

No. 45545*

**International Bank for Reconstruction and Development
and
China**

Loan Agreement (Liaoning Third Medium Cities Infrastructure Project) between the People's Republic of China and the International Bank for Reconstruction and Development (with schedules, appendix and International Bank for Reconstruction and Development General Conditions for Loans, dated 1 July 2005, as amended through 12 February 2008). Beijing, 1 July 2008

Entry into force: *18 November 2008 by notification*

Authentic texts: *English*

Registration with the Secretariat of the United Nations: *International Bank for Reconstruction and Development, 15 December 2008*

**Banque internationale pour la reconstruction et le développement
et
Chine**

Accord de prêt (Troisième projet d'infrastructure des villes moyennes de Liaoning) entre la République populaire de Chine et la Banque internationale pour la reconstruction et le développement (avec annexes, appendice et Conditions générales applicables aux prêts de la Banque internationale pour la reconstruction et le développement, en date du 1er juillet 2005, telles qu'amendées au 12 février 2008). Beijing, 1 juillet 2008

Entrée en vigueur : *18 novembre 2008 par notification*

Textes authentiques : *anglais*

Enregistrement auprès du Secrétariat des Nations Unies : *Banque internationale pour la reconstruction et le développement, 15 décembre 2008*

* *The texts reproduced below are the original texts of the agreement as submitted. For ease of reference, they were sequentially paginated. Their final UNTS version is not yet available.*

Les textes reproduit ci-dessous sont les textes authentiques de l'accord tel que soumises pour l'enregistrement. Pour référence, ils ont été présentés sous forme de la pagination consécutive. Leur version finale RTNU n'est pas encore disponible.

[ENGLISH TEXT – TEXTE ANGLAIS]

Loan Agreement

Agreement dated July 1, 2008, between People's Republic Of China ("Borrower") and International Bank For Reconstruction And Development ("Bank"). The Borrower and the Bank hereby agree as follows:

Article I - General Conditions; Definitions

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

Article II-Loan

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred ninety one million Dollars (\$191,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.

2.05. The Payment Dates are April 15 and October 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

Article III - Project

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project Implementing Entity to carry out the Project in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article IV - Remedies Of The Bank

4.01. The Additional Events of Suspension consists of the following, namely, that any party to a Subsidiary

Loan Agreement shall have failed to perform any of its obligations thereunder.

Article V - Effectiveness

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

Article VI - Representative; Addresses

6.01. The Borrower's Representative is the Minister of Finance.

6.02. The Borrower's Address is:

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

Facsimile: (86-10)68551125

6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423(MCI) or	1-202-477-6391
Washington, D.C.	64145(MCI)	

Agreed at Beijing, People's Republic of China, as of the day and year first above written.

People's Republic Of China

By /s/ Zheng Xiaosong

Authorized Representative

International Bank For Reconstruction And Development

By /s/ David Dollar

Authorized Representative

Schedule 1: Project Description

The objective of the Project is to assist Liaoning Province in improving the energy efficiency and environmental performance of heating and gas services in the Project areas of the Project Cities.

The Project consists of the following parts:

Part A: Centralized Heating Infrastructure

Construction and rehabilitation of centralized heating systems in the Project Cities, including:

1. Benxi (Central Heating Supply): construction and/or rehabilitation of boiler plants, central heating networks, group substations and building level substations and provision of meters (including building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.
2. Benxi (Steel Central Heating Supply): construction and/or rehabilitation of waste heat recovery systems including waste heat collectors, central heating networks, and pumping stations; and provision of auxiliary equipment, and plant operation and maintenance equipment.
3. Benxi Nanfen (Central Heating Supply): construction and/or rehabilitation of boiler plants, central heating networks, group substations and building level substations; and provision of meters (including building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.
4. Fushun (Power Plant Heating Network Expansion): construction and/or rehabilitation of central heating networks, group substations and building level substations; and provision of auxiliary equipment, and control and monitoring equipment.
5. Gonchangling (Central Heating Supply): construction and/or rehabilitation of boiler plants, booster pump stations, central heating networks, group substations and building level substations; and provision of meters (including building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.
6. Haicheng (Central Heating Supply): construction and/or rehabilitation of boiler plants, central heating networks, group substations and building level substations; and provision of meters (including building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.
7. Huludao Yangjiazhangzi (Central Heating Supply): construction and/or rehabilitation of boiler plants, central heating networks, group substations and building level substations; and provision of meters (including building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.
8. Yingkou Dashi qiao (Central Heating Supply): construction and/or rehabilitation of boiler plants, central heating networks, group substations and building level substations; and provision of meters (including

building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.

