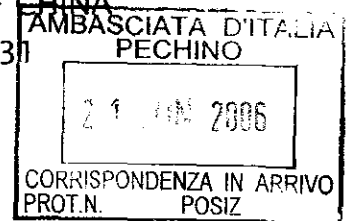


中华人民共和国商务部

MINISTRY OF COMMERCE OF THE PEOPLE'S REPUBLIC OF CHINA
2, DONG CHANG'AN STREET, BEIJING, CHINA 100731



VERBAL NOTE

01828 M-100

The Ministry of Commerce of the People's Republic of China, Department of International Trade and Economic Affairs, presents its compliments to the Embassy of the Italian Republic in Beijing, and has the honor to refer to the Verbal Note n.02483 of 16 June, 2006, with the following text:

"According to Art. 14 of the Agreement, the same should have remained in force until December the 12th, 2004, i.e. for a period of three years from the date of its entry into force (December the 13th, 2001). In order to allow the completion of the Programme activities, the Government of the Italian Republic agrees with the Ministry of Commerce of the People's Republic of China (see letter of September the 7th, 2005) that the validity period of the Agreement should be extended for three years until December the 12th, 2007.

Furthermore, according to the adjustments and improvements jointly agreed upon by both implementing parties, additional amendments to the text of the Agreement are herewith proposed (the new text is written in *italic*):

1) Article 4, sub-article a), shall be deleted and substituted by the following:

a) *At national level:*

*The **National Monitoring Committee** shall have the function of monitoring the activities of the provincial structures mentioned below. It shall verify the compliance with the Agreement of the projects prepared by PPMOs and approved by Provincial Government before any assignment of funds. It shall approve the selection of the Procurement Companies made by MOFCOM and MOF. It shall monitor the implementation of the projects and evaluate their results as well as the ability of the Programme to reach its objectives. A formal evaluation of the ability of the Programme to reach its objectives shall be made at least once a year. NMC will be composed of representatives of MOFCOM, MOF and Italian Embassy in Beijing / UTL. Consensus of all members is required for every decision concerning the whole Programme whereas agreement between Italian Embassy/UTL and MOFCOM is required for every decision concerning exclusively the grant financing. The Chinese side will provide the human and material resources needed by NMC for performing its activities. In case, in the framework of the monitoring activities, is advisable the participation of members of NMC, the relevant monitoring costs could be covered with the grant funds provided by the Italian side, according to the criteria described in art. 7 c) and Annex 2.*

- 2) Article 7, sub-article c), shall be deleted and substituted by the following:
- c) The funds mentioned in letter a, point 2 of this article shall be committed by MAE/DGCS upon the entry into force of the present Agreement and following an official request by MOFCOM. They shall be deposited by four subsequent instalments on a Special Current Account opened by MOFCOM in the selected Bank. The account named "Vocational Training Programme Italy & China to improve the employability in the Provinces of Shaanxi and Sichuan" shall be used for the financing, according to the criteria described in Annexes 1, 2 and 3, of the costs of training and technical assistance and, to a limited extent, equipment foreseen in the approved projects. In addition the funds can be used, up to a limit extent and subject to the approval of the NMC, for the financing of the procurement fees, auditing expenses, PPMO's operational costs, subsidies to the final beneficiaries, NMC monitoring costs, and other financial, administrative and operational costs strictly related to the Programme objective and necessary for the correct implementation of the Programme, according to the criteria described in Annex 1, 2 and 3.*
- 3) Article 7, sub-article d, point 2), shall be deleted and substituted by the following:
- 2) A second tranche, in the amount of EURO 3,000,000.00 (three million), shall be transferred after MAE /DGCS approval of:*
- i. the Technical Reports, as well as*
 - ii. the audited Financial Report, accompanied by all the pertinent documentation (contracts, bills, invoices, bills of delivery, audited procurement reports, bidding documents). The Financial Report, in the standard format defined by the Auditing Company and approved by MOFCOM and MAE / DGCS, shall include a statement that all expenses have been made in accordance with the Programme's aims and shall cover expenses for at least EURO 3,873,426.74 (three million eight hundred seventy-three thousand four hundred twenty-six and seventy-four cents).*
- 4) Article 7, sub-article d, point 3), shall be deleted and substituted by the following:
- 3) A third tranche, in the amount of EURO 2,681,025.89 (two million six hundred eighty one thousand twenty five and eighty nine cents), shall be transferred after MAE /DGCS approval of:*
- i. the Technical Reports, as well as*
 - ii. the audited Financial Report, accompanied by all the pertinent documentation (contracts, bills, invoices, bills of delivery, audited procurement reports, bidding documents). The Financial Report, in the standard format defined by the Auditing Company and approved by MOFCOM and MAE / DGCS, shall include a statement that all expenses have been made in accordance with the Programme's aims and shall cover expenses for at least EURO 4,500,000.00 (four million five hundred thousand), under the condition that funds for at least Euro 7,200,000.00 (seven million two hundred thousand) have been committed.*

