Project Agreement

(Shanghai Urban Environment Project, Phase II)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SHANGHAI MUNICIPALITY

Dated October 31, 2005
PROJECT AGREEMENT

AGREEMENT, dated October 31, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and SHANGHAI MUNICIPALITY (Shanghai).

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 Shanghai agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Shanghai, 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) Shanghai declares its commitment to the objectives of the Program and 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, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and social and environmental 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 Shanghai shall otherwise agree, Shanghai 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) Shanghai 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) Shanghai 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, Shanghai shall:

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

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

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

(b) Shanghai 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 Shanghai of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Shanghai shall maintain, and shall cause to be maintained, 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) Shanghai 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 Shanghai’s progress reporting obligations set out in paragraph 11 of Schedule 2 to this Agreement, Shanghai 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 Shanghai thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Shanghai 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 Shanghai:

    Shanghai APL Project Management Office
    No. 1, Lane 1114
    Liyang Road
    Shanghai 200081
    People’s Republic of China

    Facsimile:
    86-21 65406094
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 Shanghai may be taken or executed by its Mayor or a Vice Mayor or such other person or persons as said Mayor or Vice Mayor shall designate in writing, and Shanghai 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

SHANGHAI MUNICIPALITY

By: /s/ Mr. Yang Xiong

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. Goods estimated to cost less than $500,000 equivalent per contract and works estimated to cost less than $10,000,000 equivalent per contract, may be procured under contracts awarded: (a) on the basis of National Competitive Bidding; and (b) 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 pre-qualification 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 Shanghai 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 Shanghai, 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.** Goods and works 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 $200,000 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. Throughout the period of implementation of the Project, Shanghai shall maintain the following organizations, with terms of reference, staffing and other resources acceptable to the Bank:

   (a) the Program Leading Group, chaired by a Vice Mayor of Shanghai, to provide overall guidance and coordination in the implementation of the Program and the Project and to monitor progress in the overall urban environment improvement strategy; and

   (b) the Project Management Office to be responsible for the overall management, supervision, monitoring and evaluation of, and reporting on Project activities, including the oversight of procurement and coordination among all implementation entities.

2. Shanghai shall cause each Project implementing entity, as set forth in Section 1.03 of the Loan Agreement, to establish and, thereafter throughout the period of implementation of the Project, maintain its respective project implementation unit, under the direction of qualified and experienced managers and staffed with competent personnel in sufficient numbers, and provided with adequate resources; said project implementation unit to be responsible for the overall management (including procurement), supervision and monitoring of the implementation of its respective parts of the Project.

Resettlement and Environment Protection

3. Shanghai shall:

   (a) take, and shall cause the Project Companies and Beneficiaries 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;

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

   (c) prepare, or shall cause to be prepared, resettlement action plans in regard to Part D of the Project, satisfactory to the Bank, in accordance with the principles and procedures set forth in the Sub-project Resettlement Policy Framework, and carry out, and cause to be carried out, such resettlement action plans in a manner satisfactory to the Bank, before commencing works for any Sub-project.
Shanghai shall, and shall cause the Project Companies to:

(a) 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; and

(b) prepare, or shall cause to be prepared, environmental management plans in regard to Part D of the Project, satisfactory to the Bank, in accordance with the principles and procedures set forth in the Sub-project Environmental Assessment Framework, and carry out, and cause to be carried out, such environmental management plans in a manner satisfactory to the Bank.

Shanghai shall, and shall cause the Project Companies and Beneficiaries 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 Plans, the Resettlement Action Plans, and the achievement of the objectives of said Plans, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;

(b) include the results of such monitoring and evaluation activities in each report referred to in paragraph 11 below, together with any revisions proposed to be introduced into such plans in order to achieve their respective objectives; and

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

**Subsidiary Loan Agreement**

Shanghai shall relend a portion of the proceeds of the Loan, allocated in accordance with arrangements satisfactory to the Bank for the carrying out the Respective Parts of the Project, under a subsidiary loan agreement to be entered into between Shanghai and each of the Project Companies: (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 Bank, and which shall include, without limitation, those set forth in Section II of Schedule 3 to this Agreement.

