

LOAN AGREEMENT  
(Ordinary Operations)

(Inner Mongolia Autonomous Region Environment Improvement Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED 16 MAY 2007

## **LOAN AGREEMENT**

### **(Ordinary Operations)**

This LOAN AGREEMENT dated 16 May 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 the Government of Inner Mongolia Autonomous Region (hereinafter called GIMAR) and implemented, in part, by the Project Implementing Agencies (hereinafter called PIAs), and for this purpose the Borrower will relend to GIMAR, and GIMAR will onlend through the Municipal Governments and/or County Governments to the PIAs 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 GIMAR;

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) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated April 2006, as amended from time to time;

(b) "County Government" means the government of any of Linhe district, Dengkou county, Wuyuan county, Wulatehouqi, Hangjinhouqi, Wulateqianqi, and Wulatezhongqi;

(c) “County Onlending Agreement” means any of the onlending agreements between the Municipal Government and the relevant County Government referred to in Section 3.01 (b) and (c) of this Loan Agreement.

(d) “Environmental Impact Assessment” or “EIA” means the six (6) environmental impact assessment reports dated September and November 2005 undertaken by environment science research institutes in IMAR for all components of the Project and approved by the Environmental Protection Administration in IMAR;

(e) “Environmental Management Plan” or “EMP” means the Environmental Management Plan prepared as part of the Summary Initial Environmental Examination dated 28 February 2006;

(f) “Goods” means equipment and materials to be financed out of the proceeds of the Loan, and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(g) “IMAR” means the Inner Mongolia Autonomous Region, an administrative subdivision of the Borrower, or any successor thereto;

(h) “Municipal Government” means any of Wuhai municipal government and Bayannur municipal government;

(i) “Municipality Onlending Agreement” means any of the onlending agreements between GIMAR and the Municipal Government referred to in Section 3.01 (b) and (c) of this Loan Agreement;

(j) “Onlending Agreements” means, collectively, the Municipality Onlending Agreements, the County Onlending Agreements and the PIA Onlending Agreements;

(k) “PIA” or “Project Implementing Agencies” means any of Bayannur Fuyuan Shiye Group Limited Co., Inner Mongolia Haosheng Thermal Limited Co., Inner Mongolia Saiwaixing Huazhang Paper Limited Co., Inner Mongolia Western Natural Gas Limited Co., Wuhai Thermal Co., Wulatehouqi Huibao Thermal Limited Co., Wulatehouqi Water Company, and Wulatezhongqi Dagong Thermal Limited Co., or any successor thereto, which shall be responsible for implementation of the components (or parts thereof) of the Project;

(l) “PIA Onlending Agreement” means any and each agreement between the Municipal Government or the County Government and each of the PIAs referred to in Section 3.01(b) and (c) of this Loan Agreement;

(m) “Procurement Guidelines” means ADB’s Procurement Guidelines dated April 2006, as amended from time to time;

(n) “Procurement Plan” means the procurement plan for the Project dated 23 August 2006 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;

(o) "Project area" means Wuhai municipality and Dengkou, Hangjinhouqi, Linhe, Wulatehouqi, Wulateqianqi, Wulatezhongqi, and Wuyuan of Bayannur municipality in IMAR;

(p) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means GIMAR, or any successor thereto, which is responsible for overall implementation of the Project;

(q) "Project facilities" means the goods and works provided and constructed under the Project;

(r) "Resettlement Plan" or "RP" means the Resettlement Plan dated March 2006 prepared by GIMAR and accepted by ADB, as may be amended from time to time by agreement between GIMAR and ADB;

(s) "Subsidiary Loan Agreement" has the meaning specified in Section 3.01 (a) of this Loan Agreement; and

(t) "Works" means construction or civil works to be financed out of the proceeds of the Loan, and 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 twenty million Dollars (\$120,000,000), 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 \$18,000,000;  
during the second twelve-month period, on \$54,000,000;

during the third twelve-month period, on \$102,000,000; 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 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 GIMAR under a Subsidiary Loan Agreement upon terms and conditions acceptable to ADB. Except as ADB may otherwise agree, the terms for making available to GIMAR the proceeds of the Loan shall include (i) interest and commitment charge at the same rate as the Loan; (ii) a repayment period including a grace period identical to those of the Loan; and (iii) GIMAR bearing the foreign exchange and interest variation risks of such proceeds of the Loan relend thereto.

