
LOAN NUMBER 2494-PRC

LOAN AGREEMENT
(Ordinary Operations)

(Qingdao Water Resources and Wetland Protection Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED 25 MAY 2009

LAL: PRC 40017

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 25 May 2009 between the 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 Jiaozhou City Government (hereinafter called JCG), and for this purpose the Borrower will make available to JCG, through Qingdao Municipal Government (hereinafter called QMG), the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB;

(C) the Borrower has also applied to ADB for technical assistance ("Technical Assistance") for the purpose of strengthening the capacity of QMG in integrated environmental planning and management to support strategic environmental assessment with respect to the Jiaozhou Bay development, and ADB has agreed to provide a Technical Assistance grant for Enabling the Protection of Jiaozhou Bay Water Quality and Wetland Ecosystem in an amount not exceeding the equivalent of seven hundred fifty thousand Dollars (\$750,000); 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 the one part and QMG and JCG 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 will 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 will 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 will 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 will 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) "Affected Person" means any person whose living environment and/or livelihood activities have been or will be adversely affected by the resettlement activities undertaken or proposed to be undertaken by the Project and specifically including the holders of existing structures which will need to be cleared to make way for Project activities, including Works;

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

(c) "EIA" means the Environmental Impact Assessment report dated 15 July 2008, which was prepared by JCG and approved by Qingdao Provincial Environmental Protection Bureau on 30 July 2008;

(d) "EMP" means environmental management plan;

(e) "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;

(f) "IEE" means initial environmental examination;

(g) "Onlending Agreement(s)" means the agreement(s) referred to in Section 3.01 (a) of this Loan Agreement;

(h) “PMO” means the Project Management Office as described in paragraph 3 of Schedule 5 to this Loan Agreement;

(i) “PPMS” means Project Performance Management System as described in paragraph 18 of Schedule 5 to this Loan Agreement;

(j) “Procurement Guidelines” means ADB’s Procurement Guidelines (2007, as amended from time to time);

(k) “Procurement Plan” means the procurement plan for the Project dated 14 November 2008 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(l) “Project Executing Agency” for purposes of, and within the meaning of, this Loan Agreement and the Loan Regulations means JCG, which is responsible for carrying out the Project;

(m) “Project Leading Group” means the body to provide overall policy guidance for the Project, as described in paragraph 2 of Schedule 5 to this Loan Agreement;

(n) “Resettlement Plan” means the Resettlement Plan prepared for the Project and endorsed by JCG 14 July 2008, and acceptable to ADB, as may be amended from time to time by agreement between JCG and ADB;

(o) “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; and

(p) “WWTP” means the existing Wastewater Treatment Plant in Jiaouzhou which was built on a built-operate-transfer basis and capacity of which is being extended during the Project implementation period by the current concessionaire.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB’s ordinary capital resources an amount of forty-five million Dollars (\$45,000,000), 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 from 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 March and 15 September 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 relend the proceeds of the Loan to QMG to be onlent to JCG under Onlending Agreements upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms for making the proceeds of the Loan available to JCG shall include (i) interest at the same rate as that of the Loan; (ii) a repayment period including a grace period identical to that of the Loan; (iii) commitment charges identical to that of the Loan; and (iv) JCG bearing the foreign exchange and interest variation risks of the Loan proceeds so onlent.

(b) The Borrower, through QMG, shall cause JCG 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 and 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 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, 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 30 September 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, through QMG, shall cause JCG to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and public utility 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 make available to QMG, and cause QMG to make available to JCG, promptly as needed and on terms and conditions acceptable to ADB, the facilities, services 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 QMG and JCG to perform their 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 QMG and, through QMG cause JCG, to exercise their rights under the Onlending Agreements 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 Agreements shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; 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 the Onlending Agreements shall have failed to perform any of its obligations under the respective 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**Delegation of Authority**

Section 7.01. The Borrower hereby designates QMG its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.05 of this Loan Agreement and under Sections 6.01, 6.02, 6.03, and 6.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by QMG pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on QMG under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII**Miscellaneous**

Section 8.01. 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 8.02. 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

Facsimile Number:

(8610) 6855-1125.

For ADB

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

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 

LIU JIAN CHAO
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

HARUHIKO KURODA
President

SCHEDULE 1

Description of the Project

1. The Project is expected to improve the quality of life through sustainable ecosystem and biodiversity conservation in the Jiaozhou Bay, by improving water resource and environmental conditions in Jiaozhou and the downstream wetlands.