Shanghai shall:

(a) Cause each Project Company to: (i) perform, in accordance with the provisions of its Subsidiary Loan Agreement, all of the obligations of said Project 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 such Project 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) Exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower, the Bank and Shanghai, and to accomplish the purposes of the Loan.

(c) Except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements or any provision thereof.

8. Shanghai, through SWA, shall furnish to the Bank by December 31, 2006, a wastewater management plan for the Xujing service area in Qingpu District, prepared in accordance with terms of reference acceptable to the Bank; and thereafter, implement said plan taking into account the Bank’s comments thereon.

9. By December 31, 2006, Shanghai shall take all measures, including adoption of municipal wastewater tariff guidelines, to ensure that the suppliers of wastewater treatment services in all districts and counties within its jurisdiction recover the cost of providing said services.

Tariff Adjustment

10. With respect to the revenue requirements of SMSC, and WSC set forth in paragraph 7 of Section II in Schedule 3 to this Agreement, Shanghai shall take, and shall cause to be taken, all necessary measures to enable each said Project Company to meet said requirements.

Monitoring and Reporting

11. Shanghai 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 March 31 and September 30 of each year, commencing on March 31, 2006, a semi-annual report, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph (integrating the report furnished by the Project Companies pursuant to paragraph 5(e)(ii) 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 September 30, 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 December 31, 2008, or such later date as the Bank shall request, the mid-term report referred to in sub-paragraph (c) of this paragraph, 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 the Subsidiary Loan Agreement shall be entered into on the terms set forth in Section I of this Schedule and on the conditions set forth in Section II of this Schedule.

Section I. Terms of Availability

1. The principal amount of the Subsidiary Loan made by Shanghai to each Project Company 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 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 not more than 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 Agreement shall include the following principal conditions:

General

1. Each Project Company shall undertake to 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 without limitation on the foregoing, take all measures necessary to ensure that its 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 and Shanghai 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 their 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 and Shanghai, 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 or Shanghai 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 Shanghai shall reasonably request.

   (d) Prepare and furnish to the Bank and Shanghai all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank and/or Shanghai 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 to Shanghai 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 Shanghai, and furnish to Shanghai for its review, consolidation and submission to the Bank in accordance with paragraph 11 of Schedule 2 to this Agreement on or about March 15 and September 15 of each year, commencing on March 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.

6. Each Project Company shall prepare, in accordance with terms of reference acceptable to the Bank, and furnish to the Bank by September 30, 2008, an operation and maintenance (including financing) plan for the facilities constructed or to be constructed and other assets purchased or purchased in carrying out their Respective Parts of the Project; and thereafter, implement said plan, taking into account the Bank’s comments thereon.

Water Supply and Wastewater

7. SC and WSC, each, shall produce for each fiscal year, commencing in 2005, total revenues equivalent to not less than the sum of:

   (a) its total operating expenses (including for maintenance) before depreciation;
   
   (b) debt service requirements;
   
   (c) increases in working capital other than cash; and
   
   (d) ten percent (10%) of its average capital expenditures over a rolling three-year period.

8. SC and WSC, each, shall:

   (a) review by September 30 in each fiscal year commencing in 2005, on the basis of forecasts prepared in a manner satisfactory to the Bank, whether it would meet the requirements set forth in paragraph 7 above, in respect of such year and the next following fiscal year and furnish to the Bank the results of such review upon its completion; and

   (b) if any such review shows that it would not meet the requirements set forth in paragraph 7 above for the fiscal years covered by such review, promptly take all necessary measures in order to meet such requirements.
9. SC and WSC, each, shall 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.

10. For purposes of paragraphs 7, 8 and 9 above:

   (a) The term “total revenues” means the sum 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 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, but excluding interest and other charges on debt.

   (d) 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 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.

   (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 concerned Project Company maturing by its terms more than one (1) 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 clause (i) above.

(j) 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.

(k) 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 (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(l) 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 (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(m) The term “capital expenditures” means all expenditures incurred on account of fixed assets, including interest charged to construction related to operations; and the term “average capital expenditures” in respect of any fiscal year means the average of capital expenditures incurred or expected to be incurred for that year, the previous fiscal year and the next following fiscal year.