(b) The Borrower shall cause GIMAR to make available to the Municipal Governments under the Municipality Onlending Agreements, and the Municipal Governments

shall make available the proceeds of the Loan (i) to the County Governments under the County Onlending Agreements for further onlending to PIAs under the respective PIA Onlending Agreements; and/or (ii) to the relevant PIAs under the respective PIA Onlending Agreements. The Borrower shall cause GIMAR to ensure that the proceeds of the Loan are made available under the PIA Onlending Agreements to the following PIAs in the following amounts:

- (i) \$23,590,000 to Bayannur Fuyuan Shiye Group Limited Co.;
- (ii) \$12,570,000 to Inner Mongolia Haosheng Thermal Limited Co.;
- (iii) \$13,960,000 to Inner Mongolia Saiwaixing Huazhang Paper Limited Co.;
- (iv) \$45,450,000 to Inner Mongolia Western Natural Gas Limited Co.;
- (v) \$13,020,000 to Wuhai Thermal Co.;
- (vi) \$5,140,000 to Wulatehouqi Huibao Thermal Limited Co.;
- (vii) \$2,630,000 to Wulatehouqi Water Company; and
- (viii) \$3,640,000 to Wulatezhongqi Dagong Thermal Limited Co.

(c) The terms and conditions of each such Municipality Onlending Agreement, County Onlending Agreement and PIA Onlending Agreement shall be acceptable to ADB, which, among others, shall include (i) interest and commitment charge at the rate identical to those applied to the Loan; (ii) a repayment period including a grace period identical to those applied to the Loan; and (iii) each concerned PIA bearing the foreign exchange and interest rate variation risks of the Loan proceeds onlent thereto.

(d) The Borrower shall cause GIMAR, and shall ensure that GIMAR cause the PIAs, 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 services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 31 December 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 GIMAR, and shall ensure that GIMAR causes the PIAs, to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, heating supply, gas transmission and distribution, wastewater treatment, 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 the Schedule to the Project Agreement.

Section 4.02. The Borrower shall make available to GIMAR, and through GIMAR, the Municipal Governments and/or the County Governments to each concerned PIA, 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 GIMAR and PIAs to perform their obligations under the Project Agreement, including implementation of heating tariff reforms as stipulated in paragraphs 5 and 6 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 cause GIMAR 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. The Borrower shall cause GIMAR to ensure that the Municipal Governments, County Governments and PIAs exercise their respective rights under the Municipality Onlending Agreements, the County Onlending Agreements and the PIA Onlending Agreements, respectively, in each case, 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 cause GIMAR to ensure that no rights or obligations under the Onlending Agreements shall be assigned, amended, abrogated or waived without the prior concurrence of 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  
People's Republic of China

Facsimile Number:

(86-10) 6855-1125.

**For ADB**

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


Facsimile Numbers:

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

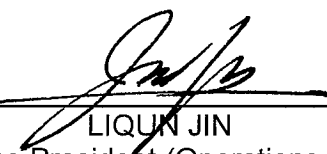


IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By   
\_\_\_\_\_  
H.E. MR. LI JINJUN  
Authorized Representative

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
LIQUN JIN  
Vice President (Operations 1)

## SCHEDULE 1

### DESCRIPTION OF THE PROJECT

#### Objective

1. The impact of the Project will be environmental improvement resulting from a reduction of atmospheric and water pollution in IMAR. The Project will achieve this by establishing an efficient, safe, and reliable gas and heating supply to facilitate the closure of small coal-fired boilers, and wastewater treatment facilities to protect water resources, which will conserve energy and water resources in the Project area.

#### Scope

2. The Project has the following components.
- (a) Component A will improve the central heating systems in the Project area through the installation of (i) 21 large efficient coal-fired boilers, (ii) 138 heat exchange stations, and (iii) 88 km of heat supply pipelines, all to facilitate the closure of 396 small inefficient coal-fired boilers.
  - (b) Component B will improve natural gas transmission and distribution systems in the Project area through the construction of (i) 401 km of natural gas transmission pipeline, (ii) natural gas distribution networks in 8 urban areas, and (iii) one master compressed-natural gas station, all to substitute liquefied petroleum gas (LPG) and coal consumption.
  - (c) Component C will improve wastewater treatment in Wulatehouqi and Wulateqianqi through the construction of (i) a wastewater treatment plant with 6,000 tons per day (t/day) capacity and 13.2 km of sewage network in Wulatehouqi, and (ii) a wastewater treatment plant with 80,000 t/day capacity, 40.0 km of sewage network, and 5 pumping stations in Wulateqianqi, to treat wastewater and protect water resources.
  - (d) Component D will strengthen the capacity of the PIAs including: (i) institutional strengthening and training for implementing the institutional and financial reform action plans, (ii) assistance to the PIAs to implement the tariff and regulatory reforms, and (iii) development of options for private sector participation.
3. The Project is expected to be completed by 30 June 2011.

