Project Agreement

(Second Liuzhou Environment Management Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

GUANGXI ZHUANG AUTONOMOUS REGION

Dated May 25, 2011
PROJECT AGREEMENT

AGREEMENT dated May 25, 2011 entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and GUANGXI ZHUANG AUTONOMOUS REGION (“Guangxi” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of the same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and Guangxi hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined and modified in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. Guangxi declares its commitment to the objectives of the Project. To this end, Guangxi shall: (a) carry out, and cause LMWTC to carry out, the Project in accordance with the provisions of Article V of the General Conditions; and (b) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Guangxi shall otherwise agree, Guangxi shall carry out, and shall cause to be carried out, the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

3.01. Guangxi’s Representative is its Chairman or a Vice-Chairman or such other person or persons as said Chairman or a Vice-Chairman shall designate in writing, and Guangxi shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.
3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

3.03. Guangxi’s Address is:

No.126-1 Yuejin Road
Liuzhou
Guangxi
People’s Republic of China

Facsimile: 86-0772-2827625

AGREED at Beijing, People’s Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By
Authorized Representative

GUANGXI ZHUANG AUTONOMOUS REGION

By
Authorized Representative
SCHEDULE

Execution Of The Project

Section I. Implementation Arrangements

A. Project Management

Guangxi shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:

(a) the Leading Group, which is composed of a Vice Mayor of Liuzhou and representatives from various departments of the Liuzhou municipal government, responsible for providing policy guidance and inter-department coordination for implementation of activities under the Project.

(b) the Project Management Office (PMO) established under Liuzhou and responsible for daily supervision and coordination of Project implementation.

(c) Project Management Offices in each of the Project Counties/Districts (CPMO) responsible for interdepartmental coordination of Part 1.1 of the Project.

B. Anti-Corruption

Guangxi shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Resettlement, Environment Protection and Cultural Heritage Conservation

1. Guangxi in carrying out the Project shall implement, and shall cause each Project Counties/District and LMWTC to implement the applicable EMP in a manner satisfactory to the Bank, ensure that the Project is implemented in accordance with sound environmental practices and standards, and where applicable, shall conserve and mitigate against adverse impact on natural habitats or their functions and shall avoid or mitigate against adverse impact on physical cultural resources.

2. Guangxi shall, and shall cause the Project Counties/Districts and LMWTC to:
(a) maintain policies and procedures adequate to enable them to monitor and
evaluate, in accordance with guidelines acceptable to the Bank, the
implementation of the EMPs (including, measures against adverse
impact on physical cultural resources), the RAPs, and the achievement of
the objectives of said plans; and

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to
the Bank by March 15 and September 15 of each year, commencing on
September 15, 2011, semi-annual reports of the results of the monitoring
and evaluation activities with respect to the EMPs and RAPs, together
with any revisions proposed to be introduced into said plans in order to
achieve their respective objectives.

3. Guangxi shall provide, and shall cause the Project Counties/Districts concerned
and LMWTC to provide, to the Bank for its prior concurrence any proposed
modification or waiver of any EMP or RAP, and put into effect only such
modification or waiver as shall have been agreed by the Bank.

D. Financial Arrangements

Guangxi shall make the principal amount of the Loan available to Liuzhou under
arrangements satisfactory to the Bank, which shall include, without limitation,
the following principal terms:

(a) Guangxi shall make available the principal amount to Liuzhou in Dollars
(on the date, or respective dates, of withdrawal from the Loan Account)
of the value of the currency or currencies so withdrawn on account of the
Project;

(b) Guangxi shall recover: (i) the Front-end Fee referred to in Section 2.03
of the Loan Agreement, interest during construction and any caps and
collars; and (ii) the principal amount referred to in paragraph (a) over a
period of thirty (30) years, inclusive of a grace period of five and one
half (5.5) years; and

(c) Guangxi shall charge interest on such principal amount, withdrawn and
outstanding from time to time at a rate equal to the rate of interest
applicable from time to time to the Loan pursuant to Section 2.04 of the
Loan Agreement.

E. Subsidiary Loan Agreement

1. Guangxi shall cause Liuzhou to relend the proceeds of the Loan to LMWTC,
under a subsidiary loan agreement to be entered into between Liuzhou and
LMWTC: (i) on the principal terms set forth in Section I of Annex A to this
Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Section II of Annex A to this Schedule.

2. Guangxi shall cause Liuzhou to exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Bank, Guangxi and Liuzhou, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Loan Agreement or any provision thereof.

F. Operating Agreements

1. Guangxi shall cause LMWTC to, not later six (6) months after the Effective Date, enter into an agreement with the Project Counties under terms and conditions satisfactory to the Bank, and which shall include, as applicable those set forth in paragraph 1 through 5 of Section II of Annex A to this Schedule and in particular:

(a) The Project Counties’ obligation:

(i) to collect wastewater tariffs and transfer such collections to LMWTC;

(ii) to provide subsidies to LMWTC as needed to cover operating costs and debt service payments; and

(iii) to comply with the safeguard requirements of the Project as may be applicable to the concerned Project Counties; and

(b) LMWTC’s obligation:

(i) to operate wastewater treatment plants and the truck sewer connecting pumping stations to the plant;

(ii) make all financing arrangements related to the Project; and

(iii) meet all the debt service obligations in case the Project Counties fail to perform them.