9. Yingkou Economic Development Zone (Central Heating Supply): construction and/or rehabilitation of booster pump stations, central heating networks, group substations and building level substations, and provision of meters (including building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.

10. Northern Yingkou (Central Heating Supply): construction and/or rehabilitation of central heating networks, booster pump stations, group substations and building level substations; and provision of meters (including building level meters), auxiliary equipment, control and monitoring equipment, and plant management and maintenance equipment.

Part B: Urban Natural Gas Infrastructure

Construction and rehabilitation of urban gas infrastructure in Yingkou Municipality, including: (a) rehabilitation of natural gas transmission facilities; (b) rehabilitation and capacity expansion of natural gas storage equipment; and (c) rehabilitation and capacity expansion of gas distribution network.

Part C: Institutional Development

Strengthening Project Companies' capacity to implement and manage the Project, including:

(a) provision of technical assistance and training to the Project Companies (except for Yingkou Gas Company) with respect to: bidding documents preparation, engineering design review, Project management, Project monitoring and evaluation, equipment operation and maintenance; and monitoring of building level substations and building level heat meters; and

(b) provision of technical assistance and training to Yingkou Gas Company with respect to: bidding documents preparation, engineering design review, Project management, Project monitoring and evaluation, and operation safety measures and procedures.

Schedule 2: Project Execution

Section I. Financing Arrangements

1. The Borrower shall make available the proceeds of the Loan to the Project Implementing Entity under terms and conditions satisfactory to the Bank, including the following principal terms:

(a) The principal amount shall be made available in Dollars.

(b) The principal amount so made available, including the Front-end Fee paid pursuant to Section 2.03 of this Agreement, shall be recovered over a period of thirty (30) years, inclusive of a grace period of five (5) years.

(c) 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 Section 2.04 of this Agreement.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate, and cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in Annex B to the Schedule to the Project Agreement. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than seventy-five (75) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain, or cause to be maintained, a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than seventy five (75) days after the end of each calendar semester, interim un-audited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants' Services. All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures. The provisions of paragraphs 2.55 and 2.56 of the Procurement 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).

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Methods

(a) National Competitive Bidding. In addition, 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 Procurement 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 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 the Project Implementing Entity, 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) Bidders will be allowed to submit bids by mail or by hand. 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) All bid evaluation criteria shall be disclosed in the bidding documents and quantified in monetary terms or expressed in the form of pass/fail requirements.

(viii) 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 the Project Implementing Entity, as the case may be.

(ix) 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.

(x) 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.

(xi) Government owned enterprises in the Borrower's country may be permitted to bid or submit a proposal of goods and works if they can establish that they: (i) are legally and financially autonomous; (ii) operate under commercial law; and (iii) are not a dependent agency of the agency conducting the procurement.

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

(b) Shopping

(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, 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.

2. Other Methods of Procurement of Consultants' Services. The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method

(a) Selection based on the Consultants' Qualifications

(b) Single-source Selection

(c) Individual Consultants

D. 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) each contract for works estimated to cost the equivalent of \$5,000,000 or more; (c) the first civil work contract and all contracts procured based on Direct Contracting, regardless of contract value thereof; (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more; and (e) each contract for consultants' services provided by a firm to be procured using Single-source Selection procedure, regardless of contract value thereof. All other contracts shall be subject to Post Review by the Bank. With respect to each consulting contract not subject to the Bank's prior review, prior to the selection of a consulting firm or an individual consultant, the Borrower shall furnish the terms of reference for said consulting firm or individual consultant to the Bank for its no-objection.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in Dollars)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Part A.1 of the Project		
(a) Civil works	9,983,192	39%
(b) Goods (including installation)	23,920,000	100%
(2) Part A.2 of the Project		
(a) Civil works	14,203,618	59%
(b) Goods (including installation)	3,100,000	100%

(3) Part A.3 of the Project (a) Civil works (b) Goods (including installation)	2,057,504 5,330,000	39% 100%
(4) Part A.4 of the Project (a) Civil works (b) Goods (including installation)	11,207,291 4,480,000	60% 100%
(5) Part A.5 of the Project (a) Civil works (b) Goods (including installation)	3,572,727 10,290,000	34% 100%
(6) Part A.6 of the Project (a) Civil works (b) Goods (including installation)	4,354,321 9,320,000	46% 100%
(7) Part A.7 of the Project (a) Civil works (b) Goods (including installation)	3,323,496 5,720,000	40% 100%
(8) Part A.8 of the Project (a) Civil works (b) Goods (including installation)	4,110,095 13,610,000 "	40% 100%
(9) Part A.9 of the Project (a) Civil works (b) Goods (including installation)	15,017,886 12,420,000	50% 100%
(10) Part A. 10 of the Project (a) Civil works (b) Goods (including installation)	21,332,870 7,880,000	60% 100%
Category	Amount of the Loan Allocated (expressed in Dollars)	Percentage of Expenditures to be financed (inclusive of Taxes)
(11) Part B of the Project (a) Civil works (b) Goods (including installation)	989,500 3,080,000	40% 100%
(12) Consultants services, training, workshops, and study tours under Part C of the Project	1,220,000	100%

