Project Agreement

(Henan Towns Water Supply and Sanitation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

HENAN PROVINCE

Dated September 1, 2006
PROJECT AGREEMENT

AGREEMENT, dated September 1, 2006, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HENAN PROVINCE (Henan).

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 fifty million Dollars ($150,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Henan agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Henan, 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) Henan 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 Counties 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 Henan shall otherwise agree, Henan 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) Henan 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) Henan 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, Henan 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 Henan, a plan for the continued achievement of the objectives of the Project; and

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

Section 2.04. (a) Henan 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) Henan 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 Henan of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Henan 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) Henan shall:
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;

(f) 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 Henan’s progress reporting obligations set out in paragraph 9 of Schedule 2 to this Agreement, Henan shall prepare and furnish to the Bank financial monitoring reports, in form and substance satisfactory to the Bank, which set 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 explain 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 ninety (90) 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 ninety (90) 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 Henan thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Henan 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 Henan:

Henan Finance Department, Foreign Loan
Finance Project Management Office
25 Jingsan Road
Zhengzhou, Hunan Province
People’s Republic of China

Facsimile:
86-371-6571-0590

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 Henan may be taken or executed by its Governor or a Vice Governor or such other person or persons as said Governor or a Vice Governor shall designate in writing, and Henan 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

HENAN PROVINCE

By: /s/ Mr. Zhang Dawei
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 for the procurement of goods and works shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Borrower).

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $500,000 equivalent per contract and works (including supply of equipment) estimated to cost less than $15,000,000 equivalent per contract, 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 Henan, 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 date and 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 Henan, 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).

3. **Shopping.** Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $200,000 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. **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.

2. **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

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:
(a) each contract for goods estimated to cost the equivalent of $500,000 or more;

(b) in the first twelve (12) months of implementation the initial five (5) contracts for goods procured on the basis of National Competitive Bidding and after the first twelve (12) months, the initial two (2) contracts in each following twelve-month period for goods procured on the basis of National Competitive Bidding;

(c) each contract for works estimated to cost the equivalent of $5,000,000 or more;

(d) in the first twelve (12) months of implementation the initial five (5) contracts for works procured on the basis of National Competitive Bidding and after the first twelve (12) months, the initial two (2) contracts in each following twelve-month period for works procured on the basis of National Competitive Bidding; and

(e) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of $50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.
SCHEDULE 2

Implementation Program

Project Management

1. Henan 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 Project Steering Committee, chaired by a Vice Governor, which committee is responsible for providing overall policy guidance and support for Project implementation.

   (b) The Provincial Project Management Office ("PPMO"), which is established within the Henan Finance Department and responsible for overall Project coordination; providing procurement support and technical guidance to the Project Companies; and overall management of Loan disbursement and monitoring and evaluation of Project implementation.

Resettlement, Environment Protection, and Dam Safety

2. Henan shall:

   (a) take, and shall cause the Project Counties 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 and prior to the commencement of any works under the Project, implement, and cause the Project Counties and the Project Companies to implement the Resettlement Action Plan, in a manner satisfactory to the Bank; and

   (c) provide, and cause the Project Counties 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. Henan shall implement, and shall cause the Project Counties 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.

4. Henan shall, and shall cause the Project Counties 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 (including monitoring safety of the Project Dams) 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 March 30 and September 30 of each year, commencing on March 30, 2007, semi-annual reports of the results of the monitoring and evaluation activities with respect to the Environmental Management Plan (including monitoring the safety of the Project Dams) and Resettlement Action Plan 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.

5. (a) Henan shall cause each of the Project Counties/Project Municipalities of Baofeng, Queshan, Lushan, and Minggan to carry out in a timely manner any remedial works that is identified or recommended in any report prepared pursuant to the provisions of paragraph 4(b) of this Schedule 2 as being appropriate to be implemented at their respective Project Dams.

(b) Without limitation on the provisions of sub-paragraph (a) of this paragraph 5, Henan shall cause:

(i) Baofeng County to carry out the remedial works at Longxingsi Reservoir in accordance with the plan set forth in Verification of Dam Inspection and Assessment for Longxingsi dated August 18, 2003; and Queshan County to carry out the remedial works at Boshan Reservoir in accordance with the plan set forth in Verification of Dam Inspection and Assessment for Boshan dated January 12, 2004; and

(ii) Baofeng County and Queshan County by December 31, 2006, to have in place and begin implementing operational and monitoring procedures, satisfactory to Henan and the Bank, to ensure, inter alia, that the operational pond level of each reservoir is maintained at safe levels prior to and during the flood seasons.
Financial Arrangements

6. Henan, through the respective Project Municipality, shall allocate to each Project County an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:

   (a) Henan shall make available the principal amount, which has been allocated to each Project County, 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 Company’s Respective Parts of the Project;

