Loan Agreement

(Chongqing Small Cities Infrastructure Improvement Project)

between

PEOPLE’S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 10, 2005
AGREEMENT, dated September 10, 2005, between PEOPLE’S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Chongqing (as defined in Section 1.02) with the Borrower’s assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Chongqing, as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and Chongqing (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004) with the following modification (the General Conditions), constitute an integral part of this Agreement, namely, that Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Allocated Amount” means, in respect of each Project Company, the amount of the Loan allocated from time to time to such Project Company pursuant to paragraph 5 of Schedule 2 to the Project Agreement.
(b) “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) “CESC” means Chongqing Environment and Sanitation Holding (Group) Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of December 29, 2002, and to Business License No. 500001805577 dated December 19, 2002, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(d) “Chongqing” means the Borrower’s Chongqing Municipality, and any successor thereto.

(e) “CWRC” means Chongqing Water Resources Investment (Group) Company Limited, a state-owned limited liability company established and operating pursuant to its Charter of November 17, 2003, and to Business License No. 500001805653 dated November 23, 2004, issued by Chongqing Industrial and Commercial Administration Bureau, and any successor thereto.

(f) “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a “Displaced Person” means any of such Displaced Persons.

(g) “DWSC” means Dianjiang Water Supply Company Limited Chongqing, a state-owned limited liability company established and operating pursuant to its Charter of October 27, 1998, and to Business License No. 5002311801031 dated August 8, 2002, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(h) “Environmental Management Plan” means the Chongqing Small Cities Project Environmental Management Plan dated April 10, 2005, prepared on behalf of Chongqing, which said plan sets out the environmental protection measures in respect of the Project and dam safety measures to be carried out by certain local governments, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as said plan may be revised from time to time with the agreement of the Bank.

(i) “Fiscal Year” means the fiscal year of the Project Companies, covering the period January 1 through December 31.

(j) “NDCC” means Nanchuan Development and Construction Company Limited, a state-owned limited liability company established and operating pursuant to its

(k) “Procurement Plan” means the Borrower’s procurement plan, dated May 18, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(l) “Project Agreement” means the agreement between the Bank and Chongqing of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement.

(m) “Project Companies” means, collectively, CESC, CWRC, DWSC, NDCC, QREG, RWDC, SCDC, SCGC, TRDC, TWSC, YWDC, and YTIC; and “Project Company” means any of the Project Companies.

(n) “Project Participants” means collectively, Dianjiang County (“Dianjiang”), Nanchuan City (“Nanchuan”), Qianjiang District (“Qianjiang”), Rongchang County (“Rongchang”), Shizhu County (“Shihzu”), Tongnan County (“Tongnan”), Yongchuan City (“Yongchuan”) and Yubei District (“Yubei”), all of Chongqing Municipality; and a “Project Participant” means, individually, any of said Project Participants.

(o) “QREG” means Qianjiang District Real Estate Group Company, a state-owned enterprise established and operating pursuant to its Charter of August 8, 2003, and to Business License No.15001140 dated August 4, 2003, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(p) “Respective Parts of the Project” means in respect of:

(i) CESC, Parts D.1, E and F of the Project;
(ii) CWRC, Parts A.4, A.5, E and F of the Project;
(iii) DWSC, Parts A.1, E and F of the Project;
(iv) NDCC, Parts B.1, E and F of the Project;
(v) QREG, Parts C.1, E and F of the Project;
(vi) RWDC, Parts B.2, E and F of the Project;
(vii) SCDC, Parts B.3, E and F of the Project;
(viii) SCGC, Parts C.2, E and F of the Project;
(ix) TRDC, Parts C.3, E and F of the Project;
(x) TWSC, Parts A.2, E and F of the Project;
(xi) YWDC, Parts A.3, E and F of the Project; and
(xii) YTIC, Parts C.4, E and F of the Project.

(q) “Respective Project Companies” means in respect of:
(i) Chongqing: CESC and CWRC;
(ii) Dianjiang County: DWSC;
(iii) Nanchuan City: NDCC;
(iv) Qianjiang District: QREG;
(v) Rongchang County: RWDC;
(vi) Shizhu County: SCDC and SCGC;
(vii) Tongnan County: TWSC and TRDC;
(viii) Yongchuan City: YWDC; and
(ix) Yubei District: YTIC.

(r) “Resettlement Action Plan” means the Consolidated Resettlement Action Plan for the Chongqing Small Cities Project dated December 2004, and prepared on behalf of Chongqing, which sets out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons on account of the execution of Parts A, B, C and D of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Bank.

(s) “RWDC” means Rongchang Hong Yu Water Conservancy Corporation Limited, a state-owned limited liability company established and operating pursuant to its Charter of April 22, 2001, and to Business License No. 5002261800603 dated May 10, 2001, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(t) “SCDC” means Shizhu Tuja-Nation Autonomous County Urban Construction and Development Company, a state-owned enterprise established and
operating pursuant to its Charter of January 2002, and to Business License No. 5002401800053-1-1-1 dated May 2003, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(u) “SCGC” Shizhu Communications Construction Company, a state-owned enterprise established and operating pursuant to its Charter of October 20, 1998, and to Business License No. 50024018000077 dated April 11, 2001, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(v) “Songji Water Supply Scheme” means the regional water supply scheme to be constructed under Part A.4 of the Project.

