
LOAN NUMBER 2247-PRC

LOAN AGREEMENT
(Ordinary Operations)
(Heilongjiang Road Network Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED 19 JANUARY 2007

LAL: PRC 39038

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 19 January 2007 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 Project will be carried out by Heilongjiang Provincial Government (hereinafter called HPG) through the Heilongjiang Provincial Communications Department (hereinafter called HPCD), and for this purpose the Borrower will make available to HPG the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(C) 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 and HPG;

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, (hereinafter called the "Loan Regulations") are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

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) "Environmental Impact Assessment" or "EIA" means the environmental impact assessment dated September 2005 undertaken by the Heilongjiang Provincial Research Institute of Environmental Sciences for the Project and approved, in relevant parts, by HEPB in January 2006 and by the Borrower's State Environmental Protection Administration in April 2006;

(b) "Environmental Management Plan" or "EMP" means the Environmental Management Plan prepared as part of the Summary Initial Environmental Examination dated 17 February 2006;

(c) "Heilongjiang" means Heilongjiang province, an administrative subdivision of the Borrower, or any successor thereto;

- (d) "HEPB" means Heilongjiang provincial environmental protection bureau;
- (e) "Project area" means the geographic area encompassing the Project Road;
- (f) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means HPG, or any successor thereto, acting through HPCD, or any successor thereto, which is responsible for overall implementation of the Project;
- (g) "Project facilities" means the Project Road, equipment, works, goods and services financed out of the proceeds of the Loan;
- (h) "Procurement Plan" means the procurement plan for the Project, dated 8 June 2006 agreed between the Borrower and ADB, as may be amended from time to time in agreement between the Borrower and ADB;
- (i) "Project Implementation Unit" or "PIU" means the project implementation unit within HPCD, or any successor thereto, which shall be responsible for implementation of the Project;
- (j) "Project Road" means selected sections of the Jixi-Nehe highway road totaling 428 km and approximately 170 km of rural link roads adjacent thereto (Rural roads) and "Project highway" shall mean the selected sections of the Jixi-Nehe highway totaling 428 km;
- (k) "Resettlement Plan" or "RP" means the resettlement plan dated March 2006 prepared by HPCD and agreed between the Borrower and ADB, as may be amended from time to time by agreement between the Borrower and ADB; and
- (l) "Subsidiary Loan Agreement" has the meaning specified in Section 3.01 of this Loan Agreement.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of two hundred million dollars (\$200,000,000), 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 term of 25 years, including a grace period of 5 years, as provided 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.

Section 2.03. (a) The Borrower shall pay a commitment charge at the rate of three-fourths of one percent (0.75%) per annum. Such charge shall accrue on amounts of the Loan (less amounts withdrawn from time to time), during successive periods commencing sixty (60) days after the date of this Loan Agreement, as follows:

during the first twelve-month period, on \$30,000,000;
 during the second twelve-month period, on \$90,000,000;
 during the third twelve-month period, on \$170,000,000; and
 thereafter, on the full amount of the Loan.

(b) If any amount of the Loan is cancelled, the amount of each portion of the Loan stated in paragraph (a) of this Section shall be reduced in the same proportion as the cancellation bears to the full amount of the Loan before such cancellation.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 May and 15 November 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 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 relend the proceeds of the Loan to HPG under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB.

Except as ADB may otherwise agree, the terms for making available to HPG the proceeds of the Loan shall include (i) interest at the same rate as the Loan; (ii) a repayment period including a grace period identical to those of the Loan; and (iii) HPG bearing the foreign exchange and interest variation risks of such proceeds of the Loan relented thereto.

(b) The Borrower shall cause HPG, and shall ensure that HPG causes HPCD, 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 and 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 and 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 and 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 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 3.04. Except as ADB may otherwise agree, the Borrower shall cause all goods and 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 30 September 2011 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, and shall ensure that HPG causes HPCD, to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, highway and road construction, operation and maintenance 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 in the Schedule to the Project Agreement.

Section 4.02. The Borrower shall make available to HPG, and through HPG to HPCD, promptly as needed and on the 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 HPG and HPCD to perform their respective obligations under the Project Agreement, including those with respect to operation and maintenance concession and tolling as stipulated in paragraphs 9 and 10 of the Schedule to the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. The Borrower shall cause HPG to exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

ARTICLE V

Effectiveness

Section 5.01. 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 VI

Miscellaneous

Section 6.01. 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 6.02. 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

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2302.

