Wastewater management plan

11. Chongqing shall: (a) prepare, in accordance with terms of reference satisfactory to the Bank, a wastewater management and time-bound implementation plan for the towns to be served under the Tongguanyi Water Supply Scheme; (b) furnish said plan to the Bank by July 1, 2007; and (c) implement said plan taking into account the Bank’s comments thereon.

Shortfalls

12. With respect to CWRC’s revenue requirements set forth in paragraphs 8 and 9 of Section II in Schedule 3 to this Agreement, in the event that any review carried out under said paragraphs 8 and 9 shows that CWRC would not meet said requirements, Chongqing shall take all necessary measures to enable CWRC to meet said requirements, including without limitation, adjustment of the structure or levels of CWRC’s water supply charges.

13. Chongqing shall provide, or cause to be provided, promptly as needed, funds required for: (a) the construction and, upon completion of construction, the maintenance and operation of infrastructure under the Project; and (b) debt service payments under the Project by the Project Participants and Project Companies.

Water Extraction Fee and Water Resource Fee

14. To encourage the conservation of water in water scarce areas, beginning on January 1, 2006, Chongqing shall take all necessary measures, and cause all necessary measures to be taken, to facilitate the increase in water extraction fee and/or water resource fee in such areas.
Monitoring and Reporting

15. Chongqing 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 Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about February 15 and August 15 of each year, commencing on February 15, 2006, a semi-annual report, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) above (integrating the report furnished by the Project Companies pursuant to paragraph 5(e) of Section II in Schedule 3 to this Agreement), each such report to: (i) set out physical progress in the implementation of the Project, both cumulatively, and in respect of the preceding calendar semester, and explain variances between the actual and planned Project implementation; and (ii) set forth the status of procurement under the Project as at the end of the period covered by said report;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about December 31, 2008, a mid-term report on the progress achieved in the carrying out of the Project during the period preceding such report 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

(d) review with the Bank by March 31, 2009, or such later date as the Bank shall request, the mid-term report referred to in sub-paragraph (c) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank’s views on the matter.
SCHEDULE 3
Principal Terms and Conditions of the
Subsidiary Loan Agreements

For the purposes of paragraph 6 of Schedule 2 to this Agreement: (a) except for the Subsidiary Loan Agreements between Chongqing and each of CESC and CWRC, the terms of availability of the Loan proceeds shall be those set forth in Section I of this Schedule 3; and (b) 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 Subsidiary Loan made by a Project Participant to each of its Respective Project Companies, shall be the amount equivalent 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 its Project Company’s Respective Parts of the Project.

2. Each Project Company shall repay: (a) such principal amount; and (b) an amount equal to one percent (1%), or such other percentage as may be determined by the Bank from time to time pursuant to Section 2.04 of the Loan Agreement, of such principal amount, over a period of twenty (20) years, inclusive of a grace period of five (5) years;

3. Each Project Company shall pay 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. Each Project Company shall pay a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

Section II. Conditions

The Subsidiary Loan Agreements shall include the following principal conditions.

1. Each Project Company shall undertake to: (a) carry out its Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank, 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 their Respective Parts of the Project shall be implemented in accordance with the Resettlement Action Plan and the Environmental Management Plan.
2. Each Project Company shall undertake to procure the goods, works and consultants’ 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, works and consultants’ services exclusively in the carrying out of its Respective Parts of the Project.

3. Each Project Company shall undertake to enable the Bank, Chongqing and the Project Participant concerned to inspect such goods and the sites and works included in its Respective Parts of the Project, the operation thereof, and any relevant records and documents.

4. Each Project 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 to replace or repair such goods.

5. Each Project Company shall undertake to:

   (a) Maintain records and accounts adequate to reflect, in accordance with 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 Bank.

   (c) Furnish to the Bank, Chongqing, and the Project Participant concerned as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Bank, Chongqing or the Project Participant concerned shall have reasonably requested; and all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank or Chongqing shall reasonably request.

   (d) Prepare and furnish to the Bank, Chongqing and the Project Participant concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Chongqing or the Project Participant concerned shall reasonably request.

   (e) Each Project Company shall undertake to:

       (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and Chongqing the carrying out of its
Respective Parts of the Project and the achievement of the objectives thereof; and

(ii) prepare, under terms of reference satisfactory to the Bank and to Chongqing and furnish to Chongqing for its review, consolidation and submission to the Bank in accordance with paragraph 15 of Schedule 2 to this Agreement on or about January 15 and July 15 of each year, commencing on January 15, 2006, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of its Respective Parts of the Project during the period preceding the date of each such report.

Financial covenants

6. By January 1, 2006, CWRC shall establish separate commercial accounts and financial statements, satisfactory to the Bank, to reflect the operations, resources and expenditures related to the construction of infrastructure under the Tongguanyi Water Supply Scheme and the Songji Water Supply Scheme and, upon completion of said construction, its ownership and maintenance of the structures, facilities and assets created.

7. By January 1, 2006, YWDC shall establish separate commercial accounts and financial statements, satisfactory to the Bank, to reflect the operations, resources and expenditures related to the construction of infrastructure under Part A.3 of the Project (Yongchuan City water supply scheme) and, upon completion of said construction, its ownership and maintenance of the structures, facilities and assets created.

8. (a) Except as the Bank shall otherwise agree, each of CWRC, DWSC, TWSC and YWDC shall produce for each of its Fiscal Years after its Fiscal Year ending on December 31, 2006, for DWSC and TWSC, and after its Fiscal Year ending on December 31, 2009, (or such other date as agreed with the Bank) for CWRC and YWDC, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciation.

(b) Before September 30 in each of its Fiscal Years, each of CWRC, DWSC, TWSC and YWDC shall, on the basis of forecasts prepared by said Project Company and satisfactory to the Bank, 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 Bank the results of such review upon its completion.

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

(d) For purposes of this paragraph 8:

(i) The term "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, and 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 concerned Project Company’s fixed assets in operation, or other basis acceptable to the Bank but excluding interest and other charges on debt.

(v) The average current gross value of the concerned Project Company’s fixed assets in operation shall be calculated as one half of the sum of the gross value of said Project Company’s 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 Bank.

(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.

(vii) Whenever for the purposes of this paragraph 8 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 Bank.

(e) With respect to CWRC and YWDC, all definitions set out in paragraph 8(d) of this Schedule shall be deemed to refer only to the water supply unit in and operations of CWRC and YWDC.

9. (a) Except as the Bank shall otherwise agree, each of DWSC, CWRC, TWSC and YWDC shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the such Project Company shows that the estimated net revenues of such Project Company for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of said Project Company in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of the Project Company concerned maturing by its terms more than one (1) year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) 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 (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

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

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

(B) 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.

(iv) 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.
(v) 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.

(vi) The term "reasonable forecast" means a forecast prepared by the Project Company concerned not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and said Project Company accept as reasonable and as to which the Bank has notified the Project 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 the Project Company.

(vii) Whenever for the purposes of this paragraph 9 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 Bank.

(c) With respect to CWRC and YWDC, all definitions set out in paragraph 9(b) of this Schedule shall be deemed to refer only to the water supply unit in and operations of CWRC and YWDC.

10. The Project Participant and Chongqing, as the case may be, shall have the right to suspend or terminate the right of a Project Company to the use of the proceeds of the loan made available under the Subsidiary Loan Agreement with said Project Company upon failure by such Project Company to perform its obligations under such agreement.