(w) “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

(x) “Subsidiary Loan Agreements” means, collectively, the agreements to be entered into between each Project Participant and each of its Project Companies and between Chongqing and each of CESC and CWRC pursuant to paragraph 6 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules and supplements to said agreements; and a “Subsidiary Loan Agreement” means, individually, any of said Subsidiary Loan Agreements.

(y) “SWPC” means Shizhu Water and Electric Development Company, a state-owned enterprise established and operating pursuant to its Charter of January 1, 2003, and to Business License No. 5002401800129 dated October 18, 2003, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(z) “Tongguanyi Water Supply Scheme” means the regional water supply scheme to be constructed under Part A.5 of the Project.

(aa) “TRDC” means Tongnan County Road Development Company Limited a state-owned limited liability company established and operating pursuant to its Charter of July 30, 2004, and to Business License No. 5002281364501 dated October 21, 2004, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(bb) “TWSC” means Chongqing Tongnan Water Supply Company Limited a state-owned enterprise established and operating pursuant to its Charter of November 20, 2004, and to Business License No. 5002231804572 dated April 4, 2002, issued by Chongqing Municipal Industrial and Commercial Administration Bureau, and any successor thereto.

(cc) “YTIC” means Yubei Tongda Infrastructure Facilities Company Limited, a state-owned limited liability company established and operating pursuant to its Charter


Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Chongqing, Project Participants, CESC, CWRC, DWSC, NDCC, QREG, RWDC, SCDC, SCGC, SWPC, TRDC, TWSC, YWDC, and YTIC.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred eighty million Dollars ($180,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars, a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2012, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.
Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.

(iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollar for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to
the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Chongqing to perform in accordance with the provisions of the Project Agreement all the obligations of Chongqing therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Chongqing to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Chongqing on the following principal terms:

(i) The principal amount shall be made available in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn.

(ii) The following shall be recovered over a period of twenty (20) years, inclusive of a grace period of five (5) years: (A) the principal amount so made available; and (B) an amount equal to the fee paid pursuant to Section 2.04 of this Agreement.

(iii) Interest shall be charged 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 the provisions of Section 2.06 of this Agreement.

(iv) A commitment fee shall be charged on such principal amount of the Loan so made available and not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.
Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower 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 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Chongqing pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause Chongqing to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause Chongqing to:

(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, accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.
(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made;

(ii) enable the Bank’s representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) Chongqing shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Chongqing will be able to perform its obligations under the Project Agreement.

(c) Any of the parties to any of the Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:
(a) Subsidiary Loan Agreements, satisfactory to the Bank, shall have been entered into between the Project Participants and the Respective Project Companies and between Chongqing and each of CESC and CWRC, all in accordance with the provisions of paragraph 6 of Schedule 2 to the Project Agreement.

(b) The Bank shall have received evidence satisfactory to the Bank that Chongqing has entered into a contract with consultants, under terms of reference satisfactory to the Bank, to provide technical assistance for: (i) institutional and financial strengthening; (ii) design review and certification; and (iii) construction supervision and quality control.

Section 6.02. The following events are specified as additional matters, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) The Project Agreement has been duly authorized or ratified by Chongqing and is legally binding upon Chongqing in accordance with its terms.

(b) Each of the Subsidiary Loan Agreements referred to in Section 6.01 has been duly authorized or ratified by each of the parties thereto and is legally binding on said parties in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe, Beijing 100820
People’s Republic of China

Facsimile:

(86-10) 68551125
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.

PEOPLE’S REPUBLIC OF CHINA

By /s/ Zhu Guangyao

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ David Dollar

Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works under the following Parts of the Project:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Part A.4</td>
<td>15,500,000</td>
<td>) 15,500,000 82%</td>
</tr>
<tr>
<td>(b) Part A.5</td>
<td>31,300,000</td>
<td>) 82%</td>
</tr>
<tr>
<td>(c) Other Parts of the Project</td>
<td>118,200,000</td>
<td>)</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>500,000</td>
<td>) 100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 75% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) Consultants’ services and training</td>
<td>11,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Front-end Fee</td>
<td>900,000</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>2,100,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>180,000,000</td>
<td></td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule:

   (a) The term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region, and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be foreign expenditures.

   (b) The term “local expenditures” means any expenditures that are not foreign expenditures.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for:

   (a) Expenditures under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding $3,000,000 for expenditures by the Project Companies may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after March 1, 2005.

   (b) Expenditures under Category (1)(a) set forth in the table of paragraph 1 of this Schedule until the Bank shall have received evidence satisfactory to the Bank that CWRC has entered into a memorandum of agreement with Yongchuan City, under terms of reference satisfactory to the Bank, for the sale of raw water to Yongchuan City.

