

PROJECT AGREEMENT  
(Central Sichuan Roads Development Project)

between

ASIAN DEVELOPMENT BANK

and

SICHUAN PROVINCIAL GOVERNMENT

and

SICHUAN YAXI EXPRESSWAY COMPANY LTD.

DATED 3 APRIL 2006

## **PROJECT AGREEMENT**

PROJECT AGREEMENT dated 3 April 2006 between ASIAN DEVELOPMENT BANK (hereinafter called ADB) on one part and SICHUAN PROVINCIAL GOVERNMENT (hereinafter called SPG) and SICHUAN YAXI EXPRESSWAY COMPANY LTD. on the other part (hereinafter called the Company).

### **WHEREAS**

(A) by a Loan Agreement of even date herewith between PEOPLE'S REPUBLIC OF CHINA (hereinafter called the Borrower) and ADB, ADB has agreed to make to the Borrower a loan of six hundred million dollars (\$600,000,000) on the terms and conditions set forth in the Loan Agreement on condition that the proceeds of the Loan be made available to SPG, and through SPG, to the Company and that SPG and the Company agree to undertake certain obligations towards ADB as hereinafter in this Project Agreement set forth; and

(B) SPG and the Company, in consideration of ADB entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

## **ARTICLE I**

### **Definitions**

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

## **ARTICLE II**

### **Particular Covenants**

Section 2.01. (a) SPG, through SPCD, and the Company shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and road construction, and operation and maintenance practices.

(b) In the carrying out of the Project and operation of the Project facilities, each of SPG and the Company shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to SPG and the Company and their respective obligations set forth in the Schedule to this Project Agreement as they are applicable to SPG and the Company.

Section 2.02. SPG and the Company shall make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, SPG, through SPCD, and the Company shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to the Loan Agreement. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. SPG, through SPCD, and the Company shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. SPG, through SPCD, and the Company shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) SPG, through SPCD, and the Company shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, SPG and the Company undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.

Section 2.06. SPG shall cause SPCD to, and the Company shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project, including the cost thereof, and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB, SPG and the Company shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) SPG and the Company shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement, Concession Framework Agreement or Onlending Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB, SPG and the Company shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, SPG, SPCD, the Company and the Loan.

Section 2.08. (a) SPG shall cause SPCD to, and the Company shall, furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the goods and services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of SPCD and the Company; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, SPG shall cause SPCD to, and the Company shall, furnish to ADB quarterly reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, SPG shall cause SPCD to, and the Company shall, prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by SPG and the Company of their obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) SPG and the Company shall, (i) maintain separate accounts, for the Project expressway and for its overall operations; (ii) have such accounts and related financial statements (Project accounts, balance sheet, statement of income and expenses, cash flow statements and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement), all in the English language. The Company shall, furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) SPG and the Company shall enable ADB, upon ADB's request, to discuss their respective financial statements and their financial affairs from time to time with SPCD's and/or the Company's auditors, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of SPCD and the Company unless SPCD and the Company shall respectively otherwise agree.

Section 2.10. SPG and the Company shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, all other plants, sites, works, properties and equipment in respect to the Project and any relevant records and documents.

Section 2.11. (a) The Company shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) SPG shall cause SPCD to, and the Company shall, at all times conduct their business in accordance with sound administrative, financial, environmental and road construction, operation and maintenance practices, and under the supervision of competent and experienced management and personnel.

(c) SPG shall cause SPCD to, and the Company shall, at all times operate and maintain their respective plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, road construction, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, SPG or the Company shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying out of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement, the Concession Framework Agreement or Onlending Agreement.

Section 2.13. Except as ADB may otherwise agree, SPG and the Company shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all goods and services financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, SPG and the Company shall duly perform all their obligations under the Onlending Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Onlending Agreement.

Section 2.15. SPG and the Company shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of the Company's Charter and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

Section 2.16. (a) Except as ADB shall otherwise agree, the Company shall not incur, for each fiscal year commencing from the third year of full operation of the Project expressway any debt, if after the incurrence of such debt the ratio of debt to equity shall be more than 55:45.

(b) For the purposes of this Section:

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

- (ii) Debt shall be deemed to be incurred: (a) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (b) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term “equity” means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Company not allocated to cover specific liabilities.
- (iv) Whenever for purposes of this Section 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 currency is, at the time of valuation, obtainable for the purposes of servicing such debt, or in the absence of such rate, on the basis of rate of exchange acceptable to ADB.