(13) Front-end Fee	477,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
Total Amount	191,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement; except that withdrawals up to an aggregate amount not to exceed \$21,317,000 equivalent may be made for payments made prior to this date but on or after October 15, 2007, for Eligible Expenditures under Categories of (1)(a) and (1)(b); (5)(a) and (5)(b); (8)(a) and (8)(b); (9)(a) and (9)(b); and (12);

(b) for payments under, respectively, Categories (1)(a) and (1)(b); Categories (2)(a) and (2)(b); Categories (3)(a) and (3)(b); Categories (4)(a) and (4)(b); Categories (5)(a) and (5)(b); Categories (6)(a) and (6)(b); Categories (7)(a) and (7)(b), Categories (8)(a) and (8)(b), Categories (9)(a) and (9)(b), Categories (10)(a) and (10)(b), and Categories (11)(a) and (11)(b), until, with respect to each such case, the Bank shall have notified the Borrower and Liaoning of its receipt of a copy of the Subsidiary Loan Agreement entered into between the Project City concerned and its Respective Project Company, satisfactory to the Bank and in accordance with the provisions of paragraph 3 of Section I of the Schedule to the Project Agreement;

(c) for payments under, respectively, Categories (2)(a) and (2)(b); Categories (4)(a) and (4)(b); Categories (9)(a) and (9)(b); and Categories (10)(a) and (10)(b) until, with respect to each such case, the Bank shall have notified the Borrower and Liaoning of its receipt of a copy of a long-term heating supply contract satisfactory to the Bank entered into between each of Benxi Steel (Group) Heating Development Company, Ltd, Fushun Thermal Power Company Ltd, Yingkou EDZ Huayuan Heating Company Ltd, and Yingkou Heating Company and its respective heat supplier;

(d) for payments under Categories (11)(a) and (11)(b) with respect to Part B of the Project, until the Bank shall have received satisfactory evidence showing that: (i) Yingkou Municipality has conducted a feasibility study for said Part of the Project satisfactory to the Bank; and (ii) Yingkou Municipality has prepared and adopted an environmental management plan (including an emergency response plan) and a resettlement action plan if required pursuant to the Resettlement Policy Framework, all acceptable to the Bank; and

(e) for payments under Categories (1)(a) and (1)(b) until the Bank shall have notified the Borrower and Liaoning of its receipt of a copy of a staffing plan satisfactory to the Bank prepared by the Benxi Hengze Heating Development Company Ltd. for implementing its Respective Part of the Project.

2. The Closing Date is December 31, 2013.

Schedule 3: Amortization Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount, of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15: Beginning October 15, 2013 through April 15, 2038	2%

If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

Appendix

Section I. Definitions

(a) "Benxi Hengze Heating Development Company Ltd." means the limited liability company established and operating pursuant to its Charter dated August 10, 2006 and to Business License No. 2105001300258 dated August 15, 2006, issued by Benxi Municipality Industry and Commerce Administrative Bureau, and any successor thereto.

(b) "Benxi Steel (Group) Heating Development Company Ltd." means the state-owned limited liability company established and operating pursuant to its Charter dated December 25, 1998, and to Business License No. 2105001100290 dated December 25, 1998, issued by Benxi Municipality Industry and Commerce Administrative Bureau, and any successor thereto.

(c) "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

(d) "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004.

(e) "Dashiqiao Hongyang Heating Company Ltd." means the limited liability company established and operating pursuant to its Charter dated September 9, 2005, and to Business License No. 2108822300362 dated July 21, 2006, issued by Dashiqiao City Industry and Commerce Administrative Bureau, and any successor thereto.

(f) "Dashiqiao Urban Construction and Investment Company" means the limited liability company established and operating pursuant to its Charter dated June 20, 2007, and to Business License No. 210882004004454 dated July 9, 2007, issued by Dashiqiao Municipality Industry and Commerce Administrative Bureau, and any successor thereto.

(g) "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: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the in-

voluntary 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.

(h) "Environmental Management Plans" means, collectively, the Environmental Management Plans each dated August 15, 2007 prepared, respectively, for Part A.1, Part A.2, Part A.3, Part A.4, Part A.5, Part A.6, Part A.7, Part A.8, Part A.9, Part A. 10, and Part B of the Project, which said plans set out the environmental protection measures in respect of each said Part of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plans, as said plans may be revised from time to time with the agreement of the Bank and "Environmental Management Plan" means, individually, any of the Environmental Management Plans.

