
LOAN NUMBER 2428-PRC

LOAN AGREEMENT
(Ordinary Operations)

(Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED 27 NOVEMBER 2008

LAL:PRC 36437

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 27 November 2008 between PEOPLE'S REPUBLIC OF CHINA (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Borrower has also applied to the Global Environment Facility (hereinafter called the GEF) for a grant in the amount equivalent to two million nine hundred seventy five thousand dollars (\$2,975,000) (hereinafter called GEF Grant), to be administered by ADB, to finance (i) Component 2 and (ii) relevant training and consulting services of Components 3 and 4 of the Project;

(C) the Project will be carried out by Hebei Provincial Government (hereinafter called HPG) and Baoding Municipal Government (hereinafter called BMG), and for this purpose the Borrower will make available through HPG to BMG the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB of one part and HPG and BMG of the other part;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of

the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

(b) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that shall be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that shall be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that shall be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing

on and after the effective date of the higher Fixed Spread that shall be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "BDRC" means the Baoding Development and Reform Commission or any successor thereto;

(b) "BFB" means the Baoding Finance Bureau or any successor thereto;

(c) "BWAZ" means the Baiyangdian Wenquancheng Administrative Autonomous Zone or any successor thereto;

(d) "BZAC" means Baoding New Hi-Tech Zone Administrative Commission or any successor thereto;

(e) "CED" means clean energy development;

(f) "CDM" means clean development mechanism;

(g) "Cities" means Baoding City, Dingzhou City, and Gaobeidian City, and "City" refers to any of them;

(h) "Component" means any of the components of the Project, as described in Schedule 1 to this Loan Agreement;

(i) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated February 2007, as amended from time to time;

(j) "Counties" means Anxin County, Dingxing County, Mancheng County, Tang County, Xiong County, Xushui County and Yi County; and "County" refers to any of them;

- (k) "EIA" means the environmental impact assessment of 27 March 2007;
- (l) "EMP" means the environment management plan;
- (m) "Goods" means equipment and materials to be financed out of the proceeds of the Loan; including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;
- (n) "HFB" means Hebei Provincial Finance Bureau or any successor thereto;
- (o) "IEE" means the initial environmental examination;
- (p) "IWM" means integrated water management;
- (q) "Onlending Agreement" means an agreement pursuant to which a County, City, Township, BZAC, or BWAZ makes the proceeds of the Loan available to an IA for purposes of the Project in accordance with Section 3.01 (d) and (e) of this Loan Agreement;
- (r) "PIU" means the Project Implementation Unit, as more fully described in paragraph 4 of Schedule 5 to this Loan Agreement;
- (s) "PLG" means the Project Leading Group, as more fully described in paragraph 5 of Schedule 5 to this Loan Agreement;
- (t) "PMO" means the Project Management Office, as more fully described in paragraph 3 of Schedule 5 to this Loan Agreement;
- (u) "Procurement Guidelines" means ADB's Procurement Guidelines dated February 2007, as amended from time to time;
- (v) "Procurement Plan" means the procurement plan for the Project dated 2 April 2008 and agreed between BMG and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;
- (w) "Project area" means Baiyangdian Basin, Baiyangdian Lake, Counties, Cities and Townships;
- (x) "Project Executing Agency" or "EA" for the purposes of, and within the meaning of, the Loan Regulations means BMG or any successor thereto acceptable to ADB, which is responsible for overall implementation of the Project;
- (y) "Project facilities" means the equipment provided and the facilities constructed under the Project;

(z) “Project Implementing Agency” or “IA” means each of IAs listed in paragraph 2 of Schedule 5 to this Loan Agreement, or any successor thereto acceptable to ADB;

(aa) “RPs” means the seventeen (17) Resettlement Plans prepared for the subprojects;

(bb) “SEIA” means the summary environmental impact assessment of 1 June 2007;

(cc) “SIEE” means the summary initial environmental examination of 1 June 2007;

(dd) “subproject” means each of the subprojects listed in paragraph 2 of Schedule 5 to this Loan Agreement;

(ee) “SWM” means solid waste management;

(ff) “Townships” means Baigou Township, Liushi Township, and Xingxing Township; and “Township” refers to any of them;