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 _____
H.E. MR. LI JINJUN
Authorized Representative

ASIAN DEVELOPMENT BANK



By _____
HARUHIKO KURODA
President

SCHEDULE 1

Description of the Project

Impact and Outcome

1. The Project will promote sustainable economic growth and thus contribute to poverty reduction in Heilongjiang Province and the Project area by (i) heightening transport efficiency and safety, (ii) enhancing the transport network by improving the Jixi-Nehe highway and integrating the Rural roads into the Project highway, and (iii) improving the access to income-generating opportunities and social services.

Scope

2. The Project includes the following activities:
- (i) the upgrading of 428 km of the Jixi-Nehe highway including construction of bridges, from class III or unclassified road standards to class I or II road standards;
 - (ii) the improvement of rural link roads, totaling 170 km, to strengthen the integrated network in the Project area;
 - (iii) local road maintenance; and
 - (iv) equipment, consulting services, institutional capacity development.
3. The Project is expected to be completed by 30 September 2010.

SCHEDULE 2

Amortization Schedule

(Heilongjiang Road Network Development 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>Date Payment Due</u>	<u>Installment Share</u> (expressed in Percentage)
15 November 2011	0.83
15 May 2012	0.87
15 November 2012	0.91
15 May 2013	0.96
15 November 2013	1.01
15 May 2014	1.06
15 November 2014	1.11
15 May 2015	1.16
15 November 2015	1.22
15 May 2016	1.28
15 November 2016	1.35
15 May 2017	1.42
15 November 2017	1.49
15 May 2018	1.56
15 November 2018	1.64
15 May 2019	1.72
15 November 2019	1.81
15 May 2020	1.90
15 November 2020	1.99

<u>Date Payment Due</u>			<u>Installment Share</u> (expressed in Percentage)
15	May	2021	2.09
15	November	2021	2.20
15	May	2022	2.31
15	November	2022	2.42
15	May	2023	2.54
15	November	2023	2.67
15	May	2024	2.80
15	November	2024	2.94
15	May	2025	3.09
15	November	2025	3.25
15	May	2026	3.41
15	November	2026	3.58
15	May	2027	3.76
15	November	2027	3.94
15	May	2028	4.14
15	November	2028	4.35
15	May	2029	4.57
15	November	2029	4.79
15	May	2030	5.03
15	November	2030	5.29
15	May	2031	5.54
Total			<u><u>100.00</u></u>

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.

Schedule 2

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, services and other items of expenditure 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 and reference to "Subcategory" or "Subcategories" in this Schedule is to Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories 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.

Reallocation

3. 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.

Imprest Account; Statement of Expenditures

4. (a) Except as ADB may otherwise agree, the Borrower shall cause HPG to establish immediately after the Effective Date, an imprest account at a bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. The initial amount to be deposited into the imprest account shall not exceed the equivalent of \$3,000,000.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures of the Project and to liquidate advances provided into the imprest account, in accordance with the ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the

Borrower and the ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$200,000.

Retroactive Financing

5. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred in connection with the procurement of civil works and related consulting services under the Project prior to the Effective Date, but not earlier than 10 May 2006 or a maximum of 12 months prior to the date hereof, whichever is later, subject to a maximum \$20,000,000.

Condition for Withdrawal from Loan Account

6. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for the benefit of HPCD until the Borrower shall have certified to ADB, in form and substance satisfactory to ADB, that the Subsidiary Loan Agreement with HPG, which shall include the terms and conditions as referred to in Section 3.01 of this Loan Agreement, shall have been duly executed and delivered on behalf of HPG and shall have become fully effective and binding upon the parties thereto in accordance with its terms.

TABLE
ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS
(Heilongjiang Road Network Development Project)

CATEGORY				ADB FINANCING
Number	Item	Amount Allocated* US\$ '000		Percentage and Basis for Withdrawal from Loan Account
		Category	Subcategory	
1	Civil Works	199,270		
1A	Main road		184,270	51% of total expenditure
1B	Rural roads		15,000	95% of total expenditure
2	Consulting Services and Training	730		
2A	Consulting Services		154	100% of foreign expenditure
2B	Training		576	100% of total expenditure
	TOTAL	200,000		

SCHEDULE 4

Provisions on Procurement and Services of Consultants

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in the Procurement Guidelines (April 2006), as amended from time to time (hereinafter called the Procurement Guidelines), the Procurement Plan, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (April 2006), as amended from time to time (hereinafter called the Consultant Guidelines), the Procurement Plan, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used in this Schedule to describe particular methods of procurement by the Borrower or review by ADB, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

4. **International Competitive Bidding.** Except as otherwise provided in paragraph 5 below or in the Procurement Plan, including any revision thereto following the Effective Date, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

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

(a) civil works contracts estimated to cost the equivalent of less than or equal to \$10,000,000 may be awarded on the basis of National Competitive Bidding;

(b) contracts for goods and works estimated to cost the equivalent of less than or equal to 100,000 may be awarded on the basis of shopping; and

(c) the Borrower may apply limited international bidding in accordance with the provisions of paragraph 3.2 of the Procurement Guidelines for the procurement of maintenance equipment estimated to cost the equivalent of less than or equal to 1,000,000.