   (b) Henan 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) Henan 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) Henan 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

7. (a) Henan shall cause each Project County to relend the portions of the proceeds of the Loan, which was allocated to it pursuant to paragraph 6 of this Schedule for the purposes of carrying out its Respective Project Company’s Respective Parts of the Project, to such Project Company under a subsidiary loan agreement to be entered into between said Project County and its Respective Project Company: (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; and

   (b) No expenditures for goods, works or consultants’ services required by a Project Company to carry out its Respective Parts of the Project shall be eligible for financing out of the proceeds of the Loan unless: (i) the Project Company shall have entered into said subsidiary loan agreement with its respective Project County; and (ii) the Bank has received evidence, satisfactory to the Bank, that the subsidiary loan agreement has been duly authorized or ratified by the parties thereto and is legally binding upon the parties thereto in accordance with its terms.
8. Henan, through the relevant Project Municipality and Project County, shall cause each of the LP Companies: (a) to furnish to the Bank by December 31, 2006, a time-bound action plan, prepared in accordance with terms of reference satisfactory to the Bank (including, actions to reduce costs related to inefficiencies), to improve its financial performance; and (b) to implement said plan, taking into account the Bank’s comments thereon.

Monitoring and Reporting

9. Henan shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Schedule 4 of this Agreement, 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 30 and September 30 of each year, commencing on March 30, 2007, 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 June 30, 2009, 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 October 30, 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 7 of Schedule 2 to this Agreement, the terms of availability of the Loan proceeds shall be those set forth in Section I of this Schedule 3; and the Subsidiary Loan Agreements shall be entered into on the conditions set forth in Section II of this Schedule 3.

Section I. Terms of Availability

1. The principal amount of each Subsidiary Loan made by a Project County to its 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 the 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, Henan and the Project County 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, Henan, and the Project County 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, Henan or the Project County 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 Henan shall reasonably request.

   (d) Prepare and furnish to the Bank, Henan and the Project County concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Henan or the Project County 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 set forth in Schedule 4 of this Agreement 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 Henan and furnish to Henan for its review, consolidation and submission to the Bank in accordance with paragraph 9 of Schedule 2 to this Agreement, commencing on March 30, 2007, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this subparagraph (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 covenant

6. (a) Except as the Bank shall otherwise agree, each Project Company shall undertake to produce for each of its fiscal years after its fiscal year ending on: (i) December 31, 2007 for each Project Company Category A; (ii) December 31, 2008, for each Project Company Category B; and (iii) December 31, 2009, for each Project Company Category C, total revenues equivalent to not less than the sum of its: (A) total operating expenses; (B) the amount by which debt service requirements exceed the provision for depreciations; and (C) the amount of capital expenditures required by the Project Company to implement its Respective Parts of the Project.

(b) Before September 30 in each of its fiscal years, each Project Company shall undertake to review, on the basis of forecasts prepared by each Project Company and satisfactory to the Bank, 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) Each Project Company shall undertake that if any such review shows that it would not meet the requirements set forth in paragraph (a) for the Project Company’s fiscal years covered by such review, it shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For purposes of this paragraph 6:

(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 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 Project Company’s fixed assets in operation shall be calculated as one half of the sum of the gross value of the 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) The term “capital expenditures” means all expenditures incurred on account of fixed assets, including interest charged during construction, related to operations.

(viii) Whenever for the purposes of this paragraph 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.
Other Provisions

7. Each of the LP Companies shall undertake to furnish to the Bank by December 31, 2006, a time-bound action plan, prepared in accordance with terms of reference satisfactory to the Bank (including, actions to reduce cost related to inefficiencies), to improve its financial performance and to implement said plan, taking into account the Bank’s comments thereon.

8. Each Project County and Henan, 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.
## SCHEDULE 4

### Indicators

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<th>Outcome Indicators</th>
<th>Unit</th>
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<th>2006</th>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td>1. Number of people with access to improved water supply in project towns</td>
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<td>1,516</td>
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<td>3. Aggregate population growth of the participating towns</td>
<td>%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>4. Aggregate net profit after tax of participating WSCs.</td>
<td>Mil Rmb</td>
<td>-2.3</td>
<td>-1.1</td>
<td>0.2</td>
<td>12.8</td>
<td>32</td>
<td>57.6</td>
<td>92.8</td>
<td>110.4</td>
</tr>
</tbody>
</table>

### Target Values

<table>
<thead>
<tr>
<th>Yearly cumulative report based on detailed progress reporting</th>
<th>Data Collection and Reporting</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency and Reports</td>
<td>Data aggregated by PPMO</td>
</tr>
</tbody>
</table>

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<th>Yearly cumulative report based on detailed progress reporting</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual Reports</td>
<td>WCUs Annual Reports</td>
</tr>
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</table>