
LOAN NUMBER 3356-PRC

LOAN AGREEMENT
(Ordinary Operations)

(Beijing-Tianjin-Hebei Air Quality Improvement – Hebei Policy Reforms Program)

between

PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED 23 FEBRUARY 2016

PRC 49232

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 23 February 2016 between PEOPLE'S REPUBLIC OF CHINA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 11 November 2015 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement (the "Program");

(B) the Borrower has applied to ADB for a loan for the purposes of the Program;

(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 in the Program Agreement of even date herewith between ADB and HPG (the "Program Agreement");

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 ("Loan Regulations"), 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:

(a) Section 2.01(49) is deleted and the following is substituted therefor:

49. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(50) is deleted and the following is substituted therefor:

50. The term "Program Agreement" means the program agreement between ADB and the Program Executing Agency, being the Program Agreement referred to in the Loan Agreement, as such agreement may be amended in accordance with its terms from time to time; and such term

includes all agreements supplementary to the Program Agreement and all schedules to the Program Agreement.

- (d) Section 2.01(51) is deleted and the following is substituted therefor:

51. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

- (e) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

- (f) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) 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.

(b) 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 credit against the interest payable by the Borrower.

- (g) Section 3.06 is deleted and the following is substituted therefor:

Rebate. (a) 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.

(b) 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.

- (h) Section 3.07 is deleted and the following is substituted therefor:

Surcharge. (a) 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.

(b) 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, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Counterpart Funds" means the local currency generated from the Loan proceeds under the Program and referred to in paragraph 4 of Schedule 4 to this Loan Agreement;

(b) "Deposit Account" means the account referred to in paragraph 3 of Schedule 3 to this Loan Agreement;

(c) "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports of ineligible items specified in Attachment 1 to Schedule 3 to this Loan Agreement; and
- (iii) imports financed by official international or bilateral aid agencies or any other loans or grants made by ADB;

(d) "Eligible Items" means the Eligible Imports and services in connection with the delivery and installation of such imports;

(e) "HCAAP" means "Implementation Plan of the Air Pollution Prevention and Control Action plan in Hebei Province (2013-2017)";

(f) "HPG" means the government of Hebei Province;

(g) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(h) "Policy Actions" means the policy actions set out in the Policy Letter and the Policy Matrix;

(i) "Policy Matrix" means the policy matrix attached to the Policy Letter as agreed between the Borrower, HPG, and ADB and included in the RRP;

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

(k) "RRP" means the Report and Recommendation of the President to the ADB Board for the Program.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of three hundred million Dollars (\$300,000,000), 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 12 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 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:

(a) LIBOR; and

(b) 0.60% as determined by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 June and 1 December 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 onlend the proceeds of the Loan to HPG upon terms and conditions satisfactory to ADB including: (i) commitment charge and interest at the rates identical to those applied to the Loan; (ii) a repayment period including a grace period identical to those applied to the Loan; and (iii) HPG bearing the foreign exchange and interest rate variation risks.

(b) The Borrower shall cause HPG to apply the proceeds of the Loan to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement and the Program Agreement.

Section 3.02. The proceeds of the Loan shall be withdrawn 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. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2017 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 HPG, cause the Program to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. The Borrower shall, through HPG, make available, promptly as needed, the funds, facilities, services, as required, in addition to the proceeds of the Loan, for the carrying out of the Program.

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

Section 4.04. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.05. As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. A date 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 Deistrict
Beijing 100820
People's Republic of China

Facsimile Number:

+8610 6855 2061.

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2407.

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

PEOPLE'S REPUBLIC OF CHINA

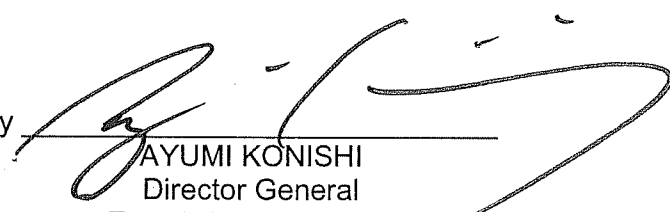
By



ZHAO JIANHUA
Authorized Representative

ASIAN DEVELOPMENT BANK

By



AYUMI KONISHI
Director General
East Asia Department

SCHEDULE 1

Description of the Program

1. The principal objective of the Program is to enable better public health and reduced air pollution in the Borrower's Beijing-Tianjin-Hebei region through a strengthened framework for incremental policy and investment actions in Hebei to improve the air quality in the region.
2. The Program comprises the Policy Actions, to be implemented in connection with the HCAAP, as described in more detail in the Policy Letter.
3. The Program is expected to be completed by 31 December 2016.