Scope of the Project

2. The scope of the Project comprises:

Part A: Improving Water Resources and Flood Management

- (i) river dredging, embankment works and greening over a total length of about 19.5 kilometers for four river courses;
- (ii) upgrading the Erli'he flood retention facilities; and
- (iii) construction of about 11.4 kilometers of storm sewerage facilities in Jiaozhou City.

Part B: Strengthening Wastewater Management and Pollution Control

- (i) construction of about 15.9 kilometers of interceptor sewer along river embankments in Jiaozhou City to collect and transport foul sewerage to the existing wastewater trunk sewerage system;
- (ii) supplement to the existing trunk sewerage system, with an additional network of about 11.8 kilometers; and
- (iii) provision of support to JCG to carry out safeguard due diligence with respect to wastewater treatment process design and environmental assessment of the extended WWTP.

Part C: Integrated Water and Ecosystem Management

- (i) ecosystem protection through construction of the artificial wetlands between the four river courses and Shaohai Lake, and development of the Shaohai Lake ecosystem management system;
- (ii) capacity strengthening for water resources and flood management in Jiaozhou City through development of integrated information system, emergency response measures, flood zone mapping and storm water source control, and improvement of structure control regulations;
- (iii) environmental management and pollution control in Jiaozhou City through training and awareness raising on community

participation, corporatization and strengthening of wastewater services, conducting wastewater tariff reform and enforcement of an environmental monitoring plan; and

- (iv) development of the Strategic Environmental Assessment.

Part D: Strengthening Project Management Capacity

- (i) staff training on financial management and reporting, and ADB disbursement and procurement procedures; and
- (ii) provision of vehicles and equipment.

3. The Project also includes provision of consulting services. The Project is expected to be completed by 31 March 2014.

SCHEDULE 2**Amortization Schedule****(Qingdao Water Resources and Wetland Protection 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.

Date Payment Due	Installment Share (Expressed as a % based on 10% annuity)
15 Mar 2014	0.827816
15 Sep 2014	0.869207
15 Mar 2015	0.912667
15 Sep 2015	0.958301
15 Mar 2016	1.006216
15 Sep 2016	1.056526
15 Mar 2017	1.109353
15 Sep 2017	1.164820
15 Mar 2018	1.223061
15 Sep 2018	1.284214
15 Mar 2019	1.348425
15 Sep 2019	1.415846
15 Mar 2020	1.486639
15 Sep 2020	1.560971
15 Mar 2021	1.639019
15 Sep 2021	1.720970
15 Mar 2022	1.807019
15 Sep 2022	1.897369
15 Mar 2023	1.992238
15 Sep 2023	2.091850
15 Mar 2024	2.196442
15 Sep 2024	2.306264
15 Mar 2025	2.421578
15 Sep 2025	2.542657
15 Mar 2026	2.669789
15 Sep 2026	2.803279
15 Mar 2027	2.943443
15 Sep 2027	3.090615
15 Mar 2028	3.245146

Schedule 2

15 Sep 2028	3.407403
15 Mar 2029	3.577773
15 Sep 2029	3.756662
15 Mar 2030	3.944495
15 Sep 2030	4.141720
15 Mar 2031	4.348806
15 Sep 2031	4.566246
15 Mar 2032	4.794558
15 Sep 2032	5.034286
15 Mar 2033	5.286000
15 Sep 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: (a) 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 (b) 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 and reference to "Subcategory" or "Subcategories" in this Schedule is to a 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.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, and 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

5. (a) Except as ADB may otherwise agree, the Borrower shall cause QMG to establish, immediately after the Effective Date, an imprest account at a commercial bank selected by the Borrower and 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 10 percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for any individual payment not exceeding \$100,000 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.

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with the procurement of goods and services, including consulting services, training, design, preliminary construction, and small equipment procurement, subject to a maximum amount equivalent to 20 percent of the Loan amount.