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

(o) 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 Bank.

11. Shanghai 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 upon failure by the Project Company to perform its obligations under the agreement.

**Sub-project Financing under Part D of the Project**

12. CEAM shall finance Sub-projects on the terms and conditions set forth or referred to in Schedule 4 to this Agreement.

13. CEAM shall:

   (a) adopt a manual (“CEAM Operations Manual”), acceptable to the Bank, governing the implementation of Part D of the Project and which manual shall include, without limitation, the terms and conditions set forth in Schedule 4 to this Agreement;

   (b) implement Part D of the Project in accordance with the said manual; and

   (c) provide to the Bank for its prior concurrence, any proposed amendment to the provisions of the CEAM Operations Manual and, thereafter, put into effect such amendment as shall have been agreed with the Bank.

14. CEAM shall:

   (a) appraise and approve Sub-projects and supervise, monitor and report on the carrying out of Sub-projects, in accordance with the provisions of the CEAM Operations Manual;

   (b) in respect of each Sub-project, enter into a sub-project financing agreement with the Beneficiary of said Sub-project, on terms and conditions acceptable to the Bank, including those set forth in Schedule 4 to this Agreement; and

   (c) exercise its rights under the Sub-project Financing Agreements in such manner as to protect the interests of the Bank, the Borrower, Shanghai and CEAM and to achieve the purposes of the Project; and

   (d) not assign, amend, abrogate or waive any of the Sub-project Financing Agreements, or any provision thereof, without the prior approval of the Bank.
SCHEDULE 4

Sub-project Financing

Terms

1. The principal amount of each Sub-project Financing shall be:

   (a) made available to a Beneficiary in Renminbi with the foreign exchange risk between the Dollar and Renminbi being borne by CEAM; and

   (b) repaid within a period not exceeding twenty (20) years, inclusive of a grace period not exceeding five (5) years.

2. Each Sub-project Financing shall:

   (a) subject to any relevant national and local laws and regulations, bear a one time service fee in an amount sufficient to cover, at the minimum, the total operating expenses of CEAM relating to the Sub-project;

   (b) bear a charge in 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 principal amount of each Sub-project Financing;

   (c) bear interest, on the principal of the Sub-project Financing withdrawn and outstanding from time to time, at a rate equal to the rate applicable from time to time to the Loan pursuant to Section 2.06 of the Loan Agreement; and

   (d) carry a commitment fee on the principal amount of the Sub-project Financing not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

Eligibility and Appraisal

3. Each Sub-loan shall be made only to a Beneficiary which:

   (a) is an enterprise and legal person duly established and operating under the laws of the Borrower;

   (b) shall have established that it is creditworthy and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations, including the Sub-project; and

   (c) purpose is the development and operation of environment-related infrastructure.
4. Each Sub-project Financing shall be made only for a sub-project which:

(a) proposes new, revenue-generating capital investments in water supply, wastewater collection and treatment, solid waste management or other similar environment-related infrastructure; or

(b) proposes capital investments in non revenue-generating public sector infrastructure.

5. Sub-projects shall be appraised and selected on the basis of technical, financial, environmental and resettlement criteria acceptable to the Bank. Such criteria shall include, without limitation:

(a) Environmental: for each Sub-project the Beneficiary shall prepare an environmental action plan satisfactory to the Bank, on the basis of procedures and principles set forth in the Sub-project Environmental Assessment Framework, including an assessment of the Beneficiary’s and the Sub-project's adverse impact on the environment and appropriate mitigation measures to be carried out to remedy such impact.

(b) Resettlement: for each Sub-project involving the involuntary resettlement of any persons in connection therewith, the Beneficiary shall prepare, on the basis of procedures and principles set forth in the Sub-project Resettlement Policy Framework, a resettlement action plan satisfactory to the Bank, and carry out such resettlement action plan in a manner satisfactory to the Bank, before commencing works for the Sub-project.

