
LOAN NUMBER 2550-PRC

LOAN AGREEMENT
(Ordinary Operations)

(Liaoning Small Cities and Towns Development Demonstration Sector Project)

between

THE PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED _____

LAL:PRC 42382

LOAN AGREEMENT
(Ordinary Operations)

LOAN AGREEMENT dated _____ 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 Liaoning Provincial Government (hereinafter called LPG), and for this purpose the Borrower will make available to LPG 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 LPG;

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. (aa) 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.

(bb) 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:

(aa) 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.

(bb) 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:

(aa) 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.

(bb) 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) "AP" means an affected person;
- (b) "City PMO", "County PMO" or "Town PMO" means project management office established in a city, county or town of Liaoning Province, respectively, to manage the day-to-day implementation of the Subproject(s) located in the city, county or town as described in paragraph 2 of Schedule 5 to this Loan Agreement and paragraph 2 of the Schedule to the Project Agreement;
- (c) "concerned Local Government" means a city, county, or town government in Liaoning Province, within whose jurisdiction one or more than one Subproject are located;
- (d) "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);
- (e) "EIA" means an Environmental Impact Assessment, which is prepared for each Subproject of the Project, including (A) those to be prepared for the Subsequent Subprojects and (B) those for the Selected Subprojects as indicated in the following:
 - (i) EIA for the Donggang City Subproject dated November 2008, prepared by Liaoning Environment Science Academy;
 - (ii) EIA for the Kazuo Mongolian Autonomous County Subproject dated August 2008, prepared by Liaoning Environment Science Academy;
 - (iii) EIA for the Linghai City Subproject dated November 2008, prepared by Liaoning Environment Science Academy;
- (f) "EMDP" means Ethnic Minority Development Program prepared for those Subprojects which will impact on the ethnic minority groups in the Project area;
- (g) "EMP" means Environmental Management Plan;
- (h) "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;

(i) "LPEPD" means Liaoning Provincial Environmental Protection Department;

(j) "LPG" means Liaoning Provincial Government;

(k) "O&M" means operation and maintenance;

(l) "Onlending Agreement" means the agreement referred to in Section 3.01(b)(ii) of this Loan Agreement;

(m) "PPMS" means Project Performance Monitoring System;

(n) "Procurement Guidelines" means ADB's Procurement Guidelines (2007, as amended from time to time);

(o) "Procurement Plan" means the procurement plan for the Project dated 4 August 2009 and agreed between LPG and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(p) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means LPG or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(q) "Project facilities" means the equipment to be provided and the facilities to be constructed under the Project;

(r) "Project Implementing Agency" or "IA" means the agency appointed to carry out detailed implementation of a Subproject funded by the proceeds of the Loan, which indicated in the following:

(A) in case of the Selected Subprojects, each of the following:

(i) Donggang City ADB-Financed Project Management Office for the Donggang City Subproject;

(ii) Kazuo County ADB-Financed Urban Construction Project Office for the Kazuo Mongolian Autonomous County Subproject; and

(iii) Linghai City ADB-Financed Urban Infrastructure Facility Upgrading Office for the Linghai City Subproject; or

(B) in case of the Subsequent Subprojects, the agency(ies) appointed by the EA of the Project for the Subsequent Subprojects to be selected in accordance with provisions in paragraphs 54 through 59 of the Schedule to the Project Agreement;

(s) "Provincial PCG" means Project Coordination Group established at the provincial level to lead implementation of the Project as described in paragraph 1 of Schedule 5 to this Loan Agreement and paragraph 1 of the Schedule to the Project Agreement;

(t) "Provincial Project Management Office" or "Provincial PMO" means Liaoning Urban Construction and Renewal Project Office, established at the provincial level to manage day-to-day implementation of the Project as described in paragraph 2 of Schedule 5 to this Loan Agreement and paragraph 2 of the Schedule to the Project Agreement;

(u) "RP" means a resettlement plan prepared for and approved by the concerned authority for a Subproject, including those to be prepared for the Subsequent Subprojects and the following for the Selected Subprojects:

(i) RP dated October 2008 prepared by Liaoning Province Urban Construction Planning Design Institute and Project Management Office of ADB-Funded Donggang City Urban Infrastructure Project (which refers to Donggang City ADB Financed Project Management Office) for the Donggang City Subproject;

(ii) RP dated October 2008 prepared by Management Committee of New Gongyingzi Zone in Kazuo County and Project Management Office of New Gongyingzi Zone Water Supply Project in Kazuo County (which refers to Kazuo County ADB Financed Urban Construction Project Office) for the Kazuo Mongolian Autonomous County Subproject; and

(iii) RP dated October 2008 prepared by Liaoning Provincial Urban Construction Planning Design Institute and Project Management Office of ADB-Funded Linghai Urban Infrastructure Upgrading Project (which refers to Linghai City ADB-Financed Urban Infrastructure Facility Upgrading Office) for the Linghai City Subproject;

(v) "SEIA" means summary environmental impact assessment;

(w) "Subprojects" means the subprojects to be financed by the proceeds of this Loan described in Schedule 1 to this Loan Agreement, including

(i) "Selected Subprojects", which means the Subprojects appraised and approved by ADB prior to or at the Effectivity of this Loan Agreement; and

(ii) "Subsequent Subprojects", which means the Subprojects to be selected, appraised and approved in accordance with the provisions in paragraphs 54 through 59 in the Schedule to the Project Agreement;

(x) "SAR" means subproject appraisal report, which is prepared for appraising a Subproject; and

(y) "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 of 15 March 2016 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 make the proceeds of the Loan available to LPG upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms of the proceeds of the Loan made available to LPG 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) LPG bearing the foreign exchange and interest rate variation risks.

(b) The Borrower shall, through LPG, cause the proceeds of the Loan to be made available to the IAs through the following arrangements:

- (i) in case that an IA for a Subproject is an arm or part of the concerned Local Government or public utility institution acting as an arm or a part of the concerned Local Government, the portion of the Loan proceeds for the concerned Subproject shall be made available to the IA through the finance bureau of the concerned local government; and
- (ii) in case that an IA for a Subproject is a legal entity independent from the concerned Local Government, the portion of the loan proceeds for the Subproject shall be provided under an Onlending Agreement to be entered between the finance bureau of the concerned Local Government and the IA.

(c) The terms and conditions for the loan proceeds made available to the above mentioned IAs 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 of the Loan made available thereto; and (iv) provisions to ensure that the IA perform the obligations provided in this Loan and Project Agreement, to the extent applicable thereto, by

including such obligations and requirements as integral part of the fund transfer arrangements or the Onlending Agreements.

(d) The Borrower shall cause LPG, and through LPG cause 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 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 consistent with ADB's policies and guidelines.

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 2016 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 LPG to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, urban (urban road, river improvement and area upgrading) and social development, and public facility (wastewater, water supply, gas supply, heating, and solid waste 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 cause LPG to, promptly as needed, make available 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 the concerned 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 LPG to perform its obligations under the Project Agreement, including the establishment and maintenance of tariffs as stipulated in paragraphs 30 through 32 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. (a) The Borrower shall ensure through LPG that the concerned Local Government(s) to exercise its rights under the Onlending Agreement(s) in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) The Borrower shall ensure through LPG that no rights or obligations under any Onlending Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of the Borrower and ADB.

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
The 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) 636-2407.

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.

THE PEOPLE'S REPUBLIC OF CHINA

By _____
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____

SCHEDULE 1

Description of the Project

Impact and Outcome

1. The impact of the Project is improved living conditions and increased employment generation in small cities and towns in Liaoning Province. The outcome of the Project is improved urban infrastructure and municipal services in about seven small cities and towns in Liaoning Province.

Outputs

2. The outputs of the Project will be delivered by the Subprojects (including both Selected Subprojects and Subsequent Subprojects).