Section 2.17. (a) Except as ADB shall otherwise agree, the Company shall not incur, for each fiscal year commencing from the third year of full operation of the Project expressway, any debt unless reasonable forecast of the revenues and the expenditures of the Company shows that the estimated net revenues of the Company for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times the estimated maximum debt service requirements of the Company for any succeeding fiscal year on all debt of the Company, including the debt to be incurred.

- (b) For the purposes of this Section:
  - (i) The term “debt” means any indebtedness of the Company and maturing by its terms more than one year after the date on which it is originally incurred.
  - (ii) Debt shall be deemed to be incurred: (a) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (b) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
  - (iii) The term “net revenues” means the difference between:
    - (a) the sum of revenues from all sources adjusted to take account of the Company’s toll rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues related and net non-operating income; and

- (b) the sum of all expenses, including operation administration, adequate annual maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term “reasonable forecast” means a forecast prepared by the Company not earlier than twelve months prior to the incurrence of the debt in question, which both ADB and the Company accept as reasonable and as to which ADB has notified the Company of its acceptability, provided that no event has occurred since notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Company.
- (v) Whenever for the purposes of this Section 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 ADB.

Section 2.18. (a) Except as ADB shall otherwise agree, the Company shall maintain a ratio of total working expenses to total working revenue not higher than 15 percent.

- (b) For the purposes of this Section:
  - (i) The term “total working expenses” means the sum of all expenses relating to operations, including administration, adequate annual maintenance, and taxes on revenue, but excluding periodic maintenance cost, depreciation, interest and other charges on debt.
  - (ii) The term “total working revenues” means revenues from all resources relating to operations.

### **ARTICLE III**

#### **Effective Date; Termination**

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement shall come into force and effect. ADB shall promptly notify SPG and the Company of such date.

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

**ARTICLE IV**  
**Miscellaneous**

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project 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, telegram, cable, telex, facsimile or radiogram to the party to which it is required or permitted to be given or made at its 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. The addresses so specified are:

For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Cable Address:

ASIANBANK  
MANILA

Telex Numbers:

29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

Facsimile Numbers:

+632 636 2444  
+632 636 2426

For SPG

c/o Sichuan Provincial Communications Department  
No. 180 Wuhouci St.,  
Chengdu, Sichuan 610041  
People's Republic of China

Facsimile Number:

+86 28 8554 6896

For the Company

Shuangnan Expressway Mansion,  
No. 90 Xiyiduan, the 2nd Ring Road,  
Chengdu City, Sichuan Province,  
610041, PRC

Telephone Numbers:

+86 28 66027377  
+86 28 66027477

Facsimile Number:

+86 28 66027218

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement, (i) by or on behalf of SPG may be taken or executed by its Governor or by such person or persons as the Governor shall so designate in writing notified to ADB; or (ii) by or on behalf of the Company may be taken or executed by the Chairperson of its Board of Directors or by such other person or persons as such Chairperson shall so designate in writing notified to ADB.

(b) SPG and the Company shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

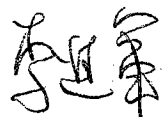
ASIAN DEVELOPMENT BANK

By   
HARUHIKO KURODA  
President

SICHUAN PROVINCIAL GOVERNMENT

By   
H.E. MR. LI JINJUN  
Authorized Representative

SICHUAN YAXI EXPRESSWAY  
COMPANY LTD.

By   
H.E. MR. LI JINJUN  
Authorized Representative

**SCHEDULE**  
**Execution of Project;**  
**Financial Matters**

Project Executing Agency

1. SPCD will be the Executing Agency responsible for overall implementation of the Project.

Project Implementing Agency

2. The Company shall be the Project Implementing Agency. The Company shall be responsible for construction of the Project Expressway and for the carrying out of the local road component. The Company shall also be responsible for operation and maintenance, and management of the Project expressway for the period as required and stipulated under the Concession Framework Agreement. The Company shall have sufficient technical expertise for the purposes of the Project, including engineers with experience in implementing internationally financed projects. A project director will be responsible for overall project management, approval of contracts, and payments and a project manager will be responsible for physical implementation activities on a day-to-day basis and the preparation of progress reports.