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

(j) "FFUPO" means the Foreign Fund Utilization Project Office established under the Liaoning Provincial Development and Reform Commission and referred to in paragraph 1(a)(ii) of Section I of the Schedule to the Project Agreement, and any successor thereto.

(k) "Fushun Thermal Power Company Ltd." means the limited liability company established and operating pursuant to its Charter dated May 10, 2006, and to Business License No. 2104001300440 dated October 26, 2006, issued by Fushun Municipality Industry and Commerce Administrative Bureau, and any successor thereto.

(l) "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.

(m) "Haicheng Hengye Heating Supply Co., Ltd." means the limited liability company established and operating pursuant to its Charter dated September 26, 2007, and to Business License No. 210381009130531 dated September 28, 2007, issued by Haicheng City Industry and Commerce Administrative Bureau, and any successor thereto.

(n) "Huludao Yangjiazhangzi Economic Development Zone District Mudu Heating Company Ltd." means the state-owned limited liability company established and operating pursuant to its Charter dated October 12, 2007, and to Business License No. 211402004006865 dated October 1, 2007, issued by Huludao City Industry and Commerce Administrative Bureau, and any successor thereto.

(o) "Liaoning" means the Borrower's Liaoning Province, and any successor thereto.

(p) "Liaoyang Gongchangling Qianglong Heating Company Limited" means the limited liability company established and operating pursuant to its Charter dated-April 19, 2007, and to Business License No. 2110001400398 dated

April 29, 2007, issued by Liaoyang Municipality Industry and Commerce Administrative Bureau, and any successor thereto.

(q) "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004.

(r) "Procurement Plan" means the Borrower's procurement plan for the Project, dated April 1, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

(s) "Project Agreement" means the agreement between the Bank and Liaoning 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.

(t) "Project Cities" means the Borrower's municipalities of Benxi, Fushun, Yingkou, and Huludao and county-level cities of Yingkou EDZ and Dashiqiao each under the jurisdiction of Yingkou municipality, Haicheng under the jurisdiction of Anshan municipality, Gongchangling under the jurisdiction of Liaoyang municipality, and Yangzhajianzi under jurisdiction of Huludao municipality; all located in Liaoning Province, and any successors thereto; and a "Project City" means, individually, any of said Project Cities.

(u) "Project Companies" means, collectively, Benxi Steel (Group) Heating Development Company Ltd, Benxi Hengze Heating Development Company Ltd, Dashiqiao Urban Construction and Investment Company, Fushun Thermal Power Company Ltd, Liaoyang Gongchangling Qianglong Heating Company Limited, Haicheng Hengye Heating Supply Company Ltd., Huludao Yangjiazhangzi Economic Development Zone District Mudu Heating Company Ltd, Yingkou EDZ Huayuan Heating Company Ltd, Yingkou Heating Company, and Yingkou Gas Company; and "Project Company" means, individually, any of the Project Companies.