Part I. Selected Subprojects

- (i) Donggang City Subproject, comprising the following three components:
 - (a) roads and bridge and associated municipal services component, including construction of a new trunk road, reconstruct two trunk roads, construct a bridge, and install road lights including transformers;
 - (b) drainage and wastewater treatment component, including installation of stormwater pipes and wastewater pipes, construction of stormwater pumping stations and wastewater pumping stations, and installation of a box culvert; and
 - (c) river improvement and area upgrading component, including construction of embankment dikes along Dadonggou River including planting 1.1 million square meters (m²) of landscaped area along the embankment; Supplementary Appendix E provides technical details of this subproject.
- (ii) Kazuo Mongolian Autonomous County Subproject comprising one water supply component, including construction of a water intake including a lifting pumping station with a capacity of 26,000 cubic meters per day (m³/d) and a primary sedimentation tank, an intermediate pumping station with a capacity of 26,000 m³/d, and a water treatment plant with a capacity of 25,000 m³/d; and installation of water transmission pipes and water distribution pipes.
- (iii) Linghai City Subproject comprising one component, including construction and upgrading of roads and associated municipal services, construction of a series of roads (two upgraded trunk roads, eight upgraded secondary roads, and one upgraded branch road), a water pumping station, and a water storage tank with a volume of 2,000 m³; landscape 150,000 m² of land along the new and upgraded roads; installation of road lights with transformers, stormwater pipes, and box culverts; laying of water supply pipes; and procurement of road maintenance equipment.

Part II. Subsequent Subprojects

The Subsequent Subprojects will be selected, prepared, and appraised during implementation of the Project following the criteria and procedures in paragraphs 54 through 59 of the Schedule to the Project Agreement.

Part III. Institutional Development and Capacity Building

The Project will also provide institutional development and capacity building in small city and town development, municipal infrastructure, environmental management, and policy reforms to ensure sustainability of the Project and Project facilities. Furthermore, such assistance will also strengthen the institutional capacity in Subproject implementation and operation of Project facilities and services.

3. The Project will also provide consulting services. The Project is expected to be completed by 30 September 2015.

SCHEDULE 2**Amortization Schedule****(Liaoning Small Cities and Towns Development Demonstration Sector 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 %)
15 March 2016	2.500000
15 September 2016	2.500000
15 March 2017	2.500000
15 September 2017	2.500000
15 March 2018	2.500000
15 September 2018	2.500000
15 March 2019	2.500000
15 September 2019	2.500000
15 March 2020	2.500000
15 September 2020	2.500000
15 March 2021	2.500000
15 September 2021	2.500000
15 March 2022	2.500000
15 September 2022	2.500000
15 March 2023	2.500000
15 September 2023	2.500000
15 March 2024	2.500000
15 September 2024	2.500000
15 March 2025	2.500000
15 September 2025	2.500000
15 March 2026	2.500000
15 September 2026	2.500000
15 March 2027	2.500000
15 September 2027	2.500000
15 March 2028	2.500000
15 September 2028	2.500000

Schedule 2

15 March 2029	2.500000
15 September 2029	2.500000
15 March 2030	2.500000
15 September 2030	2.500000
15 March 2031	2.500000
15 September 2031	2.500000
15 March 2032	2.500000
15 September 2032	2.500000
15 March 2033	2.500000
15 September 2033	2.500000
15 March 2034	2.500000
15 September 2034	2.500000
15 March 2035	2.500000
15 September 2035	2.500000
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

Schedule 2

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 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.

Interest and Commitment Charge

3. The amount allocated to Category 4 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, in consultation with 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, in consultation with the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. 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

6. (a) Except as ADB may otherwise agree, the Borrower shall cause LPG 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, 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 to be financed from the imprest account, or (ii) the equivalent of ten (10) percent of the Loan amount.

(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 ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment not exceeding \$200,000 shall be replenished, liquidated, reimbursed using the Statement of Expenditure Procedure.

Retroactive Financing

7. 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 items to be retroactively financed, subject to a maximum amount equivalent to 20 percent of the Loan amount.