Concession Framework Agreement

3. SPG shall cause SPCD to enter into the Concession Framework Agreement with the Company, at the latest by 31 December 2007, in the form and substance satisfactory to ADB, to ensure autonomy of operations, encourage the establishment of road facility performance indicators, and facilitate refinancing of road sector assets. SPG (through SPCD) and the Company shall follow the Concession Framework Agreement during the operation and maintenance, and management of the Project expressway. SPG shall not revoke, repeal, suspend or withdraw, or transfer or assign to any third party the rights of the Company pursuant to the Concession Framework Agreement with respect to operation and maintenance, management of Project expressway, and collection of tolls on the Project expressway without ADB's prior agreement.

Construction Quality

4. The Company shall ensure that the Project expressway is constructed in accordance with 2004 technical standards of the Ministry of Communications of the Borrower (MOC) for highway engineering. SPG, through SPCD, will ensure that the local roads under the Project are upgraded and maintained in accordance with appropriate Government standards. The international consultant to be engaged under the Project who is designated as the team leader and the assistant chief supervision engineer shall review and help the chief supervision engineer certify variations orders and contractors' monthly payments.

Counterpart Financing

5. SPG shall ensure that the Company shall obtain, on a timely basis, all funds and resources necessary for construction, operation and maintenance, and management of the Project expressway and shall ensure, through measures including, among others, investment of additional equity in the Company, that the Company shall comply with Section 2.16 of this Project Agreement. SPG shall take all necessary measures, including the provision of additional funds, to ensure that the Company can successfully construct the Project expressway, and operate and manage it after completion. SPG shall take all necessary measures, including the provision of funds to the relevant prefecture and county communications bureaus, to ensure that the local roads construction and improvements are completed before opening the Project expressway.

Change of Ownership

6. In the event that (a) any change in ownership of the Project facilities, or (b) any sale, transfer, or assignment of SPG's or the Company's interest in the Project expressway, is anticipated, SPG, through SPCD, and the Company, shall consult ADB at least six months prior to the implementation of such change. SPG, through SPCD and the Company, shall undertake any proposed change in the ownership of the Project facilities in a legal and transparent manner and does not affect repayment of the Loan.

Road Safety

7. Before Project construction and operations, the Company shall carry out road safety audits and implement the related recommendations. To ensure safe road facilities, SPG through SPCD, and the Company shall implement the road safety signage, communication, hazard barriers, traffic monitoring, vehicle weighing, and other design features of the Project facilities. SPG shall ensure that SPCD, the Company and the Sichuan Public Security Bureau cooperate closely to implement all road safety measures and that the Project expressway is adequately patrolled. Prior to opening the Project expressway, SPG shall cause SPCD to submit a report on their emergency response system to ADB for review.

Tolls

8. The tolls for the Project expressway shall be set by SPG. In determining the toll level, SPG shall take into consideration the levels sufficient to enable the Company to meet the debt service coverage ratio required in Section 2.17 above. Six months prior to official opening of the Project expressway, ADB's concurrence for the proposed toll structure and levels shall be sought, prior to submission of the application for SPG's approval. For the first five years of operation, SPG shall cause the toll structure and levels to be reviewed annually and a report submitted to ADB. If an adjustment of the toll levels is required in accordance with the above-mentioned principle ADB's concurrence on the toll adjustment plan shall be sought, prior to finalizing and submitting the plan to SPG for approval.

Axle Loads

9. SPG, through SPCD, and the Company shall take appropriate measures to prevent overloading on the Project expressway by installing vehicle axle weighing equipment at selected entry points and make suitable arrangements for operation of such equipment. The Company shall submit to ADB, before opening the Project expressway, the plan for operation of the vehicle weigh stations, including the prescribed axle load limits and penalties for their infringement.

Roadside Stations

10. Prior to completion of the local roads under the Project, SPG through SPCD shall establish roadside stations with facilities that include among others, parking areas; bus terminals; gasoline stations; information counters about roads, road safety; tourism and HIV/AIDS; local specially markets; restaurants; and agro-processing facilities.

Vehicle Emissions

11. At least 6 months prior to opening of the Project expressway, SPG shall cause SPCD to provide to ADB the national vehicle emission standards and the penalties for infringement of such limits. SPG shall ensure that the Sichuan Environmental Protection Bureau, SPCD, the Sichuan Public Security Bureau, and other relevant agencies enforce the national vehicle emission standards, and fulfill requirements of the government strategies.