SCHEDULE 2

Amortization Schedule (Beijing-Tianjin-Hebei Air Quality Improvement -- Hebei Policy Reforms Program)

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.

Date Payment Due	Installment Share (Expressed as a % based on 15% annuity)
1 June 2019	1.605008
1 December 2019	1.725384
1 June 2020	1.854787
1 December 2020	1.993896
1 June 2021	2.143439
1 December 2021	2.304197
1 June 2022	2.477011
1 December 2022	2.662787
1 June 2023	2.862496
1 December 2023	3.077183
1 June 2024	3.307972
1 December 2024	3.556070
1 June 2025	3.822775
1 December 2025	4.109483
1 June 2026	4.417695
1 December 2026	4.749022
1 June 2027	5.105198
1 December 2027	5.488088
1 June 2028	5.899695
1 December 2028	6.342172
1 June 2029	6.817835
1 December 2029	7.329173
1 June 2030	7.878861
1 December 2030	8.469773
Total	100.000000

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

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

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

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

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

Withdrawal of Loan Proceeds

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.
2.
 - (a) An application for withdrawal from the Loan Account shall be submitted to ADB by HPG on behalf of the Borrower and shall be in a form satisfactory to ADB.
 - (b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that with respect to the year during which the proceeds of the Loan are expected to be disbursed, the value of Eligible Imports is expected to be greater than the amount of the Loan expected to be disbursed during such year.
 - (c) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.
3.
 - (a) The Borrower shall, after the Loan becomes effective and prior to submitting the first application to ADB for withdrawal from the Loan Account, cause HPG, through the Hebei Provincial Department of Finance, to open a dedicated account at a bank acceptable to ADB to serve as the Deposit Account into which all withdrawals from the Loan Account shall be deposited. The currency of the account shall be the Dollar. The Deposit Account is to be used exclusively for the purposes of the Program. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.
 - (b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.
 - (c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other related information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.
4. No withdrawal shall be made from the Loan Account unless ADB is satisfied that the Borrower has completed all of the Policy Actions.

Negative List

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 4

Program Implementation and Other Matters

Implementation Arrangements

1. The Borrower shall cause HPG to implement the Program in accordance with this Loan Agreement and the Program Agreement.
2. The Borrower shall designate HPG as the Program Executing Agency, which shall be responsible for overall coordination and shall cause the Hebei Provincial Development and Reform Commission, Department of Finance, Agriculture Department, Environmental Protection Department, Energy Administration, Human Resources and Social Security Department and Transport Department to timely implement the Policy Actions.
3. The Borrower shall cause HPG to establish a "Program Leading Group", chaired by a vice governor of HPG and including senior representatives from the Hebei Provincial Development and Reform Commission, Department of Finance, Agriculture Department, Environmental Protection Department, Transport Department, Human Resources and Social Security Department and Energy Administration, which shall (a) review and confirm attainment and compliance with the Policy Actions; and (b) provide overall guidance for the Program.

Use of Counterpart Funds

4. The Borrower shall cause HPG to ensure that the Counterpart Funds are used to finance the implementation of the Program and the HCAAP; provided that no such funds shall be used for expenditures for items listed in Appendix 5 (prohibited investment activities) to ADB's Safeguards Policy Statement (2009) or for expenditures for direct infrastructure development, or land use adjustments and re-development, that has potentially adverse environmental, involuntary resettlement or indigenous peoples impacts within the meaning of ADB's Safeguard Policy Statement (2009) and the Borrower shall cause HPG to furnish to ADB all such reports and information as ADB shall reasonably request concerning the local currency so generated and the use thereof.

Policy Actions and Dialogue

5. The Borrower shall and shall cause HPG to ensure that all of the Policy Actions continue to be in effect for the duration of the Program.
6. The Borrower shall and shall cause HPG to keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall and shall cause HPG to take into account ADB's views before finalizing and implementing any such proposal.
7. The Borrower shall and shall cause HPG to provide ADB with the opportunity to review and comment on relevant studies, draft legislation, decrees, orders, rules and regulations which are likely to impact the objectives and implementation of the Program.

Governance and Anticorruption

8. The Borrower shall and shall cause HPG to (a) ensure that the Program complies with the provisions of ADB's Anticorruption Policy (1998, as amended to date) and shall take and cause HPG to take all appropriate and timely measures to prevent, detect and respond to allegations of corrupt, fraudulent, collusive or coercive practices; and (b) promptly inform ADB of any allegations of corrupt, fraudulent, collusive or coercive practices relating to the Program.

Monitor and Review

9. The Borrower shall cause HPG to monitor implementation of the Policy Actions, their attainment, impact on environment, involuntary resettlement and social safeguards and progress from the commencement of their implementation to the delivery of the program completion report to ADB.