- (v) "Project Coordination Group"-means the group referred in paragraph l(a)(i) of Section I of the Schedule to the Project Agreement.
- (w) "Project Implementing Entity" means the Borrower's Province of Liaoning and any successor thereto.
- (x) "Project Management Offices" means the offices referred to in paragraph l(a)(iii) of Section I of the Schedule to the Project Agreement.
- (y) "Resettlement Action Plans" means, collectively, "Resettlement Action Plans" each dated December 2007, prepared respectively for Part A.I, Part A.3, Part A.6, Part A.7 and Part A.8 of the Project; which said plans set 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 each said Part of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plans, as the same may be revised from time to time with the prior agreement of the Bank; and "Resettlement Action Plan" means any of the Resettlement Action Plans.
- (z) "Resettlement Policy Framework" means the policy framework dated December 2007 adopted by each Project City, which sets out policies and procedures for acquisition, compensation and rehabilitation of Displaced Persons, and guidelines for the preparation of resettlement action plans if necessary, as said policy framework may be amended from time to time with the prior agreement of the Bank.
- (aa) "Respective Part of the Project" means in respect of:
- (i) Benxi Hengze Heating Development Company Ltd: Part A.I of the Project.
 - (ii) Benxi Steel Group Heating Development Company Ltd: Part A.2 and Part A.3 of the Project.
 - (iii) Fushun Thermal Power Company Ltd: Part A.4 of the Project.
 - (iv) Liaoyang Gongchangling Qianglong Heating Company Limited: Part A.5 of the Project.
 - (v) Haicheng Urban Construction Investment Company: Part A.6 of the. Project.
 - (vi) Huludao Yangjiazhangzi Economic Development Zone District Mudu Heating Company Ltd: Part A.7 of the Project.
 - (vii) Dashiqiao Urban Construction and Investment Company: Part A.8 of the Project.
 - (viii) Yingkou EDZ Huayuan Heating Company Ltd: Part A.9 of the Project,
 - (ix) Yingkou Heating Company: Part A. 10 of the Project,
 - (x) Yingkou Gas Company: Part B of the Project,
 - (xi) Project Implementing Entity: Part C of the Project.
- (bb) "Respective Project Company" means in respect of:
- (i) Benxi Municipality: Benxi Steel (Group) Heating Development Company Ltd. and Benxi Hengze Heating Development Company Ltd.
 - (ii) Dashiqiao City: Dashiqiao Urban Construction and Investment Company.
 - (iii) Fushun Municipality: Fushun Thermal Power Company Ltd.
 - (iv) Gongchangling City: Liaoyang Gongchangling Qianglong Heating Company Limited.
 - (v) Haicheng City: Haicheng Hengye Heating Supply Company Ltd.
 - (vi) Huludao Municipality: Huludao Yangjiazhangzi Economic Development Zone District Mudu Heating Company Ltd.
 - (vii) Yingkou Municipality: Yingkou Heating Company and Yingkou Gas Company.
 - (viii) Yingkou EDZ: Yingkou EDZ Huayuan Heating Company Ltd.
- (cc) "Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between each Project City and its Respective Project Company pursuant to paragraph 3 of Section I of the Schedule 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.
- (dd) "Yingkou EDZ" means the Yingkou Economic Development Zone.
- (ee) "Yingkou EDZ Huayuan Heating Company Ltd." means the limited liability company established and operating pursuant to its Charter dated July 2, 2007, and to Business License No. 21080000401366 dated July 13, 2007 issued by Yingkou Municipality Industry and Commerce Administrative Bureau, and any successor thereto.
- (ff) "Yingkou Heating Company" means the state-owned enterprise established and operating pursuant to its Business License No. 2108001110375 dated May 13, 2003, issued by Yingkou Municipality Industry and Commerce Administrative Bureau, and any successor thereto.
- (gg) "Yingkou Gas Company" means the state-owned enterprise established and operating pursuant to its Business License No. 2108001110889 dated April 22,

2003, issued by Yingkou Municipality Industry and Commerce Administrative Bureau, and any successor thereto.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Loans of the Bank, dated July 1, 2005 (as amended through February 12, 2008) are as follows:

1. The first paragraph under Section 7.02 of the General Conditions is modified to read as follows:

"Section 7.02. Suspension by the Bank

If any of the events specified in paragraphs (a) through (k) of this Section occurs and is continuing, the Bank may, by notice to the Loan Parties, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account. Such suspension shall continue until the event (or events) which gave rise to the suspension has (or have) ceased to exist, unless the Bank has notified the Loan Parties that such right to make withdrawals has been restored."

2. Paragraphs (c) and (1) under Section 7.02 are deleted in their entirety and paragraphs (d) through (m) under Section 7.02 are re-number accordingly.

3. Paragraph (c) under Section 7.03 is modified to read as follows:

"(c) Fraud; Corruption; Collusion; Coercion. At any time, the Bank: (i) determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or the Project Implementing Entity (or other recipient of the Loan proceeds) during the procurement or the execution of such contract, without the Borrower or the Project Implementing Entity (or other recipient of the Loan proceeds) having taken timely and appropriate action satisfactory to the Bank to remedy the situation; and (ii) establishes the amount of expenditures under such contract which would otherwise have been eligible for • financing out of the proceeds of the Loan."

4. Paragraphs (c), (d), and (e) under Section 7.06 are modified to read as follows:

"(c) Co-financing. The event specified in sub-paragraph (g)(ii)(B) of Section 7.02 has occurred, subject to the proviso of paragraph (g)(iii) of that - Section.

(d) Assignment of Obligations; Disposition of Assets. Any event specified in paragraph (h) of Section 7.02 has occurred.

(e) Condition of Borrower or Project Implementing Entity. Any event specified in sub-paragraph Q(ii), (j)(ii)> (i)(iv) or (j)(v) of Section 7.02 has occurred."

5. Paragraphs 3, 15, 16, 17, 18 under Appendix (Definitions) are modified to read as follows:

"3. "Additional Event of Suspension" means any event of suspension specified in the Loan Agreement for the purpose of Section 7.02(k)."

"15. "Co-financier" means the financier (other than the Bank or the Association) referred to in Section 7.02(g) providing the Co-financing. If the Loan Agreement specifies more than one such financier, "Co-financier" refers separately to each of such financiers."