(gg) “UFM” means urban flood management;

(hh) “WSC” means water supply company;

(ii) “WSS” means water supply system;

(jj) “WSSC” means water supply system company;

(kk) “WWT” means wastewater treatment;

(ll) “WWTC” means wastewater treatment company;

(mm) “WTP” means wastewater treatment plant; and

(nn) “Works” means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of one hundred million dollars (\$100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (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, whether withdrawn and outstanding 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 withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating 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 said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall make available the proceeds of the Loan to HPG upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms of making available to HPG the proceeds of the Loan shall include (i) commitment charge and interest at the rates identical to those applied to the Loan; (ii) a repayment period including a grace period identical to those applied to the Loan; and (iii) HPG bearing the foreign exchange and interest rate variation risks of the proceeds of the Loan made available thereto.

(b) The Borrower shall cause HPG to make available the proceeds of the Loan to BMG upon terms and conditions acceptable to ADB. Except as ADB may otherwise agree, the terms for the proceeds of the Loan made available to BMG shall include (i) commitment charge and interest at the rates identical to those applied to the Loan; (ii) a repayment period including a grace period identical to those applied to the Loan; and (iii) BMG bearing the foreign exchange and interest rate variation risks of the proceeds of the Loan made available thereto.

(c) The Borrower shall cause BMG to make available the proceeds of the Loan to the Counties, Cities, Townships, BZAC and BWAZ upon terms and conditions acceptable to ADB. Except as ADB may otherwise agree, the terms for the proceeds of the Loan made available to each County, City, Township, BZAC or BWAZ shall include (i) commitment charge and interest at the rates identical to those applied to the Loan; (ii) a repayment period including a grace period identical to those applied to the Loan; (iii) concerned County, City, Township, BZAC or BWAZ bearing the foreign exchange and interest rate variation risks of the proceeds of the Loan made available thereto; and (iv) concerned County, City, Township, BZAC or BWAZ performing the obligations to the extent applicable to itself as provided in the Project Agreement.

(d) The Borrower shall cause respective County, City, Township, BZAC and BWAZ to onlend the proceeds of the Loan to the IAs as follows:

- (i) Liushi Township shall onlend an amount of \$3,600,000 to Liushi Town Wastewater Treatment Co. under an Onlending Agreement for the purposes of Liushi Town WWT subproject of the Component 1;
- (ii) Baigou Township shall onlend an amount of \$3,800,000 to Baigou WWT Plant under an Onlending Agreement for the purposes of Baigou Town WWT subproject of the Component 1;
- (iii) Baoding City shall onlend an amount of \$12,000,000 to Baoding Water Resources Bureau under an Onlending Agreement for the purposes of IWM (Wanguai Xidayang Reservoir Connection) subproject of the Component 1;

- (iv) Li County shall onlend an amount of \$4,600,000 to Li County WWTC under an Onlending Agreement for the purposes of Li County WWT subproject of the Component 1;
- (v) Xushui County shall onlend an amount of \$3,000,000 to Xushui County Hengxing Municipal Project Co. under an Onlending Agreement for the purposes of Xushui County WWT subproject of the Component 1;
- (vi) Xinxing Township shall onlend an amount of \$4,000,000 to Xinxing Town Textile City Comprehensive Development Co. under an Onlending Agreement for the purposes of Xinxing Town WWT subproject of the Component 1;
- (vii) Anxin County shall (a) onlend an amount of \$1,700,000 to Anxin County WWTC under an Onlending Agreement for the purposes of Anxin County WWT subproject of the Component 1; (b) onlend an amount of \$1,300,000 to Anxin County Forestry Bureau under an Onlending Agreement for the purposes of Baiyangdian Lakeside Reforestation subproject; and (c) onlend an amount of \$1,700,000 to Anxin County Water Resource Bureau under an Onlending Agreement for the purposes of UFM subproject;
- (viii) Yi County shall (a) onlend an amount of \$3,800,000 to Yi County Yuquan Urban Construction Development Co. under an Onlending Agreement for the purposes of Yi County WWT subproject of the Component 1; (b) onlend an amount of \$3,300,000 to Yi County WSC under an Onlending Agreement for the purposes of Yi County WSS subproject of the Component 1; and (c) onlend an amount of \$2,500,000 to Yi County Forestry Bureau under an Onlending Agreement for the purposes of Angezhuang Reservoir Reforestation subproject of the Component 1;
- (ix) Dingxing County shall onlend an amount of \$5,000,000 to Dingxing County Urban Construction Municipal Co. under an Onlending Agreement for the purposes of Dingxing County WWT subproject of the Component 1;
- (x) Dingzhou City shall (a) onlend an amount of \$6,500,000 to Dingzhou City WWTC under an Onlending Agreement for the purposes of Dingzhou County WWT subproject of the Component 1; and (b) onlend an amount of \$4,500,000 to Dingzhou City WSC under an Onlending Agreement for the purposes of Dingzhou City WSS subproject of the Component 1;
- (xi) Mancheng County shall onlend an amount of \$4,000,000 to Mancheng County Municipal Project Co. under an Onlending

