

LOAN AGREEMENT
(Ordinary Operations)

(Gansu Heihe Rural Hydropower Development Investment Program – Dagushan
Hydropower Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED 4 MARCH 2008

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 4 March 2008 between PEOPLE'S REPUBLIC OF CHINA (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Borrower has entered into a Framework Financing Agreement (hereinafter called FFA) with ADB to seek financing for an investment program comprising the construction of two medium sized hydropower plants (as described in Schedule 1 to the FFA) under the Heihe river cascade hydropower development scheme in Zhangye City (hereinafter called the Investment Program)

(B) the Borrower has applied to ADB for a loan from its ordinary capital resources for the purposes of financing the Dagushan hydropower plant, as further described in Schedule 1 to this Loan Agreement (hereinafter called the Project);

(C) the Project will be carried out by Gansu Provincial Government (hereinafter called GPG), Zhangye City Government (hereinafter called ZCG) and Gansu Zhangye Dagushan Hydropower Company Limited (hereinafter called DHC), and for this purpose the Borrower will make available to DHC, through GPG and ZCG, the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(D) ADB has, on the basis inter alia of the foregoing, 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 GPG, ZCG and DHC 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. (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) "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);

(b) "EIA" means the Environmental Impact Assessment report dated December 2006, which was prepared by DHC and approved by Gansu Provincial Environmental Protection Bureau on 19 March 2007;

(c) "DHC" means Gansu Zhangye Dagushan Hydropower Company Limited, a limited liability company incorporated under the Company Law of the Borrower with a company registration certificate dated 10 January 2007 and issued by Zhangye City Administration of Industry and Commerce;

(d) "FFA" means the Framework Financing Agreement dated 25 October 2006, between ADB and the Borrower;

(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) "GPEPB" means the Gansu Provincial Environment Protection Bureau of the Borrower or any successor thereto;

- (g) "GPG" means Gansu Provincial Government;
- (h) "IA" or "Implementing Agency" means DHC which is responsible for implementing of the Project;
- (i) "Onlending Agreement" means the agreement between ZCG and DHC referred to in Section 3.01 (c) of 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 10 January 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 the purpose of, and within the meaning of the Loan Regulations, means GPG, or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;
- (m) "Project facilities" means the facilities to be developed and constructed and equipment to be provided under the Project;
- (n) "Project Power Plant" means hydropower plant, which will be constructed under the Project;
- (o) "Resettlement Plan" means the Resettlement Plan prepared by DHC, approved by ZCG on 8 October 2007, and acceptable to ADB, as may be amended from time to time by agreement between ZCG and ADB;
- (p) "SEIA" means the Summary Environmental Impact Assessment report based on the EIA;
- (q) "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
- (r) "ZCG" means the Zhangye City Government.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of twenty eight million dollars (\$28,000,000), 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 (15 July 2012) 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 percent as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40 percent as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15 percent 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 January and 15 July in each year.

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

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and

outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

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

ARTICLE III

Use of Proceeds of the Loan

Section 3.01 (a) The Borrower shall make available the proceeds of the Loan to GPG upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms for making the proceeds of the Loan available to GPG 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 those of the Loan; (iv) GPG bearing the foreign exchange and interest variation risks of the Loan proceeds so relent.

(b) The Borrower shall cause GPG to make the proceeds of the Loan available to ZCG upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms for making the proceeds of the Loan available to ZCG 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) ZCG bearing the foreign exchange and interest variation risks of the Loan proceeds so onlent.

(c) The Borrower shall cause ZCG to onlend the proceeds of the Loan to DHC pursuant to an Onlending Agreement upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms of the Onlending Agreement 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) DHC bearing the foreign exchange and interest variation risks of the Loan proceeds so onlent.

(d) The Borrower shall, through GPG and ZCG, cause DHC 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 2012 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, through GPG and ZCG, cause DHC to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and hydropower 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 GPG, and cause GPG and ZCG to make available to DHC, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

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

Section 4.04. The Borrower shall take all action which shall be necessary on its part to enable GPG, ZCG and DHC to perform their respective 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 through GPG cause ZCG to exercise its rights under the Onlending Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

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

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following are specified as additional events 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.

(a) Any party to the Onlending Agreement shall have failed to perform any material obligation under the Onlending Agreement.

(b) Without obtaining prior agreement of ADB, any material organizational changes, whether financial, operational or structural, or any material changes to the legal character, ownership or control of DHC shall have been made, provided that such changes are determined to adversely affect DHC's ability to perform its obligations under this Loan Agreement, the Project Agreement and the Onlending Agreement.

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

ARTICLE VI

Effectiveness

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

ARTICLE VII

Miscellaneous

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

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

For the Borrower

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

Telex Number:

22486 MFPRC CN

Facsimile Number:

(8610) 6855-1125.

For ADB

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

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

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

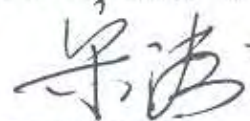
Facsimile Numbers:

(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

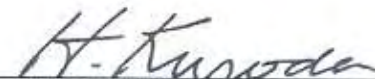


SONG TAO

Authorized Representative

ASIAN DEVELOPMENT BANK

By



HARUHIKO KURODA

President

SCHEDULE 1**Description of the Project**

1. The impact of the Project is to provide environmentally clean power supply to support economic growth in the rural areas of Gansu.
2. The Project consists of the construction of hydropower plant of 65 megawatt (MW) (2 x 26 MW plus 1 x 13 MW) at Dagushan, Zhangye City, Gansu Province and 110 kilovolt transmission lines connecting the Project Power Plant to a Heihe grid sub-station.
3. The Project is expected to be completed by 30 June 2012.