Condition of Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawal shall be made from the Loan Account for any part or subcomponent in Schedule 1 to this Loan Agreement until the Borrower submits to ADB the certification that (a) the Onlending Agreements have been duly executed and delivered on behalf of QMG and JCG, and have become fully effective and binding upon the parties thereto in accordance with their terms; and (b) such Onlending Agreements contain the same financial terms and conditions and other relevant requirements as provided in this Loan Agreement and the Project Agreement.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Qingdao Water Resources and Wetland Protection Project)				
CATEGORY				ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing		Percentage of ADB Financing from the Loan Account
		\$ Category	\$ Subcategory	
1	Civil Works	36,100,000		54 percent of total expenditure
2	Vehicles	200,000		100 percent of total expenditure*
3	Equipment and Materials	6,700,000		100 percent of total expenditure*
4	Consulting Services	2,000,000		
4A	Implementation Support		1,700,000	100 percent of total expenditure*
4B	Training		100,000	100 percent of total expenditure*
4C	Monitoring and Reporting		200,000	100 percent of total expenditure*
	Total	45,000,000		

* Exclusive of local 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, 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

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 and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.

C. Conditions for Award of Contract

6. The Borrower shall not award any Works contract financed under the Loan prior to approval of the updated Resettlement Plan by ADB.

D. Selection of Consulting Services

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

8. The Borrower shall apply the following methods for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

Consultants' Qualifications Selection for consulting services with an estimated cost that is less than \$200,000
Least-Cost Selection for consulting services with an estimated cost that is less than \$100,000
Single Source Selection for the environmental monitoring plan

E. Industrial or Intellectual Property Rights

9. (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.

10. 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.

F. ADB's Review of Procurement Decisions

11. 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; Financial Matters

Project Executing Agency

1. As the Project Executing Agency, JCG shall be responsible for the overall technical supervision and execution of the Project.

Policy Guidance

2. The Borrower shall ensure that the Project Leading Group, which has been established by JCG, headed by the Vice-Mayor and comprising representatives from Jiaozhou City Construction Bureau, Development and Reform Bureau, Finance Bureau, Environmental Protection Bureau, Planning Bureau, Shaohai Artificial Lake Management Bureau, Land Resources Bureau, and Water Resources Bureau, provides overall policy guidance, facilitate interagency coordination, and resolve any institutional problems that may have adverse impact on Project implementation. The Project Leading Group shall meet as often as necessary to ensure that the objectives of the Project are met.

Project Management Office and the Project Manager

3. The PMO, which has been established by JCG, shall have the overall responsibility for implementation of the Project and provide administrative and technical support, counterpart staff, documentation and other services that may be required. During Project implementation, the PMO shall also be responsible for coordinating with the design institutes and specialists engaged under the Project. The Borrower shall, through QMG, cause JCG to ensure that the PMO is headed by a Project manager acceptable to ADB, and is appropriately staffed for day-to-day coordination throughout the Project implementation period.

Counterpart Funding

4. Without limiting the generality of Section 4.02 of this Loan Agreement, the Borrower shall, through QMG, cause JCG to ensure that (a) all local and foreign currency counterpart financing necessary for the Project, including cash advances, are provided as and when due to enable completion of the Project activities in the scheduled implementation period; (b) additional counterpart funding is promptly provided for any shortfall of funds or cost overruns; and (c) the wastewater entity to be established by JCG adopts and maintains an appropriate financial management system acceptable to ADB.

Environmental Issues

5. The Borrower shall, through QMG, cause JCG to ensure that (a) the regulations for industrial pollution control and water conservation are enforced strictly; (b) a comprehensive plan for reusing the storm water and treated wastewater is developed, adopted and implemented in a timely manner; (c) the Water Savings Master Plan adopted under the 11th 5-year plan for Jiaozhou is carried out effectively; and (d) a community-based monitoring team, acceptable to ADB, is set up to assist with independent monitoring of the

environmental impact of the Project activities and, carrying out of the environmental protection awareness education.

6. The Borrower shall, through QMG, also cause JCG to ensure that Project facilities are constructed, operated, maintained, and monitored in strict conformity with (a) all applicable laws, regulations, and standards of the Borrower for environmental protection and ADB's Environment Policy (2002); (b) the environmental mitigation and monitoring measures detailed in the approved EIA, summary IEE, and EMP for the Project are undertaken in strict conformity; and (c) adequate numbers of personnel are engaged to monitor implementation of the EMP, under the guidance of the Jiaozhou Environment Protection Bureau and/or the Jiaozhou City environmental monitoring center. The Borrower shall cooperate closely with ADB in the preparation of the strategic environmental assessment for Jiaozhou Bay under the Technical Assistance, to ensure that appropriate integrated planning methodologies are identified and incorporated in the applicable environmental regulations following approval of the relevant authorities by 2011.