Agreement for the purposes of Mancheng County WWT subproject of the Component 1;

- (xii) Xiong County shall (a) onlend an amount of \$2,500,000 to Xiong County WSC under an Onlending Agreement for the purposes of Xiongxian County WWT subproject of the Component 1; (b) onlend an amount of \$2,000,000 to Xiong County WSC under an Onlending Agreement for the purposes of Xiong County WSS subproject of the Component 1; and (c) onlend an amount of \$12,500,000 to Xiong County Geothermal Energy Co. under an Onlending Agreement for the purposes of Xiong County Clean (Geothermal) Energy subproject of the Component 1;
- (xiii) BWAZ shall onlend an amount of \$3,700,000 to Baoding Baiyangdian Wenquancheng Longji Tourism Service Co. under an Onlending Agreement for the purposes of Wenquancheng WWT subproject of the Component 1;
- (xiv) Tang County shall onlend an amount of \$3,000,000 to Tang County Real Estate Development Co. under the Tang County Urban Construction Bureau under an Onlending Agreement for the purposes of Tang County WWT subproject of the Component 1; and
- (xv) BZAC shall onlend an amount of \$11,000,000 to Baoding High-Tech Zone Development Company under an Onlending Agreement for the purposes of Solid Waste (Huanghuagou Watershed) Management subproject of the Component 1.

(e) The terms and conditions of each Onlending Agreement shall be acceptable to ADB, which, among others, shall include (i) commitment charge and interest at the rates identical to those applied to the Loan; (ii) a repayment period including a grace period identical to those applied to the Loan; (iii) each concerned IA bearing the foreign exchange and interest rate variation risks of the proceeds onlent thereto; and (iv) each concerned IA performing the obligations to the extent applicable to itself as provided in the Project Agreement which shall be made an integral part of each such Onlending Agreement.

(f) The Borrower shall cause HPG, BMG, Counties, Cities, Townships, BZAC, BWAZ and the IAs to apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works, consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting 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 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 31 March 2014 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause HPG, BMG and IAs to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and water resources management practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement and the Schedule to the Project Agreement.

Section 4.02. The Borrower shall, through HPG, BMG, Counties, Cities, Townships, BZAC, and BWAZ make available to the IAs, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. The Borrower shall take all action which shall be necessary on its part to enable each of BMG to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall cause HPG and BMG to ensure that concerned County, City, Township, BZAC or BWAZ exercises its rights under the Onlending Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Onlending Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: any party to an Onlending Agreement shall have failed to perform any of its material obligations under such Onlending Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

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

Telex Number:

22486 MFPRC CN

Facsimile Number:

(86-10) 6855-1125.

For ADB

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

Telex Numbers:

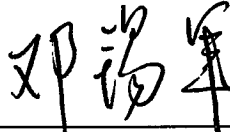
29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-2534.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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.

PEOPLE'S REPUBLIC OF CHINA

By  _____
DENG XIJUN
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
HARUHIKO KURODA
President

SCHEDULE 1

Description of the Project

1. The intended impact of the Project is improved quality of life, sustainable ecosystem, and biodiversity conservation in the Baiyangdian Basin. The Project's intended outcome is integrated ecosystem and water management, and improved environmental conditions in the Baiyangdian Basin.