SCHEDULE 2

Amortization Schedule

(Gansu Heihe Rural Hydropower Development Investment Program – Dagushan Hydropower 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</u>	<u>Installment Share</u> (expressed in percentage)
1	15 July 2012	0.225941
2	15 January 2013	0.248535
3	15 July 2013	0.273389
4	15 January 2014	0.300727
5	15 July 2014	0.330800
6	15 January 2015	0.363880
7	15 July 2015	0.400268
8	15 January 2016	0.440295
9	15 July 2016	0.484325
10	15 January 2017	0.532757
11	15 July 2017	0.586033
12	15 January 2018	0.644636
13	15 July 2018	0.709100
14	15 January 2019	0.780010
15	15 July 2019	0.858011
16	15 January 2020	0.943812
17	15 July 2020	1.038193
18	15 January 2021	1.142012
19	15 July 2021	1.256213
20	15 January 2022	1.381835
21	15 July 2022	1.520018
22	15 January 2023	1.672020
23	15 July 2023	1.839222
24	15 January 2024	2.023144
25	15 July 2024	2.225459
26	15 January 2025	2.448004
27	15 July 2025	2.692805

<u>Period</u>	<u>Date</u>		<u>Installment Share</u> (expressed in percentage)
28	15 January	2026	2.962085
29	15 July	2026	3.258294
30	15 January	2027	3.584123
31	15 July	2027	3.942536
32	15 January	2028	4.336789
33	15 July	2028	4.770468
34	15 January	2029	5.247515
35	15 July	2029	5.772266
36	15 January	2030	6.349493
37	15 July	2030	6.984442
38	15 January	2031	7.682886
39	15 July	2031	8.451175
40	15 January	2032	9.296484
TOTAL			100.00

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

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

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

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

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

in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

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

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table 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, 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 GPG to establish immediately after the Effective Date, an imprest account at a commercial bank selected by GPG 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 Dollars. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from an imprest account for the first six months of Project implementation, 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 and to liquidate advances provided into the imprest, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed, replenished or liquidated under the SOE procedure shall not exceed the equivalent of \$200,000. The payments in excess of the SOE ceiling will be reimbursed, liquidated or replenished based on full supporting documentation process.

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 Goods, Works, and consulting services subject to a maximum amount equivalent to twenty (20) percent of the Loan amount.

Condition of Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for the ultimate benefit of DHC, 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 as referred to in section 3.01 (c) of this Loan Agreement, shall have been duly executed and delivered on behalf of ZCG and DHC and shall have become fully effective and binding upon the parties thereto in accordance with its terms.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS				
(Gansu Heihe Rural Hydropower Development Investment Program— Dagushan Hydropower Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage and Basis for Withdrawal from the Loan Account
		(\$)		
		Category	Subcategory	
1	Works	21,740,000		
1A	Headrace Tunnel		12,020,000	100 percent of total expenditure
1B	Surge Shaft		5,660,000	100 percent of total expenditure
1C	Power House		4,060,000	100 percent of total expenditure
2	Goods	6,160,000		
2A	Power Plant Equipment		5,330,000	100 percent of total expenditure
2B	Hydromechanical Equipment		430,000	100 percent of total expenditure
2C	Environment Protection		400,000	100 percent of total expenditure
3	Consulting Services	100,000		100 percent of total expenditure
	Total	28,000,000		

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/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.

C. National Competitive Bidding

5. 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).

D. Selection of Consulting Services

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

E. 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.

F. 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 and Implementation of the Project

FFA

1. The Borrower shall ensure that the Project is carried out in accordance with the FFA and all the Schedules (including Annexes) attached thereto.

Implementation Arrangements

Project Executing Agency

2. GPG shall be the Project Executing Agency (EA) responsible for the overall implementation of the Project.

Project Implementing Agency

3. DHC shall be the Implementing Agency, responsible for day-to-day implementation of the Project, in particular for coordinating and monitoring all construction activities of the Project. DHC shall set up a Project Implementation Unit for the implementation of the Project. A Project lead group shall be set up within ZCG to oversee and assist in the implementation of the Project.

Counterpart Financing

4. The Borrower shall cause GPG, ZCG and DHC to obtain, on a timely basis, all funds and resources necessary for the construction of the Project and other facilities under the Project in accordance with financing plan for the Project as agreed by ADB. In case of Project cost overrun, the Borrower shall cause GPG, ZCG and DHC to provide additional counterpart financing in a timely manner for completion of the Project as scheduled.

Change of Ownership

5. If (i) any change in ownership of the Project facilities, or (ii) sale, transfer, or assignment of DHC's interest in the Project Power Plant is anticipated, the Borrower shall cause GPG, ZCG, and DHC to consult with ADB at least six months before such change, sale, transfer or assignment. The Borrower shall ensure that any proposed change in ownership of the Project facilities be carried out in a legal and transparent manner.

Project Midterm Review

6. 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 and evaluate the development, resettlement, environmental and poverty impacts, and status of compliance with assurances of the Loan and the Project Agreements. The review shall also undertake a

comprehensive review of potential Loan savings and identify areas for reallocation of Loan proceeds, as appropriate.