Anticorruption

7. The Borrower shall, and shall cause QMG and JCG to, (a) undertake necessary measures to create and sustain a corruption-free environment for activities under the Project; (b) comply with ADB's Anticorruption Policy (1998, as amended to date); and (c) where appropriate, ensure that relevant provisions of ADB's Anticorruption Policy are included in all bidding documents for the Project. The Borrower (i) acknowledges ADB's right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive and coercive practices relating to the Project, and (ii) agrees to cooperate fully with, and cause QMG and JCG to cooperate fully with, any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. All external costs related to such investigations shall be met by the Project resources.

8. Without limiting the generality of the preceding paragraph, the Borrower shall, through QMG, (a) ensure that JCG conducts periodic inspections on the suppliers', contractors', consultants' and other service providers' activities related to the Loan proceeds, fund withdrawals and settlements; and (b) ensure, and cause JCG to ensure, that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of JCG, the PMO, and all suppliers, contractors, consultants and other service providers as they relate to the Project.

9. In addition to the above requirements, the Borrower shall ensure, through QMG, that JCG (a) introduces a dual signing system in which the Works contractor awarded a contract also signs an anticorruption contract with the employer; and (b) causes the PMO to set up a Project website that describes the Project and provides the public with information on the Project, including (i) a summary of the audited financial statements of the Project, and (ii) contract awards.

Accounting, Auditing and Reporting

10. The Borrower shall cause QMG to ensure that JCG, through the PMO, (a) establishes and maintains records and accounts that identify Goods and services from the

Loan proceeds, financing resources received, expenditures incurred, and use of local funds, in accordance with sound accounting principles and internationally-accepted accounting standards; (b) reviews and consolidates these accounts and has them audited annually in accordance with sound accounting practices by the sovereign audit agency of the Borrower or other auditors acceptable to ADB; (c) furnishes to ADB, promptly after their preparation but in any event not later than six months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures); (d) prepares consolidated quarterly reports indicating progress made, problems encountered during the period, steps taken or proposed to remedy the problems, proposed program of activities and progress expected for the next quarter; and (e) within three months of physical completion of the Project, submits to ADB a completion report that describes the achievements in relation to the Project's expected impact, outcomes and outputs.

Project Performance Monitoring and Evaluation

11. The Borrower shall cause QMG to ensure that JCG, through the PMO, establishes and maintains a PPMS, which shall be designed to permit adequate flexibility to adopt remedial action regarding Project design, schedules, activities, and development impacts. The PPMS shall adopt the following agreed indicators: (a) physical progress of the implementation of the parts and subcomponents of the Project, as indicated in Schedule 1 to this Loan Agreement; (b) results of the capacity building program; (c) water quality and quantity improvements in the rivers and Shaohai Lake, Dagu River and Jiaozhou Bay; (d) improvement in biodiversity conservation in Shaohai Lake and Jiaozhou Bay; and (e) social development. At Project inception, the Borrower shall ensure that JCG, through the PMO, develops comprehensive PPMS procedures to systematically generate data on inputs and outputs of the Project activities, as well as the socioeconomic, health and environmental indicators to measure Project impacts.

12. The Borrower shall also cause QMG to ensure that JCG, through the PMO, (a) refines the PPMS framework, confirms achievable targets, monitoring and recording arrangements, and establishes systems and procedures no later than six months after Project implementation begins; (b) reports to ADB and QMG, at the requisite time intervals, the baseline and progress data; and (c) annually reports to ADB and QMG the compliance status of the EMP. The PMO shall be responsible for analyzing and consolidating reported data through its management information system, and for reporting outcomes to ADB and QMG through quarterly progress reports.

Project Review

13. In addition to regular monitoring, the Borrower shall, jointly with ADB, review the Project at least once a year. The review shall assess implementation performance and achievement of progress towards Project outcomes and outputs, financial progress, and issues and constraints affecting implementation, and work out a time-bound action plan for their resolution. The Borrower shall also, jointly with ADB, undertake a midterm review to assess implementation status and take appropriate measures, including modification of scope and implementation arrangements, and reallocations of Loan proceeds, as appropriate, to achieve the Project's outcomes and impact.