"16. "Co-financing" means the financing referred to in Section 7.02(g) and specified in the Loan Agreement provided or to be provided for the Project by the Co-financier. If the Loan Agreement specifies more than one such financing, "Co-financing" refers separately to each of such financings."

"17. "Co-financing Agreement" means the agreement referred to in Section 7.02(g) providing for the Co-financing."

"18. "Co-financing Deadline" means the date referred to in Section 7.02(g)(i) and specified in the Loan Agreement by which the Co-financing Agreement is to become effective. If the Loan Agreement specifies more than one such date, "Co-financing Deadline" refers separately to each of such dates."

Project Agreement

Agreement dated July 1, 2008, entered into between International Bank For Reconstruction And Development ("Bank") and Liaoning Province ("Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") of same date between People's Republic Of China ("Borrower") and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

Article I - General Conditions; Definitions

1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

Article II - Project

2.01. The Project Implementing Entity declares its commitment to the objective of the Project. To this end, the Project Implementing Entity shall: (a) carry out, and cause the Project Cities and Project Companies to carry out the Project in accordance with the provisions of Article V of the General Conditions; and (b) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out, and shall cause the Project Cities and the Project Companies to carry out the Project in accordance with the provisions of the Schedule to this Agreement.

Article III - Representative; Addresses

3.01. The Project Implementing Entity's Representative is the Governor or a Vice Governor; or such other person or persons as said Governor or a Vice Governor shall designate in writing, and the Project Implementing Entity shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

3.02. The Bank's Address is:

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

Cable:

INTBAFRAD Washington, D.C.

Telex:

248423(MCI) or 64145(MCI)

Facsimile: 1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Liaoning Provincial Department of Finance

103 North Nanjing Street

Heping District

Shenyang

Liaoning Province

People's Republic of China 110002

Facsimile: 86-24-2283-4167

Agreed at 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

Liaoning Province

By /s/XuWeiguo

Authorized Representative

Schedule

Project Execution

Section I. Institutional and Other Arrangements

Project Management

1. (a) The Project Implementing Entity shall maintain, or cause to be maintained, as the case may be, 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:

(i) the Project Coordination Group established at the provincial level, chaired by a Vice Governor of Liaoning to be responsible for providing policy guidance for the Project's implementation;

(ii) the FFUPO to be responsible for day-to-day Project implementation; and

(iii) the Project Management Offices established by Benxi, Yingkou, Liaoyang, and Fushun municipalities to be responsible for day-to-day management of implementation of the Project within their respective jurisdictions.

(b) The Project Implementing Entity shall assign, for purposes of carrying out the Project, sufficient staff and resources acceptable to the Bank, to the Liaoning Provincial Department of Finance to be responsible for integrated management of the Project, including providing guidance to the FFUPO and monitoring day-to-day Project implementation by the FFUPO.

Financial Arrangements

2. The Project Implementing Entity shall allocate to each Project City an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:
- (a) the Project Implementing Entity shall make available the principal amount which has been allocated to each Project City pursuant to Section IV, paragraph A.2 of Schedule 2 to the Loan Agreement in Dollars on account of its Respective Parts of the Project;
 - (b) the Project Implementing Entity shall recover such principal amount so made available including the Front-end Fee paid pursuant to Section 2.03 of the Loan Agreement, over a period of thirty (30) years, inclusive of a grace period of five (5) years; and
 - (c) the Project Implementing Entity 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 2.04 of the Loan Agreement.

Subsidiary Loan Agreements

3. The Project Implementing Entity shall cause each Project City to relend the portions of the proceeds of the Loan, which was allocated to it pursuant to paragraph 2 of Section I of this Schedule for the purposes of the carrying out of its Respective Project Company's Respective Part of the Project, to its Respective Project Company under a subsidiary loan agreement to be entered into between said Project City and its Respective Project Company: (i) on the principal terms set forth in paragraphs 1 through 3 of Annex A to this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 15 of Annex A to this Schedule.