2. Guangxi shall cause Liuzhou to exercise its rights under each of the Operating Agreements in such manner as to protect the interests of the Borrower, the Bank, Guangxi and Liuzhou, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Operating Agreement or any provision thereof.
G. Sludge Management Cooperation Agreement

1. Guangxi shall cause LMWTC to, not later than six (6) months after the Effective Date, enter into an agreement with Liuzhou Yufeng Cement Plant under conditions satisfactory to the Bank, and which shall include, without limitation, such plant’s obligation to enable and cooperate in the operation of the sludge management facilities included in Part 2 of the Project.

2. Guangxi shall cause Liuzhou to exercise its rights under the Sludge Management Cooperation Agreement in such manner as to protect the interests of the Borrower, the Bank, Guangxi and Liuzhou, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the Sludge Management Cooperation Agreement or any provision thereof.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

Guangxi shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank by March 15 and September 15 each year, starting September 15, 2011.

B. Financial Management, Financial Reports and Audits

1. Guangxi shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.

2. Guangxi shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.
Section III.  **Procurement**

All goods, works and services required for the Project to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.
ANNEX A

to

SCHEDULE

Principal Terms and Conditions of the
Subsidiary Loan Agreement and the Operating Agreements

For the purposes of Parts E and F of the Schedule to this Agreement, the Subsidiary Loan Agreement and the Operating Agreements as the case may be shall be entered into on the terms set forth in Section I of this Annex and on the conditions set forth in Section II of this Annex.

Section I. Terms of On-Lending of the Subsidiary Loan Agreement

1. The principal amount of the loan made by Liuzhou to LMWTC shall be the amount equivalent in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of the Project.

2. LMWTC shall repay such principal amount, over a period of not more than thirty (30) years, inclusive of a grace period of five and a half (5.5) years.

3. LMWTC shall pay the Front-end Fee referred to in Section 2.03 of the Loan Agreement.

4. LMWTC shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

Section II. Conditions

The Subsidiary Loan Agreement and the Operating Agreements as the case may be shall include the following principal conditions:

1. LMWTC shall undertake to:

   (a) carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and

   (b) without limitation on the foregoing, take all measures necessary to ensure that the Project shall be implemented in accordance with the Resettlement Action Plan and the Environmental Management Plan.
2. LMWTC shall undertake to procure the goods, works and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 2 to the Loan Agreement, and utilize such goods, works and services exclusively in the carrying out of the Project.

3. LMWTC shall undertake to enable the Bank, Guangxi and Liuzhou to inspect such goods and the sites and works included in the Project, the operation thereof, and any relevant records and documents.

4. LMWTC shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable to replace or repair such goods.

5. LMWTC shall undertake to:

(a) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition;

(b) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(c) furnish to the Bank, Guangxi and Liuzhou, as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Bank, Guangxi or Liuzhou shall have reasonably requested; and all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Guangxi or Liuzhou shall reasonably request;

(d) prepare and furnish to the Bank, Guangxi and Liuzhou all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Guangxi, and/or Liuzhou shall reasonably request; and

(e) LMWTC shall undertake to:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators
satisfactory to the Bank the carrying out of the Project and the achievement of the objective thereof; and

(ii) prepare, under terms of reference satisfactory to the Bank, to Guangxi and Liuzhou, and furnish to Guangxi for its review, consolidation and submission to the Bank in accordance with Section II of the Schedule to the Project Agreement on or about March 15 and September 15 of each year, commencing on September 15, 2011, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of the Project during the period preceding the date of each such report.

6. (a) Except as the Bank shall otherwise agree, LMWTC shall undertake to produce for each of its fiscal years after its fiscal year ending on December 31, total revenues equivalent to not less than the sum of: (i) its total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciation.

(b) LMWTC shall undertake, before October 31 of each of its fiscal years, commencing in October 31, 2011 on the basis of forecasts prepared by LMWTC and satisfactory to the Bank, review with Guangxi and Liuzhou as to whether LMWTC would meet the requirements set forth in sub-paragraph (a) of this paragraph 6 in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that LMWTC would not meet the requirements set forth in sub-paragraph (a) of this paragraph 6 for LMWTC fiscal years covered by such review, LMWTC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its wastewater charges to cover LMWTC’s operating expenses and depreciation related to LMWTC’s assets) in order to meet such requirements.

(d) For purposes of this paragraph 6:

(i) The term “total revenues” means the sum of total operating revenues and net non-operating income.