**SCHEDULE 2****AMORTIZATION SCHEDULE****(Inner Mongolia Autonomous Region Environment Improvement 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>Period</u>	<u>Date Payment Due</u>		<u>Installment Share</u> (expressed in percentage)
1	15 March	2012	0.83
2	15 September	2012	0.87
3	15 March	2013	0.91
4	15 September	2013	0.96
5	15 March	2014	1.01
6	15 September	2014	1.06
7	15 March	2015	1.11
8	15 September	2015	1.16
9	15 March	2016	1.22
10	15 September	2016	1.28
11	15 March	2017	1.35
12	15 September	2017	1.42
13	15 March	2018	1.49
14	15 September	2018	1.56
15	15 March	2019	1.64
16	15 September	2019	1.72
17	15 March	2020	1.81
18	15 September	2020	1.90
19	15 March	2021	1.99
20	15 September	2021	2.09
21	15 March	2022	2.20
22	15 September	2022	2.31
23	15 March	2023	2.42
24	15 September	2023	2.54
25	15 March	2024	2.67
26	15 September	2024	2.80

<u>Period</u>	<u>Date Payment Due</u>		<u>Installment Share</u> (expressed in percentage)
27	15 March	2025	2.94
28	15 September	2025	3.09
29	15 March	2026	3.25
30	15 September	2026	3.41
31	15 March	2027	3.58
32	15 September	2027	3.76
33	15 March	2028	3.94
34	15 September	2028	4.14
35	15 March	2029	4.35
36	15 September	2029	4.57
37	15 March	2030	4.79
38	15 September	2030	5.03
39	15 March	2031	5.29
40	15 September	2031	5.54
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2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

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

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

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

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

**SCHEDULE 3****ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works and 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, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

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

Disbursement Procedures

5. Except as ADB may otherwise agree, all Goods, Works, consulting services and other items to be financed out of the Loan proceeds shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook) and

ADB's "Interim Guidelines for Disbursement Operations, LIBOR-Based Loan Products" dated July 2002, both as amended from time to time.

Imprest Account and Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall cause GIMAR to establish soon after the Effective Date, an imprest account at a bank acceptable to ADB. The imprest account shall be established, managed and 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 be equivalent to the estimated expenditure for the first six months of Project implementation, but in any event shall not exceed the equivalent of \$5,000,000.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with the ADB's Loan Disbursement Handbook 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

7. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project prior to the Effective Date, but not earlier than 1 June 2006 or 12 months before the date of this Loan Agreement, whichever is later, in connection with procurement of Goods, Works and consulting services, subject to a maximum of \$12,000,000.

Condition for Withdrawal from Loan Account

8. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for the benefit of any PIA until the Borrower shall have certified to ADB, in form and substance satisfactory to ADB, that the PIA Onlending Agreement with such PIA, 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 the Municipal Government or County Government and the concerned PIA and shall have become fully effective and binding upon the parties thereto in accordance with its terms.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS</b> (Inner Mongolia Autonomous Region Environment Improvement Project)				
CATEGORY				ADB FINANCING
Number	ITEM	Amount Allocated \$		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Works	7,450,000		
1A	Western Natural Gas Company		5,020,000	46 percent of total expenditure
1B	Wulatehouqi Water Co.		2,000,000	46 percent of total expenditure
1C	Wulateqianqi Wastewater (Saiwaixing).		430,000	46 percent of total expenditure
2	Equipment and Materials	99,810,000		100 percent of total expenditure
3	Consulting Services for Institutional Strengthening and Project Management Support	2,200,000		100 percent of total expenditure
4	Interest and Commitment Charge	10,540,000		100 percent of amounts due
	<b>Total</b>	120,000,000		



## SCHEDULE 4

### PROCUREMENT OF GOODS AND WORKS, AND CONSULTING SERVICES

#### A. General

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

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

4. Domestic Preference. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.
5. National Competitive Bidding. The Borrower's *Law of Tendering and Bidding of the People's Republic of China* promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, are subject to the following clarifications required for compliance with the Procurement Guidelines:

- (i) All invitations to prequalify or to bid shall be advertised in the national press, or official gazette, or a free and open access website in the Borrower's country. Such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum preparation period of thirty (30) days shall be given. The preparation period shall count (a) from the date of advertisement, or (b) when the documents are available for issue, whichever date is later. The advertisement and the prequalification and bidding documents shall specify the deadline for such submission.

- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents, and in the prequalification documents if the bidding is preceded by a prequalification process.
- (iii) If bidding is preceded by a prequalification process, all bidders that meet the qualification criteria set out in the prequalification document shall be allowed to bid and there shall be no limit on the number of pre-qualified bidders.
- (iv) All bidders shall be required to provide a performance security in an amount sufficient to protect the Borrower/Project Executing Agency in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such performance security.
- (v) Bidders shall be allowed to submit bids by mail or by hand.
- (vi) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vii) All bid evaluation criteria shall be disclosed in the bidding documents and quantified in monetary terms or expressed in the form of pass/fail requirements.
- (viii) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower/Project Executing Agency.
- (ix) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (a) to be substantially responsive to the bidding documents and (b) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.
- (x) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit ADB, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by ADB.
- (xi) Government owned enterprises in the Borrower's country may be permitted to bid if they can establish that they (a) are legally and financially autonomous, (b) operate under commercial law and (c) are not a dependent agency of the agency conducting procurement.

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

**C. Conditions for Award of Contract**

6. The Borrower shall not award any Works contracts financed under the Loan until ADB's approval of the revised and updated Resettlement Plan in cases where changes to the relevant Project design during implementation become necessary. Such Resettlement Plan shall be based on the detailed Project design and the measurement survey.

**D. Selection of Consulting Services**

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

**E. Industrial or Intellectual Property Rights**

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

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

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

**F. ADB's Review of Procurement Decisions**

10. All contracts 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 THE PROJECT

#### Implementation Arrangements

1. GIMAR shall be the Project Executing Agency responsible for overall execution and coordination of the Project.
2. A project management office (PMO) will be responsible for managing, coordinating, and supervising implementation of all project subcomponents.
3. The Project subcomponents will be implemented by each concerned PIA. The following PIAs shall be responsible for day-to-day implementation of the relevant part of the Project as follows:
  - (i) Bayannur Fuyuan Shiye Group Limited Co. shall be responsible for implementation of Component A in each of (a) Dengkou, (b) Linhe, and (c) Wuyuan;
  - (ii) Inner Mongolia Haosheng Thermal Limited Co. shall be responsible for implementation of Component A in Hangjinhouqi;
  - (iii) Inner Mongolia Saiwaixing Huazhang Paper Limited Co. shall be responsible for implementation of (a) Component A and (b) Component C, both in Wulateqianqi;
  - (iv) Inner Mongolia Western Natural Gas Limited Co. shall be responsible for implementation of Component B;
  - (v) Wuhai Thermal Co. shall be responsible for implementation of Component A in Wuhai;
  - (vi) Wulatehouqi Huibao Thermal Limited Co. shall be responsible for implementation of Component A in Wulatehouqi;
  - (vii) Wulatehouqi Water Company shall be responsible for implementation of Component C in Wulatehouqi; and
  - (viii) Wulatezhongqi Dagong Thermal Limited Co. shall be responsible for implementation of Component A in Wulatezhongqi.
4. Each such PIA will establish a project implementation office (PIO) to be directly responsible for design, construction, and operation of its subcomponents.

Counterpart Funding

5. The Borrower shall ensure, and shall cause GIMAR to ensure, that all necessary financing (other than from the Loan proceeds) including cash injection and equity contributions 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 or inadequacy of funding of, or delay in financing by, or change of control within, any of the PIAs, the Borrower shall cause GIMAR to provide prompt and adequate funds as may be necessary for successful implementation of the Project.

Change in Ownership and Operation

6. In the event (a) of any change in ownership of the Project facilities or (b) any sale, transfer or assignment of shares or interest or other change of control in any PIA is anticipated, the Borrower shall, and shall cause that GIMAR and the concerned PIA to, consult with ADB at least six months prior to the implementation of such change. The Borrower shall, and shall cause GIMAR to, ensure that such change be carried out in a lawful and transparent matter.

Implementation of Heating Tariff Reforms

7. The Borrower shall through GIMAR cause the PIAs to progressively implement at the city level key heating tariff reforms including: (a) installation of lock valves in individual apartment units in buildings to improve tariff collection; (b) installation of radiator control valves in apartment units in buildings to encourage heat conservation; (c) implementation of two-part heating tariff structure that the variable charge shall be based on heat consumption; the overall heating tariff level should be cost-reflective and promote economic efficiency; (d) installation of heat measuring devices at apartment level to support consumption-based billing systems; and (e) conversion from enterprise-based tariff payment system to individual-based payment system.

Project Midterm Review

8. A midterm review of the Project shall be undertaken two years after the Effective Date. Such review shall cover all 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 examine progress in sector reforms, evaluate development, resettlement, environment, poverty impact, and compliance with assurances in the Project Agreement. The review shall also undertake a comprehensive review of potential Loan savings, identify areas for reallocation of Loan proceeds, and change disbursement percentages, as appropriate.