5) After Article 7, sub-article d, point 3), a new Article 7, sub-article d, point 4), shall be added as follows:

4) A fourth tranche, in the amount of EURO 2,582,284.50 (two million five hundred eighty-two thousand two hundred eighty-four and fifty cents), shall be transferred after MAE /DGCS approval of:

- i. the Technical Reports, as well as
- ii. the audited Financial Report, accompanied by all the pertinent documentation (contracts, bills, invoices, bills of delivery, audited procurement reports, bidding documents). The Financial Report, in the standard format defined by the Auditing Company and approved by MOFCOM and MAE / DGCS, shall include a statement that all expenses have been made in accordance with the Programme's aims and shall cover expenses for at least EURO 6,000,000.00 (six million), under the condition that funds for at least Euro 9,000,000.00 (nine million) have been committed.

6) After Article 7, sub-article e), an additional sub-article f) shall be added as follows:

f) The words *expense/expenses*, *commit/commitments* and *service/services* in this Agreement is the following:

- i) Expense/expenses: any disbursement made out of the Special Current Account of the Programme for all the contracts eligible under this MOU (including advance payments) and for any other disbursement made out of the Programme Special Current Account for payments related to eligible expenditures as per art 7 c) here above.
- ii) Commitment/commitments: any disbursement made as per point i) here above plus any obligation for payment undertaken under contracts signed with Italian entities and with other implementing subjects (auditing companies, procurement companies, other services providers etc.) and obligations deriving from PPMO's operational budget approval and for subsidies to final beneficiaries, provided that the obligations are related to eligible expenditures as per art 7 c) here above. In establishing the actual commitment deriving from PPMO's operational budget approval, only the approved yearly budgets until the year under examination can be considered and therefore anticipated transfers from the Special Current Account of the Programme to the PPMO's for subsequent years cannot be taken into consideration.
- iii) Service/services: all services provided under contracts with Italian and non Italian entities relevant to projects approved by the NMC. Only these services shall be accounted for in the calculation relevant to the minimum percentage (70%) of services that shall be procured out of Italian funds. All other services such as: auditing services, procurement services, other administrative and financial services, subsidies to final beneficiaries and all PPMO's operational expenditures (the latter being considered as carried out in order to provide management

services to the Programme) shall be excluded from the above minimum allowed percentages of services.

- 7) Annex 2, Article 12 shall be deleted and substituted by the following:
At least 80% of the value of the goods and services to be purchased with Italian grant funds shall be procured through bidding restricted to qualified Italian entities, as per art. 8 f) of the Agreement. The above limitation must be calculated by deducting from the overall grant fund the amount dedicated to cover costs for: auditing services, procurement services, NMC costs, other administrative and financial services, subsidies to final beneficiaries and all PPMO's operational expenditure. The above limitation shall not be applied to the amount of each single tranche and/or to each single project.
- 8) Annex 2, Article 13 shall be deleted and substituted by the following:
The limitation indicated in art 8 f) of the Agreement relevant to the maximum percentage of equipment to be procured under the grant funds (not more than 30%) shall not be applied to the amount of each single tranche and/or to each single project. The above limitation must be calculated by deducting from the overall grant fund the amount dedicated to cover costs for: auditing services, procurement services, NMC costs, other administrative and financial services, subsidies to final beneficiaries and all PPMO's operational expenditure.
- 9) At page 1, Annex 3, the following sentence:
The basic principles governing the award of contracts is competitive tendering. In particular the Procurement Company shall adopt the open procedure.
shall be deleted and substituted by the following:
The basic principles governing the award of contracts is competitive tendering.

