Project Agreement

(Han River Urban Environment Improvement Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

HUBEI PROVINCE

Dated July 3, 2008
PROJECT AGREEMENT

AGREEMENT dated July 3, 2008, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and HUBEI PROVINCE ("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 the Project Implementing Entity hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix 1 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. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall:

(a) carry out, and cause the Project Counties/Cities and Project Companies 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 the Project Implementing Entity shall otherwise agree, the Project Implementing Entity 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. The Project Implementing Entity’s Representative is the Governor or a Vice Governor or such other person or persons as said Governor or a Vice Governor shall designate in writing, and the Project Implementing Entity 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 1-202-477-6391
Facsimile: Washington, D.C. 64145(MCI)

3.03. The Project Implementing Entity’s Address is:

Han River Urban Environment Improvement PMO
No.360-17-101 Wulo Road
Wuchang District
Wuhan, Hubei Province
People’s Republic of China

Facsimile:
(86-27) 87843202

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David Dollar
Authorized Representative

HUBEI PROVINCE

By /s/ Li Xiansheng
Authorized Representative
SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

Project Management

1. The Project Implementing Entity 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 Provincial Leading Group, chaired by the Vice Governor of the Project Implementing Entity, which group is responsible for providing overall policy guidance and overseeing Project implementation.

(b) The Provincial Project Management Office, which is responsible for overall Project implementation coordination (including technical assistance), management, supervision and monitoring, annual budget preparation, Project-wide quality assurance, Project progress reporting, interagency coordination, provision of procurement support, and facilitation of training.

(c) Each Leading Group established at the Project County/City level, which is responsible for providing policy guidance on and coordinating implementation of Project activities within the jurisdiction of the Project County/City level concerned.

(d) Each Project Management Office established by a Project County/City, which is responsible for coordinating technical assistance and managing Project implementation within the jurisdiction of the Project County/City level concerned.

Resettlement and Environment Protection

2. The Project Implementing Entity shall:

(a) take, and shall cause the Project Counties/Cities and Project Companies to take, all necessary actions to minimize, to the extent possible, any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, in carrying out the Project;
(b) for this purpose and prior to the commencement of any works under the Project, implement, and cause the Project Counties/Cities and the Project Companies to implement, the RAPs in a manner satisfactory to the Bank; and

(c) provide, and cause the Project Counties/Cities and Project Companies to provide, to the Bank for its prior concurrence any proposed modification or waiver of any of the RAPs, prior to putting into effect such modification or waiver.

3. The Project Implementing Entity shall implement, and shall cause the Project Counties/Cities and Project Companies to implement, the EMPs in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards.

4. The Project Implementing Entity shall, and shall cause the Project Counties/Cities and Project Companies 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 and RAPs and the achievement of the objectives of said plans, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by February 28 and August 31 of each year, commencing on February 28, 2009, semi-annual reports of the results of the monitoring and evaluation activities with respect to the EMPs and RAPs referred to in sub-paragraph (a) above, together with any revisions proposed to be introduced into said plans in order to achieve their respective objectives; and

(c) introduce such revisions into said plans as shall have been agreed with the Bank.

Financial Arrangements

5. The Project Implementing Entity shall allocate to each Project County/City an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:

(a) The Project Implementing Entity shall make available the principal amount, which has been allocated to each Project County/City, 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 (in whole or part) to be implemented within the jurisdiction of the Project County/City.

(b) The Project Implementing Entity shall recover such principal amount so made available (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of twenty-six (26) years, inclusive of a grace period of five (5) years.

(c) The Project Implementing Entity 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.

Subsidiary Agreements

6. The Project Implementing Entity shall cause:

(a) Each Project County/City (except Danjiangkou County and Dawu County) to relend a portion of the proceeds of the Loan, which was allocated to it pursuant to Section I, paragraph 5 of this Schedule, to its Respective Wastewater Company for purposes of carrying out said Project Company’s Respective Parts of the Project under a subsidiary agreement to be entered into between the Project County/City and its Respective Wastewater Company: (i) on the principal terms set forth in paragraphs 1 through 3 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 paragraphs 4 through 12 of Annex A to this Schedule.