Utilization of proceeds of Sub-project Financing

6. The proceeds of Sub-project Financing shall be withdrawn only to finance expenditures for goods, works and consultants’ services required for a Sub-project.

Other conditions

7. No expenditures for goods, works or consultants’ services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Sub-project Financing shall have been approved by the Bank, Shanghai Development and Reform Commission and CEAM’s Investment Committee.

8. Each Sub-project Financing shall be made on further conditions whereby CEAM shall obtain, by written contract with the Beneficiary, rights adequate to protect the interests of the Bank and Shanghai, including:

(a) That the Beneficiary shall undertake to carry out and operate the Sub-project (including completion of abatement measures, the Sub-project EAP and, if applicable, the Sub-project RAP), 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, maintain adequate records and provide, promptly as needed, the funds, facilities and other resources required for the purpose.

(b) That the Beneficiary shall undertake to procure the goods, works and consultants’ services required for the Sub-project in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods and services exclusively in the carrying out of its Sub-project.

(c) That the Beneficiary shall undertake to enable the Bank, Shanghai and CEAM to inspect such goods and the sites and works included in its Sub-project the operation thereof, and any relevant records and documents.

(d) That the Beneficiary 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 required for the Sub-project to the place of use or on, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods.

(e) That the Beneficiary shall undertake to prepare and furnish to Shanghai and/or CEAM, as the case may be, for forwarding to the Bank, if it shall so request, all such information as the Bank, Shanghai or CEAM shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project.

(f) That the Beneficiary 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 to CEAM the carrying out of its Sub-project and the achievement of the objectives thereof; and

   (ii) prepare, under terms of reference satisfactory to the Bank and CEAM, and furnish to CEAM for its review, consolidation and submission to the Bank in accordance with paragraph 5(e)(ii) of Section II of Schedule 3 to this Agreement on or about March 1 and September 1 of each year, commencing on the March 1 or September 1 following the date of the Sub-project Financing to which it is a party, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (f) on the progress achieved in the carrying out of its Sub-project during the period preceding the date of each such report.
(g) That the Beneficiary shall undertake to:

(i) produce for each fiscal year, commencing twenty-four (24) months after the date of commissioning (“Commissioning Date”) of facilities constructed under its Sub-project, total revenues equivalent to not less than the sum of: its total operating expenses; and the amount by which debt service requirements exceeds the provision for depreciation;

(ii) review by September 30 in each fiscal year commencing immediately upon the first September 30 following the Commissioning Date, on the basis of forecasts prepared in a manner satisfactory to the Bank, to what extent it would meet the requirements set forth in subparagraph (g)(i) above, in respect of such year and the next following fiscal year and furnish to the Bank the results of such review upon its completion; and

(iii) that the Beneficiary shall undertake, if any such review shows that it would not meet the requirements set forth in sub-paragraph (g)(i) above for the fiscal years covered by such review, to promptly take all necessary measures in order to meet such requirements.

(h) For purposes of sub-paragraphs 8(g) above:

(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 “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, but excluding interest and other charges on debt.

(iv) The average current gross value of a Beneficiary’s fixed assets in operation shall be calculated as one half of the sum of the gross value of said 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.
(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 “debt” means any indebtedness of the Beneficiary maturing by its terms more than one (1) year after the date on which it is originally incurred.

(vii) 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.

(viii) 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.

(ix) 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 clause (i) above.

(x) 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.

(xi) 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 (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(xii) 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 (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(xiii) The term “capital expenditures” means all expenditures incurred on account of fixed assets, including interest charged to construction related to operations; and the term “average capital expenditures” in respect of any fiscal year means the average of capital expenditures incurred or expected to be incurred for that year, the previous fiscal year and the next following fiscal year.

(xiv) The term “reasonable forecast” means a forecast prepared by the Beneficiary, not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and said Beneficiary accept as reasonable and as to which the Bank has notified said Beneficiary 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 Beneficiary.

(xv) Whenever, for the purposes of paragraphs 8(g) and 8(h), 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.

(i) Provisions to ensure the right of CEAM to suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-project Financing upon failure by such Beneficiary to perform its obligations under its project Financing Agreement.