C. Particular Methods of Procurement of Consultants' Services

6. **Quality- and Cost-based Selection.** Except as ADB shall otherwise agree or as set forth in the Procurement plan, including any revision thereto following the Effective Date,

consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection (with simplified technical proposal).

D. ADB's Review of Procurement Decisions

7. The Procurement Plan shall set forth those contracts which shall be subject to ADB's Post Review. All other contracts shall be subject to Prior Review by ADB.

E. Procurement Plan

8. The Borrower shall update the Procurement Plan as needed throughout implementation of the Project, and on each anniversary of the Effective Date, the Borrower shall in consultation with ADB determine whether the Procurement Plan needs to be updated. The Borrower shall implement the Procurement Plan in the manner in which it has been approved by ADB.

F. Industrial or Intellectual Property Rights

9. The Borrower shall ensure that all ADB-financed 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.

10. The Borrower shall ensure that all ADB-financed 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 paragraph 9 above.

11. 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.

G. Advance Action and Retroactive Financing

12. Prior to the date of this Loan Agreement, ADB has approved certain advance actions undertaken on behalf of the Borrower for the procurement of goods, works and consulting services. The Borrower confirms that all such advance actions have been carried out in accordance with the requirements of the Procurement Plan, the Procurement Guidelines and the Consulting Guidelines, as applicable. The Borrower agrees that approval of advance action does not in any way derogate from or alter the Borrower's obligations set forth in this Loan Agreement.

13. Reimbursement by ADB of any payments made under contract signed prior to the date of this Loan Agreement shall be considered retroactive financing and shall only be permitted pursuant to paragraph 5 of Schedule 3 of this Loan Agreement and on the basis that the procurement for which retroactive financing is requested has been undertaken in accordance with the requirements of the Procurement Plan, Procurement Guidelines and the Consulting Guidelines, as applicable.

SCHEDULE 5

Execution of the Project

Project Implementation

1. HPG through HPCD shall be the Project Executing Agency responsible for overall execution and coordination of the Project. HPCD shall also implement the Rural roads component. The Borrower shall ensure through HPG that HPCD's institutional capacity is adequately supplemented with, among others, consultancy inputs and training under the Project.
2. The Project Implementation Unit within HPCD shall be responsible for managing, coordinating, and supervising implementation of all Project activities. It shall coordinate and monitor the Project highway's construction activities and operate the Project highway. Its general manager, the project director, will be responsible for overall Project management in relation to the Project highway, the approval of contracts, and payments. The PIU shall also facilitate land acquisition, resettlement, and environmental protection measures and shall ensure that local concerns are addressed adequately. The PIU will be headed by a project manager, who will oversee day-to-day physical implementation activities and prepare progress reports. In addition to its central office, the PIU will have nine toll stations and eight maintenance centers.
3. The Borrower shall cause HPG to take all necessary measures to ensure that (i) HPCD can successfully construct the Project Road, and (ii) the Rural roads construction and improvements are completed by the completion of the Project highway.

Counterpart Funding

4. The Borrower shall cause HPG to ensure that all necessary financing including budgetary allocations and local bank's debt financing are provided on a timely basis to enable the full and timely completion of the Project. In the event of any shortfall or disruption in the financing of the Project due to, *inter alia*, the lack, delay or inadequacy of funding of the Project or Project cost overruns, the Borrower shall assume the deficiency and provide prompt and adequate funds as may be necessary for successful implementation of the Project.

Change in Ownership and Operation

5. In the event that (i) any change in ownership of the Project Road, (ii) any sale, transfer, or assignment of interest or control in the Project Road, or (iii) any lease or other contract or other modification of HPCD's functions and authority over operation and maintenance of the Project Road, is anticipated, the Borrower shall cause HPG to consult with, and obtain consent of, ADB at least six months prior to the implementation of such a plan. The Borrower shall, and shall cause HPG and HPCD to, ensure that such change be carried out in a lawful and transparent matter.

Project Review

6. The Borrower and HPG in conjunction with ADB shall undertake a midterm review of the Project in 2008. Such review shall cover all policy, institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, financial, and other relevant aspects that may have an impact on the performance of the Project

and its continuing viability. The review shall also examine progress in resettlement, environment, poverty impact, and compliance with assurances in this Loan Agreement and in the Project Agreement.