Resettlement and Environment Protection

4. The Project Implementing Entity shall:
- (a) take, and shall cause each Project City and Project Company 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; and
 - (b) for this purpose:
 - (i) prior to commencement of any civil works under the Project, cause each Project City and Project Company to implement its Respective Resettlement Action Plan, in each case in a manner satisfactory to the Bank; and
 - (ii) whenever implementation of Part B of the Project in Yingkou Municipality would give rise to Displaced Persons, provide, and cause Yingkou Municipality and the Yingkou Gas Company to provide, (before commencing said Part of the Project) to the Bank for its review, a resettlement action plan prepared in accordance with the principles and procedures set forth in the Resettlement Policy Framework and, thereafter, implement in a manner satisfactory to the Bank such resettlement action plan as shall have been acceptable to the Bank.
5. The Project Implementing Entity shall, and shall cause each Project City and Project Company to:
- (a) implement its respective Environmental Management Plan in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental standards and practices; and
 - (b) without limitation upon the provisions of sub-paragraph 5(a) above, prior to commencement of any civil works under Part B of the Project and, conduct, and cause Yingkou Municipality to conduct, environmental assessments and prepare and implement an environmental management plan (including an emergency response plan) pursuant thereto during implementation of said Part of the Project, all in a manner satisfactory to the Bank, and designed to ensure that Part B of the Project is implemented in accordance with sound environmental practices and standards.
6. The Project Implementing Entity shall, and shall cause each Project City and Project Company to:
- (a) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of its respective Environmental Management Plan, its respective Resettlement Action Plan, and the Resettlement Policy Framework, and the achievement of the objectives of said Plans and said Framework, and to this end, engage 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 June 30 and December 31 of each year, commencing December 31, 2008, semi-annual reports of the results of such monitoring and evaluation activities, together with any revisions proposed to be introduced into such Plans and Framework in order to achieve their respective objectives; and
 - (c) introduce such revisions into said Plans and Framework as shall have been agreed with the Bank.

Project Implementation

7. With respect to each Project Company's revenue requirements set forth in paragraphs 9, 10, 11, 12, 13 of Annex A to this Schedule, the Project Implementing Entity shall cause each of the concerned Project Cities to take all necessary measures to enable its Respective Project Company to meet said requirements, including without limitation, adjustments of the levels of heat or gas tariffs, as the case may be.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than seventy-five (75) days after the end of the period covered by such report.

2. The Project Implementing Entity shall provide to the Borrower not later than six (6) months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports; and Audits

1. The Project Implementing Entity shall and shall also cause each of the Project Cities to maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity and each of the Project Cities, including the operations, resources and expenditures related to its Respective Part of the Project.

2. The Project Implementing Entity shall and shall also cause each of the Project Cities to have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity and each Project City. The Project Implementing Entity shall furnish the audited financial statements for each period after consolidating the audited financial statements provided by each of the Project Cities to the Borrower and the Bank not later than six (6) months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.

Annex A to the Schedule

Principal Terms and Conditions of the Subsidiary Loan Agreements

For the purposes of paragraph 3 of Section I of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds shall be those set forth in paragraphs 1 through 3 of this Annex; and (b) the Subsidiary Loan Agreements shall be entered into on the conditions set forth in paragraphs 4 through 15 of this Annex.

Terms of Availability

1. The principal amount of the Subsidiary Loan made by each of the Project Cities to its Respective 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 Project Company's Respective Part of the Project.

2. Each Project Company shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of not more than thirty (30) 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 2.04 of the Loan Agreement.

Conditions

The Subsidiary Loan Agreements shall include the following principal conditions:

4. Each Project Company shall undertake to: (a) carry out its Respective Part 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 its Respective Part of the Project shall be imple-

mented in accordance with its respective Resettlement Action Plan, Resettlement Policy Framework, and the Environmental Management Plan (including Yingkou Gas Company's resettlement action plan and environmental management plan, as the case may be, pursuant to the provisions in paragraph B.1(d) Section IV of Schedule 2 to the Loan Agreement).

5. 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 Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of its Respective Part of the Project.
6. Each Project Company shall undertake to enable the Bank, the Project Implementing Entity and the Project City concerned to inspect such goods and the sites and works included in its Respective Part of the Project, the operation thereof, and any relevant records and documents.
7. 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.
8. 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, the Project Implementing Entity and the Project City concerned, as soon as available, but in any case not later than six (6) months after the end of each such year: (i) certified copies of said financial statements and accounts for such year as so audited; and (ii) an opinion on such statements by said auditors in such scope and detail as the Bank, the Project Implementing Entity or the Project City concerned shall have reasonably requested.
 - (d) Prepare and furnish to the Bank, the Project Implementing Entity and the Project City concerned, all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Project Implementing Entity, or the Project City concerned shall reasonably request.
 - (e) (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Annex B of the Schedule to this Agreement the carrying out of its Respective Part of the Project and the achievement of the objectives thereof;
 - (ii) prepare, under terms of reference satisfactory to the Bank, and furnish to the Project Implementing Entity for its review and consolidation in the Project Reports and submission to the Bank, 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 Part of the Project during the period preceding the date of each such report; and
 - (iii) provide such other information and reports as the Project Implementing Entity may request in order to enable the Project Implementing Entity to fulfill its obligations under the Project Agreement.
9. Except as the Bank shall otherwise agree, each of the Project Companies (except for Dashiqiao Urban Construction Investment Co. Ltd) shall for each Fiscal Year, starting Fiscal Year 2009, undertake to produce:
 - (a) total collected revenues, equivalent to not less than the sum of:
 - (i) its total operating expenses; and
 - (ii) the amount by which debt service requirements exceeds the provision for depreciation;
 - (b) review, before March 1 in each year starting Fiscal Year 2009, and on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in subparagraph (a) hereof, 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
 - (c) if any such review shows that it would not meet the requirements set forth in subparagraph (a) hereof for the fiscal years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.
10. Except as the Bank shall otherwise agree, each of the Project Companies (except for Dashiqiao Urban