In addition to the above proposed specific amendments, whose text is reported fully, the following two general amendments are proposed:

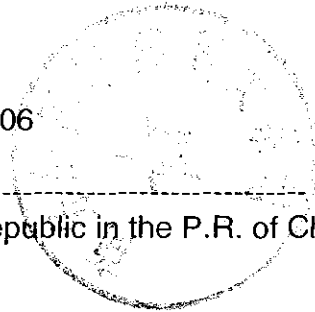
- 10) Wherever in the text there are the denominations:
MOFTEC, Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China, DOFTEC and Department of Foreign Trade and Economic Co-operation of the designated province
they shall be respectively substitute by the following new denominations:
MOFCOM, Ministry of Commerce of the People's Republic of China, DOFCOM and Department of Commerce of the designated province.
- 11) The monetary unit "Italian LIRA" used in the Agreement and the relevant values in number and in letters shall be deleted."

The Ministry of Commerce of the People's Republic of China, Department of International Trade and Economic Affairs, has the honor to inform the Embassy of the Italian Republic in Beijing that the Government of the People's Republic of China agrees with the above-mentioned text and therefore the Verbal Note of the Embassy of the Italian Republic in Beijing n.02483 of 16 June, 2006 and the present reply Verbal Note will constitute an agreement by means of exchange of Verbal Notes between the Government of the Italian Republic and the Government of the People's Republic of China with which the two Governments modify the existing Agreement effective from the date of the present Verbal Note, according to Articles 13 and 14 of the Agreement itself, being the amendments effective from the date of the latest among the two Verbal Notes.

The Ministry of Commerce of the People's Republic of China, Department of International Trade and Economic Affairs, avails itself of this opportunity to renew to the Embassy of the Italian Republic in Beijing, the assurance of its highest consideration.

Beijing, 21 June, 2006

Embassy of the Italian Republic in the P.R. of China
Beijing





AMBASCIATA D' ITALIA

VERBAL NOTE

02483

The Embassy of the Italian Republic in Beijing presents its compliments to the Ministry of Commerce of the People's Republic of China, Department of International Trade and Economic Affairs, and has the honor to inform that, with reference to the "Agreement between the Government of the Italian Republic and the Government of the People's Republic of China for the Implementation of the Vocational Training Programme to Improve Employability in the Provinces of Shaanxi and Sichuan" (Grant Component), it is necessary to extend the validity and to amend the above mentioned Agreement in order to assure the smooth completion of the Programme.

According to Art. 14 of the Agreement, the same should have remained in force until December the 12th, 2004, i.e. for a period of three years from the date of its entry into force (December the 13th, 2001). In order to allow the completion of the Programme activities, the Government of the Italian Republic agrees with the Ministry of Commerce of the People's Republic of China (see letter of September the 7th, 2005) that the validity period of the Agreement should be extended for three years until December the 12th, 2007.

Furthermore, according to the adjustments and improvements jointly agreed upon by both implementing parties, additional amendments to the text of the Agreement are herewith proposed (the new text is written in *italic*):

1) Article 4, sub-article a), shall be deleted and substituted by the following:

a) *At national level:*

The National Monitoring Committee shall have the function of monitoring the activities of the provincial structures mentioned below. It shall verify the compliance with the Agreement of the projects prepared by PPMOs and approved by Provincial