2. The Project comprises the following components:

(a) Component 1: Subproject Investments. This component will support the following subprojects:

- (i) 13 WTPs of which 6 are located in north/northeast, 5 - in southwest and 2 in the west of the Baiyangdian Lake;
- (ii) 3 WSS located in Dingzhou City, Xiong County and Yi County;
- (iii) 2 reforestation subprojects covering about 20,300 ha in two areas - around Angezhuang Reservoir in Yi County and around the Baiyangdian Lakeside in Anxin County;
- (iv) CED subproject enhancing the use of clean geothermal resources to heat an additional area of about 1,650,000 m² of local private housing and public building complexes;
- (v) UFM subproject reinforcing the quality of embankments, increase the protected area; and improving the flood control standard from the recurrence period of 20 to 50 years in Anxin County;
- (vi) IWM subproject connecting the Wangkuai Reservoir to Xidayang Reservoir (Tang River basin) and upgrade the existing Tang aqueduct downstream of Xidayang Reservoir which discharges into the Baiyangdian Lake; and
- (vii) SWM subproject improving the environment of the Huanghuagou River and its surrounding area through (i) relocation of the dump site; (ii) closure of the ash storage; (iii) improvement of about 3.2 km of the Huanghuagou River; and (iv) rehabilitation of the area currently used for the dump site, wastewater pit and ash storage into an eco-theme park and urban land for future development.

(b) Component 2: Biodiversity Conservation. This component comprises the activities which will help ameliorate general ecosystem constraints in the Baiyangdian Basin by improving water quality and quantity.

Schedule 1

(c) Component 3: Institutional Strengthening. This component will assist in strengthening capacity of the IAs through training programs such as (i) on-the-job training; (ii) short-term in-county training through workshops; (iii) study tours (iv) short courses; and (v) short-term overseas training. Training will be for (i) project implementation; (ii) environmental management and safeguards; (iii) ecosystem management and biodiversity conservation; (iv) gender and development; (v) financial management; and (vi) project audit.

(d) Component 4: Project Management Support. This component will assist in various aspects of project implementation, including, but not limited to, (i) project supervision and capacity building in integrated ecosystem and water resources management; (ii) institutional/training development; (iii) water resources planning; (iv) structural, civil sanitation, and instrument engineering; (v) SWM; (vi) watershed management; (vii) geothermal energy; (viii) procurement; (ix) financial management; and (x) forestry. Advisory assistance will be provided to BMG and the IAs in various aspects of project implementation, including, but not limited to, (i) community organization and social preparation; (ii) livelihood demonstration; (iii) environmental monitoring; (iv) institutional strengthening; (v) gender and development; and (vi) project monitoring and evaluation, as necessary.

3. The Project includes the provision of consulting services. The Project is expected to be completed by 30 September 2013.

SCHEDULE 2**Amortization Schedule****(Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin Project)**

1. 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 shall 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 ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

	<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
1	15 Dec 2013	0.827816
2	15 Jun 2014	0.869207
3	15 Dec 2014	0.912667
4	15 Jun 2015	0.958301
5	15 Dec 2015	1.006216
6	15 Jun 2016	1.056526
7	15 Dec 2016	1.109353
8	15 Jun 2017	1.164820
9	15 Dec 2017	1.223061
10	15 Jun 2018	1.284214
11	15 Dec 2018	1.348425
12	15 Jun 2019	1.415846
13	15 Dec 2019	1.486639
14	15 Jun 2020	1.560971
15	15 Dec 2020	1.639019
16	15 Jun 2021	1.720970
17	15 Dec 2021	1.807019
18	15 Jun 2022	1.897369
19	15 Dec 2022	1.992238
20	15 Jun 2023	2.091850
21	15 Dec 2023	2.196442
22	15 Jun 2024	2.306264
23	15 Dec 2024	2.421578
24	15 Jun 2025	2.542657
25	15 Dec 2025	2.669789
26	15 Jun 2026	2.803279
27	15 Dec 2026	2.943443

	<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
28	15 Jun 2027	3.090615
29	15 Dec 2027	3.245146
30	15 Jun 2028	3.407403
31	15 Dec 2028	3.577773
32	15 Jun 2029	3.756662
33	15 Dec 2029	3.944495
34	15 Jun 2030	4.141720
35	15 Dec 2030	4.348806
36	15 Jun 2031	4.566246
37	15 Dec 2031	4.794558
38	15 Jun 2032	5.034286
39	15 Dec 2032	5.286000
40	15 Jun 2033	5.550311
	TOTAL	100.000000