Corporate Governance

12. The Company shall demonstrate that the standard of its corporate governance, management operation, and financial reporting satisfies the requirements of investors. For that purpose, the Company shall prepare the corporate development plan by 31 December 2007.

Capacity Building

13. The Company shall, in consultation with SPG, through SPCD, prepare a human resource development plan based on the Company's future requirements and corporate strategy. International training will be provided for selected staff related to project activities. Prior to undertaking the international training financed under the Loan, the Company shall prepare for the concurrence of ADB a training plan, a program of workshops, and, separately, a list of candidates nominated for international training.

Private Sector Development

14. Six months prior to the opening of the Project facilities, SPG, through SPCD, and the Company shall analyze the feasibility of attracting private sector investment funds for future road sector investment, including private sector participation in the operation, maintenance, and management of the Project expressway, and report its conclusions to ADB.

Environment

15. SPG, through SPCD, and the Company shall ensure that the Project expressway is designed, constructed and operated in accordance with national and local government environmental procedures, rules and regulations of ADB's *Policy on Environment* (2002).

16. SPG, through SPCD, and the Company shall ensure that any adverse environmental impacts arising from construction and operation of the Project expressway will be minimized by implementing the mitigation measures, environmental monitoring program, and other recommendations presented in the Environmental Impact Assessment and submit a semi-annual report to ADB. The mitigation measures shall be incorporated in the bidding documents and civil works contracts.

Land Acquisition and Resettlement

17. SPG, through SPCD, shall (i) implement the Resettlement Plan in accordance with its terms, (ii) ensure that all land and rights-of-way required by the Project are made available in a timely manner, (iii) ensure that the provisions of the Resettlement Plan, including compensation and entitlements for affected persons, will be implemented in accordance with all applicable government laws and regulations and ADB's *Policy on Involuntary Resettlement* (1995), (iv) ensure compensation and resettlement assistance are given to the affected persons prior to dispossession and displacement, (v) ensure the timely provision of counterpart funds for land acquisition and resettlement activities, (vi) meet any obligations in excess of the Resettlement Plan budget estimate, and (vii) ensure that the affected persons will be at least as well off as they would have been in the absence of the Project.

18. SPG, through SPCD, shall also ensure that (i) adequate staff and resources are committed to supervising and monitoring the implementation of the Resettlement Plan, and providing to ADB quarterly reports on implementation and a resettlement completion report, (ii) an independent agency acceptable to ADB is engaged by the Company to monitor progress semi-annually and to evaluate results through annual survey updates during two years after the completion of resettlement, and forward reports to the Company and ADB, (iii) data are disaggregated by gender, and monitoring focuses on gender impacts and vulnerable groups are incorporated, and (iv) a summary of audits of resettlement disbursements and expenditures to affected villages and affected people is provided to ADB.

19. SPG, through SPCD, shall ensure that the Company updates the Resettlement Plan and submit to ADB for approval the amendment to the Resettlement Plan, for both the Project expressway and local roads components, (i) upon completion of preliminary design, including rehabilitation plans for seriously affected villages, and prior to commencement of land acquisition, (ii) upon the completion of the detailed measurement survey, and prior to the commencement of civil works to ADB for its concurrence, and (iii) as necessary when there is any significant material changes in Project scope or other causes. With respect to any updated Resettlement Plan, SPG, through SPCD, shall ensure that the Company discloses such updated Resettlement Plan to affected persons prior to submission to ADB.

Schedule

20. SPG, through SPCD, shall cause the Company to (i) ensure that civil works contracts include requirements to comply with the Resettlement Plan and entitlements for permanent and temporary impacts to affected persons, (ii) supervise the contractors to ensure compliance with requirements of the Resettlement Plan, applicable laws and regulations, and ADB's *Policy on Involuntary Resettlement*, and (iii) ensure that civil works contractors will maximize employment for the affected persons with equal access to women.

21. SPG, through SPCD, shall ensure that (i) any land acquisition carried out by county communications units for the local roads component of the Project will also be implemented in accordance with the Resettlement Plan, and (ii) adequate resettlement compensation funds are available and properly utilized.