Government before any assignment of funds. It shall approve the selection of the Procurement Companies made by MOFCOM and MOF. It shall monitor the implementation of the projects and evaluate their results as well as the ability of the Programme to reach its objectives. A formal evaluation of the ability of the Programme to reach its objectives shall be made at least once a year. NMC will be composed of representatives of MOFCOM, MOF and Italian Embassy in Beijing / UTL. Consensus of all members is required for every decision concerning the whole Programme whereas agreement between Italian Embassy/UTL and MOFCOM is required for every decision concerning exclusively the grant financing. The Chinese side will provide the human and material resources needed by NMC for performing its activities. In case, in the framework of the monitoring activities, is advisable the participation of members of NMC, the relevant monitoring costs could be covered with the grant funds provided by the Italian side, according to the criteria described in art. 7 c) and Annex 2.

2) Article 7, sub-article c), shall be deleted and substituted by the following:

c) The funds mentioned in letter a, point 2 of this article shall be committed by MAE/DGCS upon the entry into force of the present Agreement and following an official request by MOFCOM. They shall be deposited by four subsequent instalments on a Special Current Account opened by MOFCOM in the selected Bank. The account named "Vocational Training Programme Italy – China to improve the employability in the Provinces of Shaanxi and Sichuan" shall be used for the financing, according to the criteria described in Annexes 1, 2 and 3, of the costs of training and technical assistance and, to a limited extent, equipment foreseen in the approved projects. In addition the funds can be used, up to a limit extent and subject to the approval of the NMC, for the financing of the procurement fees, auditing expenses, PPMO's operational costs, subsidies to the final beneficiaries, NMC monitoring costs, and other financial, administrative and operational costs strictly related to the Programme objective and necessary for the correct implementation of the Programme, according to the criteria described in Annex 1, 2 and 3.

3) Article 7, sub-article d, point 2), shall be deleted and substituted by the following:

2) A second tranche, in the amount of EURO 3,000,000.00 (three million), shall be transferred after MAE /DGCS approval of:

- i. *the Technical Reports, as well as*
- ii. *the audited Financial Report, accompanied by all the pertinent documentation (contracts, bills, invoices, bills of delivery, audited procurement reports, bidding documents). The Financial Report, in the standard format defined by the Auditing Company and approved by MOFCOM and MAE / DGCS, shall include a statement that all expenses have been made in accordance with the Programme's aims and shall cover expenses for at least EURO 3,873,426.74 (three million eight hundred seventy-three thousand four hundred twenty-six and seventy-four cents).*

4) Article 7, sub-article d, point 3), shall be deleted and substituted by the following:

- 3) *A third tranche, in the amount of EURO 2,681,025.89 (two million six hundred eighty one thousand twenty five and eighty nine cents), shall be transferred after MAE /DGCS approval of:*
 - i. *the Technical Reports, as well as*
 - ii. *the audited Financial Report, accompanied by all the pertinent documentation (contracts, bills, invoices, bills of delivery, audited procurement reports, bidding documents). The Financial Report, in the standard format defined by the Auditing Company and approved by MOFCOM and MAE / DGCS, shall include a statement that all expenses have been made in accordance with the Programme's aims and shall cover expenses for at least EURO 4,500,000.00 (four million five hundred thousand), under the condition that funds for at least Euro 7,200,000.00 (seven million two hundred thousand) have been committed.*

5) After Article 7, sub-article d, point 3), a new Article 7, sub-article d, point 4), shall be added as follows:

- 4) *A fourth tranche, in the amount of EURO 2,582,284.50 (two million five hundred eighty-two thousand two hundred eighty-four and fifty cents), shall be transferred after MAE /DGCS approval of:*
 - i. *the Technical Reports, as well as*
 - ii. *the audited Financial Report, accompanied by all the pertinent documentation (contracts, bills, invoices, bills of delivery, audited procurement reports, bidding documents). The Financial Report, in the standard format defined by the Auditing Company and approved by MOFCOM and MAE / DGCS, shall include a statement that all expenses*

have been made in accordance with the Programme's aims and shall cover expenses for at least EURO 6,000,000.00 (six million), under the condition that funds for at least Euro 9,000,000.00 (nine million) have been committed.