(b) Each Project County/City (except Tianmen City and Xiangfan City) to make available a portion of the proceeds of the Loan, which was allocated to it pursuant to Section I, paragraph 5 of this Schedule, to its Respective Solid Waste Company for purposes of carrying out said Project Company’s Respective Parts of the Project, under a subsidiary agreement to be entered into between the Project County/City and its Respective Solid Waste Company under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 8 and paragraph 12 of the Annex A to this Schedule.
7. The Project Implementing Entity shall cause:

(a) Each Project County/City to: (i) perform, in accordance with the provisions of the Subsidiary Agreement to which it is a party, all of its obligations therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable its Respective Project Company to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Each Project County/City to exercise its rights under the Subsidiary Agreement to which it is a party in such manner as to protect the interests of the Borrower, the Bank and the Project Implementing Entity, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive said Subsidiary Agreement or any provision thereof.

Section II. Project Monitoring, Reporting, and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project 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 February 28 and August 31 each year, starting February 28, 2009.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity 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 and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity 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 of the Project Implementing Entity. 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.

Section IV.  Other Undertakings

1. The Project Implementing Entity shall cause each Project County/City, identified in the second column (entitled “Type of Investment to be Carried”) of the table in Appendix 2 to the Loan Agreement as carrying out solid waste investments:
   (a) to prepare in accordance with terms of reference satisfactory to the Bank and furnish to the Bank by March 31, 2010, a time-bound and comprehensive plan for the management of the solid waste sector in the Project County/City; and
   (b) to begin implementation of said plan by June 30, 2010, taking into account the Bank’s comments thereon.

2. The Project Implementing Entity shall cause each Project County/City, identified in the second column (entitled “Type of Investment to be Carried”) of the table in Appendix 2 to the Loan Agreement as carrying out wastewater investments:
   (a) to prepare in accordance with terms of reference satisfactory to the Bank and furnish to the Bank by March 31, 2010, a time-bound and comprehensive plan for the management of the wastewater sector within the Project County/City; and
   (b) to begin implementation of said plan by June 30, 2010, taking into account the Bank’s comments thereon.
ANNEX A

to
SCHEDULE

Principal Terms and Conditions of the Subsidiary Agreements

For the purposes of paragraph 6 of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds shall be those set forth in paragraphs 1 through 3 of this Annex; and (b) the Subsidiary Agreements shall be entered into on the conditions set forth in paragraphs 4 through 12 of this Annex.

Terms of Availability

1. The principal amount of each loan made by a Project County/City to its Respective Wastewater Company, 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 said Project Company’s Respective Part of the Project.

2. Each Respective Wastewater Company shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of not more than twenty-six (26) years, inclusive of a grace period of five (5) years.

3. Each Respective Wastewater Company shall pay interest on the principal amount thereof 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.

Conditions

The Subsidiary Agreements shall include the following principal conditions:

4. Each Project Company shall undertake to: (a) carry out its Respective Parts of 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 its Respective Parts of the Project shall be implemented in accordance with the applicable RAP and EMP.

5. Each Project Company shall undertake to procure the goods, works and consultants’ services to be financed out of the proceeds of the Loan in
accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants’ services exclusively in the carrying out of its Respective Parts of the Project.

6. Each Project Company shall undertake to enable the Bank, the Project Implementing Entity and Project County/City concerned to inspect such goods and the sites and works included in its Respective Parts of the Project, the operation thereof, and any relevant records and documents.

7. Each Project Company 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.

8. Each Project Company 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, Project Implementing Entity and Project County/City concerned, as soon as available, but in any case not later than six (6) months after the end of each such year: (i) certified copies of said financial statements and accounts for such year as so audited; and (ii) an opinion on such statements by said auditors in such scope and detail as the Bank, Project Implementing Entity and Project County/City concerned shall have reasonably requested.

(d) Prepare and furnish to the Bank, Project Implementing Entity and Project County/City concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Project Implementing Entity, and Project County/City concerned shall reasonably request.

(e) Each Project Company shall undertake to:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators
set forth in Annex B of the Schedule to this Agreement the carrying out of its Respective Parts of the Project and the achievement of the objectives thereof; and

(ii) prepare, under terms of reference satisfactory to the Bank, and furnish to Project Implementing Entity for its review, consolidation in the Project Reports and submission to the Bank, 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 its Respective Parts of the Project during the period preceding the date of each such report.