Poverty Reduction

22. The Company shall cause the contractors to maximize the employment of local poor persons at Project construction, subject to poor workers meeting the job and efficiency requirements for construction of the Project roads. Such workers shall be provided on-the-job training. SPG, through the Poverty Alleviation Office, in consultation with the Company shall monitor the impacts on poverty with the assistance of a designated local institute acceptable to ADB and provide annual monitoring reports to ADB.

23. SPG will implement the social development action plan (SDAP) in a timely manner. SPG shall extend the coverage and quality of public utilities, basic health, and basic education in the Project area to enhance the poverty reduction impacts.

Gender and Development

24. SPG, through SPCD, and the Company shall follow ADB's *Policy on Gender and Development* (1998) during implementation of the Project, and shall take all necessary actions to encourage women living in the Project area to participate in planning and implementing the Project, including construction work. SPG, through SPCD, shall ensure the effective implementation of measures aimed at increasing Project benefits and impacts on women in the Project area, which are included in the Ethnic Minority Development Plan and Social Development Action Plan. SPG, through SPCD, will monitor effects on women during Project implementation, through gender-disaggregated data collected pursuant to the terms of the Resettlement Plan and through the monitoring and evaluation system.

Health Risks

25. SPG, through Department of Health, and the Company, together with the appropriate authorities, shall ensure that civil works contractors disseminate information on the risks of HIV/AIDS and sexually transmitted diseases to those employed during Project implementation. SPG, through Department of Health and SPCD, and the Company shall also ensure that similar information is disseminated to transport operators and local communities such as ethnic minorities, women, and other high-risk groups living in the Project area during Project operation, at roadside stations and other suitable facilities. SPG, through SPCD, and the Company will cause contractors to monitor health risks control according to the Implementation Methods of Epidemic Prevention Law of PRC 1991.

Labor Standards

26. SPG, through SPCD, and the Company shall ensure that civil works contractors comply with all applicable labor legislation. The Company shall include specific clause in bidding documents and civil works contracts requiring that the civil works contractors not employ child labor in the construction and maintenance activities, men and women receive equal pay for work of equal value, and workers be paid in a timely manner on a monthly basis, and shall monitor compliance with such clause.

Ethnic Minorities

27. SPG, through SPCD and local government, shall implement the Ethnic Minority Development Plan to ensure that ethnic minorities benefit from the Project in at least an equitable manner and in accordance with ADB's *Policy on Indigenous Peoples* (1998). SPG shall ensure that the Ethnic Minorities Development Plan is monitored and evaluated by an independent agency.

Monitoring and Evaluation

28. SPG, through SPCD, and the Company shall monitor and evaluate Project impacts through a project performance management system to ensure that the Project facilities are managed effectively and the benefits, in accordance with the Borrower's regulations, are maximized. SPG, through SPCD and the Company, shall collect data agreed with ADB prior to implementation of the Project, at completion of the Project, and three years subsequent to Project completion. The data may include (i) economic development and poverty indicators for the project area, (ii) industrial and agricultural outputs, (iii) transport costs and time, (iv) transport services and charges, (v) accident rates, (vi) accessibility by roads and buses in the project area, and (vii) and jobs created in construction and maintenance. Employment indicators will include information about unskilled laborers, poor laborers, and women laborers.

Mid-Term Reviews

29. During 2008, SPG, through SPCD, and the Company shall carry out a mid-term review of the Project with ADB. Such mid-term review shall: (i) focus on institutional, administrative, organizational, technical, environmental, social, poverty reduction, economic, financial and other relevant aspects impacting on Project performance and viability; and (ii) examine progress in implementation of sector reforms, policy development, resettlement activities and compliance with the terms of the Loan Agreement and this Project Agreement.

Anticorruption Measures

30 During Project implementation, SPG, through SPCD, and the Company shall follow ADB's and the Borrower's anticorruption policies. SPG, through SPCD, and the Company shall ensure, in accordance with the Borrower's regulations and requirements, that during Project implementation (i) officials from the Discipline and Inspection Bureau are resident in the Project offices for bidding, construction, and operations; (ii) an internal audit unit is established in the Company; (iii) a two-contract system is adopted where the winner of a civil works contract must also sign an anticorruption contract with the employer; and (iv) periodic inspections of contractors are undertaken to ensure procedures related to fund withdrawals and settlements are being followed. SPG, through SPCD, shall also initiate liaison meetings with the Prosecutor's Office, on a needed basis, where warnings about or information on corrupt practices can be discussed.