Condition of Withdrawals from Loan Account

8. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for any Subproject for which an Onlending Agreement is required to be entered into until the following condition shall have been met: the Borrower shall have certified to ADB that the Onlending Agreement, which shall include the terms and conditions referred to in Section 3.01(c) above, shall have been duly executed by and delivered on behalf of the concerned parties and shall have become fully effective and binding upon such parties thereto in accordance with its terms.

Table

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Liaoning Small Cities and Towns Development Demonstration Sector Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage and Basis for Withdrawal from the Loan Account ¹
		\$		
		Category	Subcategory	
1	Civil Works	67,362,000		
1.1	Donggang Roads		11,310,000	52 percent of total expenditure
1.2	Donggang River Improvement		10,903,000	52 percent of total expenditure
1.3	Kazuo Water Supply		4,263,000	52 percent of total expenditure
1.4	Linghai Roads		10,598,000	52 percent of total expenditure
1.5	Subsequent Projects		30,288,000	52 percent of total expenditure
2	Goods	19,403,000		
2.1	Donggang Roads		1,046,000	100 percent of total expenditure
2.2	Kazuo Water Supply		1,747,000	100 percent of total expenditure
2.3	Linghai Roads		2,074,000	100 percent of total expenditure
2.4	Subsequent Projects		14,536,000	100 percent of total expenditure
3	Institutional Strengthening & Training²	1,800,000		100 percent of total expenditure
4	Interest and Commitment Charge	11,435,000		100 percent of amount due
Total		100,000,000		

¹ Includes taxes and duties.

² Includes project implementation and training equipment.

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 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. Selection of Consulting Services

6. 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.

D. Industrial or Intellectual Property Rights

7. (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.

8. 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

9. 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 Financial Matters

A. IMPLEMENTATION ARRANGEMENTS

1. LPG through the Provincial PCG and the Provincial PMO shall be the EA for the Project. The Provincial PCG comprising Liaoning Finance Bureau, Development and Reform Commission, Construction Bureau, Land Resources Bureau, Audit Bureau, Price Bureau, and Environmental Protection Bureau shall provide overall guidance, supervision, and support to project preparation and implementation. A Provincial PMO, which has been established, shall undertake and manage the day-to-day activities of the Project, including selection and appraisal of Subsequent Subprojects.

2. In each Subproject City, or County or Town, a City, or County or Town PMO shall be set up to liaise with the Provincial PMO and the concerned departments and bureaus of LPG and the concerned Local Governments and to oversee and manage (i) the work undertaken by the IA, (ii) overall project finance, and (iii) Project implementation.

3. The IAs for the Subprojects shall be the following:

(A) in case of the Selected Subprojects,

(i) Donggang City ADB-Financed Project Management Office for the Donggang Subproject;

(ii) Kazuo County ADB-Financed Urban Construction Project Office for the Kazuo Mongolian Autonomous County Subproject;

(iii) Linghai City ADB-Financed Urban Infrastructure Facility Upgrading Office for the Linhai City Subproject; and

(B) in case of the Subsequent Subprojects, the agency(ies) appointed by the EA for the Subsequent Subproject(s) to be selected in accordance with provisions in paragraphs 54 through 59 of the Schedule to the Project Agreement.

B. COUNTERPART FUNDING

4. The Borrower shall cause LPG and the concerned Local Governments to ensure that all counterpart funding be provided in a timely manner for the concerned Subprojects, including any additional counterpart funding required for any shortfall of funds or cost overruns.

5. The Borrower shall cause LPG and the concerned Local Governments to ensure that adequate funding is allocated in each fiscal year for the O&M of the Project facilities, which shall be operated and maintained in accordance with the best engineering practices.

C. CHANGE IN OWNERSHIP

6. The Borrower shall cause LPG and each concerned Local Government to ensure that in the event that any change in ownership or rights of operation of Project facilities of any Subproject or any sale, transfer, or assignment thereof is anticipated, LPG and the concerned Local Government consult ADB prior to the implementation of such change. The Borrower shall cause LPG and the concerned Local Government to ensure that such changes be carried out in a lawful and transparent manner.