9. (a) Except as the Bank shall otherwise agree, each Respective Wastewater Company shall undertake to produce for each of its fiscal years commencing with its fiscal year beginning on January 1, 2011, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciation.

(b) Before October 31 in each of its fiscal years, a Respective Wastewater Company shall, on the basis of forecasts prepared by said company and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (a) of this paragraph 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 the Respective Wastewater Company would not meet the requirements set forth in sub-paragraph (a) of this paragraph for said company’s fiscal years covered by such review, the Project Company shall promptly take all necessary measures in order to meet such requirements.

(d) For purposes of this paragraph 9, the following terms have the following meanings:

(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 3.3% per annum of the average current gross value of the Wastewater Company’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 the Respective Wastewater Company’s fixed assets in operation shall be calculated as one half of the sum of the gross value of the said company’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.

10. (a) Except as the Bank shall otherwise agree, a Respective Wastewater Company shall not incur any debt unless a reasonable forecast of the revenues and expenditures of said company shows that the estimated net revenues of the company for each fiscal year during the term of the debt to be incurred shall be at least 1.1 times the estimated debt service requirements of the company in such year on all debt of the company, including the debt to be incurred.

(b) For the purposes of this paragraph 10:

(i) The term “debt” means any indebtedness of the Respective Wastewater Company 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 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.

(v) 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.

(vi) The term “reasonable forecast” means a forecast prepared by the Respective Wastewater Company not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and said company accept as reasonable and as to which the Bank has notified said company 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 the company.

11. Whenever for the purposes of paragraphs 9 and 10 of this Annex 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.
12. Each Project County/City shall have the right to suspend or terminate the right of its Project Company to the use of the proceeds of the loan made available under the Subsidiary Agreement with said Project Company upon failure by such Project Company to perform its obligations under the agreement.
ANNEX B
to
SCHEDULE
Indicators

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| To reduce urban pollution generated from wastewater and solid waste through their proper collection, treatment and disposal in the selected second-tier cities, mainly located in the Han River area of Hubei. | • Proportion of municipal wastewater treated (Wastewater treated/Estimated amount of wastewater generated in the project city)  
• Proportion of domestic solid waste collected and transferred to sanitary landfills (Amount of waste treated/Estimated amount of waste generated in the project city) | Track progress towards achieving the PDO.  
Recommend adjustments in utility management and regulation to improve service, efficiency, and sustainability. |

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<th>Intermediate Results</th>
<th>Results Indicators for Each Component</th>
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<td><strong>Wastewater Component</strong></td>
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| Access to wastewater collection and treatment | • Number of service connection to sewers  
• Proportion of municipal wastewater collected in sewer network (Wastewater in sewer network/Estimated amount of wastewater generated in the project city) | Track and adjust physical progress of wastewater works and the delivery of services. |

| Solid Waste Management Component | | |
|----------------------------------|-----------------------------|
| Access to solid waste collection | • Proportion of domestic solid waste collected (Amount of waste collected/Estimated amount of waste generated in the project city) | Track and adjust physical progress of solid waste works and the delivery of services. |
| Improved environmental sustainability of solid waste disposal | • Closure of old dump sites (ha) | Track and adjust physical progress of closure of old dumps and monitor environmental sustainability of solid waste disposal |
### Industrial Wastewater Pollution Control Component

| Reduction of industrial wastewater pollution loads to surface water bodies and stable operation of receiving wastewater treatment plants | • Percentage of identified major industrial polluters which have wastewater treatment facilities installed that are adequate to treat all wastewater to applicable discharge standards  
• Percentage of identified major industrial polluters that have installed effective online monitoring | Track and adjust progress of industrial wastewater pollution control. |

### Institutional Development and Capacity Building Component

| Establishment and/or strengthening of financially viable and institutionally sustainable wastewater and solid waste utilities. | • Wastewater Companies  
- Fee collection rate of Wastewater treatment entities (water supplied from WSC)  
• Solid Waste Companies  
- O&M cost recovery ratio\(^1\) of solid waste management entities  
- Fee collection rate for residential customers of solid waste management entities | Track and adjust progress of institutional development and capacity building. |

\(^{1}\) The ratio of operating revenue over operating expenses before depreciation

* Furthermore, Technical Assistance will be provided to help pilot municipal utilities conduct citizen satisfaction surveys on their service provision.