Construction Investment Co. Ltd) shall for each Fiscal Year, starting Fiscal Year 2012, undertake to produce total revenues not less than total expenses.

11. Except as the Bank shall otherwise agree, each of the Project Companies shall undertake 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.

12. For purposes of this Schedule:

- (a) The term "total revenues" means the total operating revenues and net non-operating income.
- (b) The term "total collected revenues" means the total of the invoiced operating revenues less any invoiced amount not collected plus subsidies and any other operating revenues.
- (c) The term "total operating revenues" means revenues from all sources related to operations.
- (d) 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.
- (e) The term "total expenses" means the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, provision for depreciation, other non-cash operating charges, and interest and other charges on debt.
- (f) 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 its 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.
- (g) 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.
- (h) The term "debt" means any indebtedness of the Project Company maturing by its terms more than one (1) year after the date on which it is originally incurred.
- (i) 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.
- (j) 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.
- (k) 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 (i) above.
- (l) The term "reasonable forecast" means a forecast prepared by the Project Company not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and said Project Company accept as reasonable and as to which the Bank has notified said Project Company of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of said Project Company.

13. 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.

14. Each of the Project Cities shall have the right to suspend or terminate the right of its Respective 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 the agree-

ment.

Dashiqiao City's Respective Part of the Project

15. In the event that Dashiqiao Urban Construction Investment Co. Ltd intends to transfer the operation and maintenance of the Project assets under its Respective Part of the Project to Dashiqiao Hongyang Heating Company. Ltd., prior to such transfer, Dashiqiao Urban Construction Investment Co. Ltd shall enter into an agreement with Dashiqiao Hongyang Heating Company Ltd., acceptable to the Bank, which sets out, among other matters, the arrangements for the future operation and maintenance of said Project assets and the financial arrangements to enable Dashiqiao Urban Construction Investment Co. Ltd to meet its Subsidiary Loan repayment obligations under its respective Subsidiary Loan Agreement.

Annex B to the Schedule Performance Indicators

Project Performance Indicators		Benxi II	Benxi Steel		Fushun	Gongchang-ling	Hakheng	Huludao
Start - end of connection to central heating system	FY	YR2-YR6	YR2-YR6	YR2-YR3	YR2-YR6	YR1-YR5	YR2-YR4	YR2-YR3

Part A of the Project

Centralized Heating infrastructure

Fuel consumption per connected floor area	kWh/m2	148.6	155.4	14.4	176.5	145.1	145.4	144.8
Electricity used for district heating/ connected floor area	kWh/m2	4.1	4.0	4.9	1.2	3.6	3.3	3.1
Make-up water used /connected floor area	ltr/m2	34.2	99.0	234.0	148.7	96.6	96.9	84.2
Total Suspended Particulates (TSP) emissions /connected floor area	kg/m2	0.008	0.006	0.004	0.064	0.006	0.004	0.004
SO2 emissions /connected floor area	kg/m2	0.054	0.042	0.010	0.073	0.040	0.032	0.022

Part B of the Project

Urban Natural Gas Infrastructure		FY	YR3
Reduced gas loss after distribution system is rehabilitated.	Gas loss %		2.8%

Project Performance Indicators		Yingkou Dashiqiao	Yingkou EDZ	Northern Yingkou	Project weighted average
Start - end of connection to central heating system	FY	YR1-YR5	YR1-YR5	YR3-YR6	YR1-YR6

Part A of the Project

Centralized Heating infrastruc-
ture

Fuel consumption per con- nected floor area	kWh/m2	156.1	148.1	143.0	138.9
Electricity used for district heating/ connected floor area	kWh/m2	3.5	1.2	2.3	2.7
Make-up water used /connected floor area	ltr/m2	89.4	43.3	96.6	96.7
Total Suspended Particulates (TSP) emissions /connected floor area	kg/m2	0.005	0.023	0.023	0.020
SO2 emissions /connected floor area	kg/m2	0.042	0.043	0.023	0.040

Part B of the Project	FY	YR3
Urban Natural Gas Infrastructure	Gas loss %	
Reduced gas loss after distribution system is rehabilitated		2.8%