(ii) The term “total operating revenues” means revenues from all sources related to operations.
(iii) The term “net non-operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iv) The term “total operating expenses” means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than four (4%) per annum of the average current gross value of LMWTC’s fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(v) The average current gross value of LMWTC’s fixed assets in operation shall be calculated as one half of the sum of the gross value of LMWTC’s fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(vi) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the People’s Republic of China, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

7. (a) Except as the Bank shall otherwise agree, LMWTC shall undertake not to incur any debt unless a reasonable forecast of the revenues and expenditures of LMWTC shows that the estimated net revenues of LMWTC for each fiscal year during the term of the debt to be incurred shall be at least equal to the estimated debt service requirements of LMWTC in such year on all debt of LMWTC including the debt to be incurred. The provisions of this Section supersede those of the Project
Agreement entered into by the parties to this agreement on August 11, 2005.

(b) For purposes of this paragraph 7:

(i) The term “debt” means any indebtedness of LMWTC maturing by its terms more than one (1) year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term “net revenues” means the difference between:

(A) the sum of revenues from all sources related to operations and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term “net operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes incurred in the generation of revenues in (A) above.

(v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payment, if any) of, and interest and other charges on, debt.

(vi) The term “reasonable forecast” means a forecast prepared by LMWTC not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and LMWTC accept as reasonable and as to which the Bank has notified LMWTC of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be
expected in the future to have, a material adverse effect on the financial condition or future operating results of LMWTC.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

8. Liuzhou shall have the right to suspend or terminate the right of LMWTC to the use of the proceeds of the loan made available under the Subsidiary Loan Agreement upon failure by LMWTC to perform its obligations under the Subsidiary Loan Agreement.

9. Liuzhou shall collect the wastewater charges on behalf of LWMTC as the same become due and promptly transfer the collections to LWMTC.

10. The provisions of the Subsidiary Loan Agreement and as the case may be the Operating Agreements may provide that such agreement shall become effective on the date the Legal Agreements become effective in accordance with the provisions of Section 5.01 of the Loan Agreement.
### Project Outcome Indicator

| Percentage of population in participating urban areas of Liuzhou Municipality served by wastewater collection and treatment services. |
|---|---|---|---|---|---|---|---|---|
| • Liuzhou City | 65% | 70% | 75% | 80% | 85% | 90% | 90% |
| • Sanjiang County | 0% | 0% | 55% | 55% | 60% | 65% | 70% |
| • Rong’an County | 0% | 0% | 50% | 55% | 60% | 65% | 70% |
| • Rongshui County | 0% | 0% | 50% | 55% | 60% | 65% | 70% |
| • Liucheng County | 0% | 0% | 50% | 55% | 60% | 65% | 70% |
| • Shatang County | 0% | 0% | 0% | 0% | 0% | 0% | 50% |

### Intermediate Outcome Indicator

| Capacity of the waste treatment plants in operation And volume treated (x 1,000 m³/d). |
|---|---|---|---|---|---|---|---|---|
| • Liuzhou City | 300 | 325 | 350 | 375 | 400 | 425 | 425 |
| • Sanjiang County | 0 | 0 | 5.5 | 5.5 | 6 | 6.5 | 7 |
| • Rong’an County | 0 | 0 | 15 | 16.5 | 18 | 19.5 | 21 |
| • Rongshui County | 0 | 0 | 10 | 11 | 12 | 13 | 14 |
| • Liucheng County | 0 | 0 | 10 | 11 | 12 | 13 | 14 |
| • Shatang County | 0 | 0 | 0 | 0 | 0 | 0 | 10 |

### Annual Net Income (after tax) of wastewater operations of LMWTC (RMB million)

| • Liuzhou City | 99 | 117 | 120 | 159 | 166 | 171 | 201 |
| • Sanjiang County | 0 | 0 | 55 | 55 | 60 | 65 | 70 |
| • Rong’an County | 0 | 0 | 15 | 16.5 | 18 | 19.5 | 21 |
| • Rongshui County | 0 | 0 | 10 | 11 | 12 | 13 | 14 |
| • Liucheng County | 0 | 0 | 10 | 11 | 12 | 13 | 14 |
| • Shatang County | 0 | 0 | 0 | 0 | 0 | 0 | 50 |

### Percentage of urban wastewater treated.

<p>| • Liuzhou City | 65% | 70% | 75% | 80% | 85% | 86% | 87% |
| • Sanjiang County | 0% | 0% | 50% | 55% | 60% | 63% | 65% |</p>
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<thead>
<tr>
<th>County</th>
<th>Cash flow from wastewater operations covering capital investments and debt obligations relating to wastewater, RMB m</th>
<th>Enforcement and operation of on-line automatic monitoring stations at major industrial discharges</th>
<th>Quantity of sludge (with 80% moisture content) to be sent for co-combustion, ton/d.</th>
<th>Accumulated Number of Contract Awarded</th>
<th>Power consumption in kwh per unit of wastewater treated in Baisha and Longquanshan WWTP, kwh/m3 of wastewater treated</th>
<th>Accumulated number of staff-day has received Managerial and/or skill development training (Staff-day).</th>
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