2. If the proceeds of the Loan shall not 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 as follows:

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

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

3. Withdrawals made within two 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.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be

determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest and Commitment Charge

3. The amount allocated to Category 5 is for financing interest and commitment charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charge.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the proceeds of the Loan for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall cause HFB on behalf of HPG to establish immediately after the Effective Date, an imprest account at commercial bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

7. The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures under the Project and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

Retroactive Financing

8. Withdrawals from the Loan Account may be made for reimbursement of reasonable eligible expenditures incurred under the Project before the Effective Date, but not earlier than 20 months before the date of this Loan Agreement in connection with items to be retroactively financed, subject to a maximum amount equivalent to \$3,800,000.

Condition of Withdrawals from Loan Account

9. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for the ultimate benefit of any subproject until the Borrower shall have certified to ADB, in form and substance satisfactory to ADB, that the Onlending Agreement related to any such subproject has been entered into between with such IA, which shall include the terms and conditions as referred to in Section 3.01(d) and (e) of this Loan Agreement, shall have been duly executed and delivered on behalf of relevant County, City, Township, BZAC or BWAZ and the concerned IA, and shall have become fully effective and binding upon the parties thereto in accordance with its terms.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
(Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin Project)			
CATEGORY			ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing \$ Category	Percentage of ADB Financing from the Loan Account
1	Works	48,000,000	37 percent of total expenditures
2	Equipment	35,520,000	100 percent of total expenditures*
3	Consultants	1,750,000	100 percent of total expenditures*
4	Training, Study Tours, Conferences and Workshops	500,000	100 percent of total expenditures*
5	Interest and Commitment Charge	12,000,000	100 percent of amount due
6	Unallocated	2,230,000	
	Total	100,000,000	

* Exclusive of taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping
Direct Contracting

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.

5. National Competitive Bidding. The Borrower's *Law of 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, is subject to the following clarifications required for compliance with the Procurement Guidelines:

- i. All invitations to prequalify or to bid shall be advertised in the national press, or official gazette, or a free and open access website in the Borrower's country. 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 preparation period of thirty (30) days shall be given. The preparation period shall count (a) from the date of advertisement, or (b) when the documents are available for issue, whichever date is later. The advertisement and the prequalification and bidding documents shall specify the deadline for such submission.

Schedule 4

- ii. Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents, and in the prequalification documents if the bidding is preceded by a prequalification process.
- iii. If bidding is preceded by a prequalification process, 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 a performance security in an amount sufficient to protect the Borrower/Project Executing Agency in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such performance security.
- v. Bidders shall be allowed to submit bids by mail or by hand.
- vi. All bids shall be opened in public; all bidders shall be afforded 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/Project Executing Agency.
- 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 ADB, 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 ADB.
- xi. Government owned enterprises in the Borrower's country may be permitted to bid if they can establish that they (a) are legally and financially autonomous, (b) operate under commercial law and (c) are not a dependent agency of the Borrower/Project Executing Agency.

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

6. Community Participation in Procurement. The Borrower may use community participation in procurement for Works contracts for reforestation subprojects in accordance with the agreed procedures set out in the Procurement Plan.

C. Selection of Consulting Services

7. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

D. Industrial or Intellectual Property Rights

8. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

9. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

E. ADB's Review of Procurement Decisions

10. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project facilities; Other Matters

Implementation Arrangements

1. BMG shall be the EA and shall have overall responsibility for execution of the Project.
2. The Borrower, through HPG and BMG, shall ensure that the subprojects are implemented by the following IAs:

WWT subprojects

IA

(i) Liushi Town WWT	Liushi Town Wastewater Treatment Co.
(ii) Baigou Town WWT	Baigou WWT Plant
(iii) Li County WWT	Li County WWTC
(iv) Xushui County WWT	Xiushi County Hengxing Municipal Project Co.
(v) Xinxing Town WWT	Xinxing Town Textile City Comprehensive Development Co. of Li County
(vi) Anxin County WWT	Anxin County WWTC
(vii) Yi County WWT	Yi County Yuquan Urban Construction Development Co.
(viii) Dingxing County WWT	Dingxing County Urban Construction Municipal Co.
(ix) Dingzhou City WWT	Dingzhou City WWTC
(x) Mancheng County WWT	Mancheng County Municipal Project Co.
(xi) Xiong County WWT	Xiong County WSC
(xii) Tang County WWT	Tang County Real Estate Development Co. under the Tang County Urban Construction Bureau
(xiii) Wenquancheng WWT	Baoding Baiyangdian Wenquancheng Longji Tourism Service Co.

WSS subprojects

IA

(xiv) Yi County WSS	Yi County WSC
(xv) Xiong County WSS	Xiong County WSC
(xvi) Dingzhou City WSS	Dingzhou City WSC

Reforestation, CED, IWM, SWM, UFM
subprojectsIA

(xvii) Angezhuang Watershed (Reservoir) Reforestation	Yi County Forestry Bureau
(xviii) Baiyangdian Lake Reforestation	Anxin County Forestry Bureau
(xix) Xiong County Clean (Geothermal) Energy	Xiong County Geothermal Energy Co.
(xx) Anxin UFM	Anxin County Water Resource Bureau
(xxi) SWM (Huanghuagou Watershed)	Baoding High-Tech Zone Development Company
(xxii) IWM (Wangkuai- Xidayang Reservoir)	Baoding Water Resource Bureau

3. The Borrower through HPG shall cause BMG to set up a central PMO with about 15 staff to implement the Project. The PMO shall be headed by a full-time Project Director. The key PMO staff shall have expertise in financial management, civil and mechanical engineering, water resources, environment, ecosystem, project management, social development, and forestry. The PMO shall be responsible for day-to-day coordination and monitoring of all Project activities.

4. The Borrower, through HPG and BMG, shall cause each County to set up a PIU at its respective financial bureau. PIUs shall be headed by the Project Coordinators who shall be focal point for all Project related activities with the PMO.

5. To coordinate the Project activities among line bureaus and the IAs, the Borrower shall cause BMG to set up a PLG that shall meet at least quarterly for the first 2 years and semiannually for the remaining Project period or as needed.

Counterpart Funding

6. The Borrower shall cause HPG and BMG to ensure that (a) all counterpart funding necessary for the Project is provided in a timely manner, and (b) additional counterpart funding is provided in the event of any shortfall of funds or cost overruns to complete the Project.

Change of Ownership

7. The Borrower shall cause HPG and BMG to ensure that each IA obtains the prior written consent of ADB in the event that any such IA plans to (a) change the ownership structure of any of the Project facilities; (b) sell, transfer or assign any of its shares; or (c) otherwise make any material organizational change, where such change may have an adverse effect on such IA's ability to perform its obligations in respect of the relevant subproject, the Project Agreement or any Onlending Agreement. In the event any such change is approved by ADB, the Borrower shall cause HPG and BMG, through the relevant IA, to ensure that the change in ownership structure is carried out in a transparent manner and does not affect repayment of the Loan made under this Loan Agreement. Depending on the nature of the

approved change in ownership structure, ADB shall have the right to modify the repayment terms of the Loan.

Project Reviews: Midterm Review

8. In addition to regular monitoring, the Project performance shall be reviewed at least once a year jointly by ADB, the Borrower, HPG and BMG. The review shall (a) assess (i) implementation performance, (ii) achievement of progress towards Project outcomes and outputs, and (iii) financial progress; and (b) identify issues and constraints affecting implementation and work out a time-bound action plan for their resolution.

9. The Borrower, HPG, BMG and ADB shall undertake a comprehensive midterm review to assess implementation status and take appropriate measures, including but not limited to, (a) the need for modification of scope and implementation arrangements; and (b) reallocation of the Loan proceeds, as appropriate, to achieve the Project objectives.

GEF Grant

10. In the event the GEF Grant funding is not approved (i) Component 2; and (ii) the relevant training and consulting activities under Components 3 and 4 shall not be financed under the Project. The Borrower may make other necessary arrangements, acceptable to ADB, to cover the funding shortfall.