   (c) Expenditures under Category (1)(b) set forth in the table of paragraph 1 of this Schedule until the Bank shall have received evidence satisfactory to the Bank that CWRC has entered into a memorandum of agreement with each of Bishan town and Huxi town, under terms of reference satisfactory to the Bank, for the sale of raw water to Bishan town and Huxi town respectively.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

   (a) works under contracts costing less than $5,000,000 equivalent each;

   (b) goods under contracts costing less than $500,000 equivalent each;

   (c) consultants’ services under contracts with firms or individuals, each costing less than $100,000 equivalent or $50,000 equivalent, respectively; and

   (d) training, regardless of cost,

all under such terms and conditions as the Bank shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objective of the Project is to assist Chongqing in supporting sustainable growth in small cities by improving the efficiency and effectiveness of infrastructure service delivery in the cities.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Water Supply

Increase the supply of water to consumers by carrying out the following:

1. Expansion of water supply systems in Guixi, the county town of Dianjiang County, through construction of water intake facilities and reservoirs in the areas of Shuanghekou, Yanwuzui and Laixu, and construction of associated water transmission and water supply networks.

2. Construction and expansion of water supply systems in two (2) towns in Tongnan County as follows: (a) construction in Shuangjiang town of water intake and pumping facilities, a water treatment plant with a capacity of about 5,500 cubic meter per day (m³/d) and associated water transmission and water supply networks; and (b) expansion in Zitong town of its existing pumping station, installation of clear water tanks and construction of associated water distribution network.

3. Construction of water supply systems to serve each of the towns of Linjiang, Zhangjia and Jinlong, including water intake facilities, pumping facilities, a 1,500 m³/d water treatment plant for Linjiang town, a 500 m³/d water treatment plant for Zhangjia town, a 1,000 m³/d water treatment plant for Jinlong town, and associated water transmission and water supply network.

4. Construction of a water supply system, including intake facilities in the Songji area, a 63,000 m³/d raw water extraction facility and associated water transmission and distribution network, all to supply water to Yongchuan City and enable water to be supplied to neighboring towns.

5. Construction of a regional water supply system, including water intake facilities in Tongguanyi town, pumping facilities, a 230,000 m³/d raw water extraction facility and associated water transmission and water supply network, all to supply water to about sixteen (16) selected areas in Jiulongpo District, Shapingba District and Bishan County.
Part B: Flood Protection

Enhance protection against floods, improve surrounding landscape and make land available for development by carrying out the following:

1. In Nanchuan City, construction of flood control embankments along selected sections of the Fengzui River, including bund roads, bridges and a footbridge.

2. In Rongchang County, construction of flood control embankments along selected sections of the Laixi River, including bund roads and bridges.

3. In Shizhu County, extension of the existing flood control embankments and footpaths on the south side of the Longhe River and creation of landscaped areas in Nanbin.

Part C: Road Improvement and Construction

Improve accessibility to and from various towns and areas by carrying out the following:

1. In Qianjiang District, construction of a road (including a bridge section) to link the Zhengyang and Zhangjiaba new development areas.

2. In Shizhu County, construct a road to link Nanbin town to the Dianjiang-Lichuan expressway.

3. In Tongnan County, construct a road to link Tongba town to the Chongqing-Suining-Chengdu expressway.

4. In Yubei District, construct a road to link Tongjing town to the Chongqing-Linhui expressway.

Part D: Sanitation

Upgrading and construction of about two hundred thirty (230) public toilets in selected areas of Chongqing City where sanitary facilities are not available or existing facilities are in poor state of repair and in poor neighborhoods.

Part E: Institutional Strengthening

1. Strengthen the organizational, institutional and financial capacities of:

   (a) TWSC and DWSC and the water supply units in CWRC and YWDC, which are implementing the Project, to discharge their functions as water suppliers; and
(b) the relevant local government bureaus, divisions or units with jurisdiction over: (i) the water supply Project Companies located in Dianjiang, Tongnan and Yongchuan; and (ii) Jiulongpo District, Shapinba District and Bishan County, all to manage, monitor and oversee the performance of the respective Project Companies operating within their jurisdiction, including provision of technical assistance, training and study tours.

2. Strengthen the capacity of the Project Companies to implement the Project, including provision of technical assistance for design review and certification, construction supervision and contract management

3. Strengthen the organizational, institutional and financial capacities of Chongqing municipal government agencies and Project Participants, including provision of training and study tours.

4. Support initiatives for the provision of infrastructure services by the private sector.

5. Carry out the following:

   (a) an update on the assessment of all water resources in the water scarce western regions of Chongqing and development of policies for water resources management; and

   (b) a study on and development of policies and procedures for the provision of public toilets in Chongqing City in the context of city development.

Part F: Resettlement

Resettlement and rehabilitation of Displaced Persons in connection with the implementation of Parts A, B, C and D of the Project

* * *

The Project is expected to be completed by June 30, 2011.
SCHEDULE 3

Amortization Schedule

<table>
<thead>
<tr>
<th>Date of Payment Due</th>
<th>Payment of Principal (expressed in Dollars)*</th>
</tr>
</thead>
<tbody>
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*The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04(d) of the General Conditions.
SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

   (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

   (c) the term “Authorized Allocation” means an amount equivalent to $10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $7,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of $70,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

   (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

   (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the
basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.
6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6(a), 6(b) and 6(c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.