6) After Article 7, sub-article e), an additional sub-article f) shall be added as follows:

f) The words expense/expenses, commit/commitments and service/services in this Agreement is the following:

i) Expense/expenses: any disbursement made out of the Special Current Account of the Programme for all the contracts eligible under this MOU (including advance payments) and for any other disbursement made out of the Programme Special Current Account for payments related to eligible expenditures as per art 7 c) here above.

ii) Commitment/commitments: any disbursement made as per point i) here above plus any obligation for payment undertaken under contracts signed with Italian entities and with other implementing subjects (auditing companies, procurement companies, other services providers etc.) and obligations deriving from PPMO's operational budget approval and for subsidies to final beneficiaries, provided that the obligations are related to eligible expenditures as per art 7 c) here above. In establishing the actual commitment deriving from PPMO's operational budget approval, only the approved yearly budgets until the year under examination can be considered and therefore anticipated transfers from the Special Current Account of the Programme to the PPMO's for subsequent years cannot be taken into consideration.

iii) Service/services: all services provided under contracts with Italian and non Italian entities relevant to projects approved by the NMC. Only these services shall be accounted for in the calculation relevant to the minimum percentage (70%) of services that shall be procured out of Italian funds. All other services such as: auditing services, procurement services, other administrative and financial services, subsidies to final beneficiaries and all PPMO's operational expenditures (the latter being considered as carried out in order to provide management services to the Programme) shall be excluded from the above minimum allowed percentages of services.

7) Annex 2, Article 12 shall be deleted and substituted by the following:

At least 80% of the value of the goods and services to be purchased with Italian grant funds shall be procured through bidding restricted to qualified Italian entities, as per art. 8 f) of the Agreement. The above limitation must be calculated by deducting from the overall grant fund the amount dedicated to cover costs for: auditing services, procurement services, NMC costs, other administrative and financial services, subsidies to final beneficiaries and all PPMO's operational expenditure. The above limitation shall not be applied to the amount of each single tranche and/or to each single project.

- 8) Annex 2, Article 13 shall be deleted and substituted by the following:
The limitation indicated in art 8 f) of the Agreement relevant to the maximum percentage of equipment to be procured under the grant funds (not more than 30%) shall not be applied to the amount of each single tranche and/or to each single project. The above limitation must be calculated by deducting from the overall grant fund the amount dedicated to cover costs for: auditing services, procurement services, NMC costs, other administrative and financial services, subsidies to final beneficiaries and all PPMO's operational expenditure.
- 9) At page 1, Annex 3, the following sentence:
The basic principles governing the award of contracts is competitive tendering. In particular the Procurement Company shall adopt the open procedure.
shall be deleted and substituted by the following:
The basic principles governing the award of contracts is competitive tendering.

In addition to the above proposed specific amendments, whose text is reported fully, the following two general amendments are proposed:

- 10) Wherever in the text there are the denominations:
MOFTEC, Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China, DOFTEC and Department of Foreign Trade and Economic Co-operation of the designated province
they shall be respectively substitute by the following new denominations:
MOFCOM, Ministry of Commerce of the People's Republic of China, DOFCOM and Department of Commerce of the designated province.

- 11) The monetary unit "Italian LIRA" used in the Agreement and the relevant values in number and in letters shall be deleted.

Should the above extension and amendments be considered acceptable by the Ministry of Commerce, the present Verbal Note and the reply Verbal Note by the Ministry of Commerce, of the same tenor, will constitute an agreement by means of exchange of Verbal Notes between the Government of the Italian Republic and the Government of the People's Republic of China with which the two Governments modify the existing Agreement, according to Articles 13 and 14 of the Agreement itself, being the amendments effective from the date of the latest among the two Verbal Notes.

The Embassy of the Italian Republic in Beijing avails itself of this opportunity to renew to the Ministry of Commerce of People's Republic of China, Department of International Trade and Economic Affairs, the assurance of its highest consideration.

Beijing, '16 JUN 2006'



Ministry of Commerce of the People's Republic of China
Department of International Trade & Economic Cooperation.
Beijing