
LOAN NUMBER 3308-PRC

PROJECT AGREEMENT

(Chemical Industry Energy Efficiency and Emission Reduction Project)

ASIAN DEVELOPMENT BANK

and

CHINA CONSTRUCTION BANK CORPORATION, BEIJING BRANCH

CHINA NATIONAL CHEMICAL CORPORATION

CHINA HAOHUA CHEMICAL GROUP CO., LTD.

DATED 29 JANUARY 2016

PRC 47051

PROJECT AGREEMENT

PROJECT AGREEMENT dated 29 January 2016 between ASIAN DEVELOPMENT BANK ("ADB") on one part and CHINA NATIONAL CHEMICAL CORPORATION ("CHEMCHINA"), CHINA HAOHUA CHEMICAL GROUP CO., LTD. ("CHC"), AND CHINA CONSTRUCTION BANK CORPORATION, BEIJING BRANCH on the other part.

WHEREAS

(A) by a Loan Agreement of even date herewith between People's Republic of China ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of one hundred million Dollars (\$100,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the loan be made available, through CCB to ChemChina, and through ChemChina to CHC and that CCB, ChemChina, and CHC agree to undertake certain obligations towards ADB as set forth herein; and

(B) CCB, ChemChina, and CHC, in consideration of ADB entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

ARTICLE II

Loan and Subloans

Section 2.01. (a) CCB through its headquarters shall make the proceeds of the Loan, onlent from the Borrower as described in Section 3.01 (a) of the Loan Agreement, available to ChemChina and ChemChina shall make the proceeds of the Loan available to CHC under their respective Onlending Agreements upon terms and conditions, including (i) commitment charge and interest at the rates identical to those applied to the Loan; (ii) CCB through its headquarters charging 1% margin as onlending fee; (iii) a repayment period including a grace period identical to those applied to the Loan; and (iv) ChemChina and CHC, respectively bearing the foreign exchange and interest rate variation risks.

(b) CHC shall (i) entrust CCB with the management of the Loan proceeds; (ii) establish the REF Account and IDA at CCB; (iii) execute the REF and IDA Management Agreement with CCB; and (iv) onlend, through CCB, the proceeds of the Loan to Subborrowers under the Subloan Agreements and the Subproject Agreements both in form and on terms and conditions acceptable to ADB, including the conditions that (i) Subborrowers shall bear the foreign exchange and interest rate variation risks for their respective Subproject; and (ii) CHC shall bear the Residual Exchange Rate Risk.

Section 2.02. (a) Except as ADB may otherwise agree, the proceeds of the Loan and REF shall be used only for making Subloans to Subborrowers for Subprojects and shall be applied exclusively to the cost of Goods and Consulting Services and other items of expenditure required to carry out such Subprojects.

(b) Except as ADB may otherwise agree, all Goods and Consulting Services shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. (a) Whenever CHC proposes to make a Subloan in an amount exceeding the equivalent of \$80,000,000 or such other sum as shall from time to time be agreed between ADB, CHC, and CCB, CHC and CCB shall, before requesting a withdrawal from REF account, submit to ADB an application for approval of such Subloan. Such application shall be in a form satisfactory to ADB and shall contain a description and appraisal of the Subproject, the terms and conditions of the proposed Subloan and such other information as ADB shall reasonably request. A Subloan shall be deemed to exceed the equivalent of the amount specified in or agreed pursuant to this subsection if the amount of such Subloan, when added to the amount of any other Subloan or Subloans previously made or authorized for the same Subproject, exceeds the equivalent of the amount so specified or agreed.

(b) Whenever CCB has made or CHC proposes to make a Subloan in an amount not exceeding the equivalent of the amount specified in or agreed pursuant to subsection (a) hereinabove, CHC and CCB shall, promptly and before requesting a withdrawal, furnish to ADB a statement, in a form satisfactory to ADB, describing the Subproject and the terms and conditions of the Subloan. No withdrawal shall be made in respect of a Subloan falling within the provisions of this subsection unless ADB shall have authorized withdrawals from the Loan Account.

Section 2.04. (a) Each Subloan shall carry interest at an appropriate rate as described in the PAM and shall be made on terms whereby CCB and CHC shall obtain, by a Subloan Agreement with the Subborrower in a form acceptable to ADB, rights adequate to protect the interests of ChemChina, CCB and ADB.

(b) Except as ADB may otherwise agree, the amortization schedule applicable to each Subloan (i) shall not extend beyond 8 years, including a grace period not exceeding 3 years, from the date when such Subloan is approved or authorized for withdrawals from the Loan Account; and (ii) shall provide for approximately equal semiannual aggregate payments of principal plus interest.

Section 2.05. Without limiting the generality of the foregoing provisions of this Project Agreement and in addition to any other provisions which a prudent lender would request, each Subloan Agreement shall include provisions to the effect that:

- (a) the Subborrowers shall carry out and operate the Subprojects with due diligence and efficiency and in accordance with sound applicable technical, financial, business and development practices, including maintenance of adequate accounts and records;
- (b) the proceeds of the Loan shall be used only for procurement in member countries of ADB, in accordance with procedures acceptable to ADB, of Goods which are produced in and supplied from and Consulting Services which are supplied from, such countries;
- (c) the Goods, Works and Consulting Services shall be used exclusively in the carrying out of the Subprojects;
- (d) ADB, CCB, ChemChina, and CHC shall each have the right to inspect such Goods and Works, the Subborrower, the Subproject and any relevant records and documents;
- (e) the Subborrower shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with sound business practice, and without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of Goods to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods;
- (f) ADB, CCB, ChemChina, and CHC shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods, Works and Consulting Services, the Subproject, the Subborrower and other related matters; and
- (g) CCB and CHC shall be entitled to suspend or terminate further access by the Subborrower to the use of the proceeds of the Loan or REF upon failure by the Subborrower to perform its obligations under its agreement with CCB and CHC.

Section 2.06. CCB and CHC shall promptly and effectively exercise their rights in relation to each Subproject in accordance with the standards of a prudent lender and in such manner as to protect the interests of the Borrower, CCB, ChemChina, CHC, and ADB.

ARTICLE III

Particular Covenants

Section 3.01. (a) CCB, ChemChina, and CHC shall carry out the Project with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Project and in the conduct of its business, CCB, ChemChina, and CHC shall perform all the obligations set forth in the Loan Agreement and all obligations set forth in the Schedule to this Project Agreement.

Section 3.02. ChemChina and CHC shall, and shall cause the Subborrowers to make at all times adequate provision to protect CCB against any loss resulting from changes in the rate of exchange between Yuan and the currency or currencies in which CCB's outstanding money obligations will have to be met.

Section 3.03. CCB and CHC shall not make a Subloan to any Subborrower unless such Subborrower has at its disposal, or has made appropriate arrangements to obtain as and when required, all local currency funds, including adequate working capital, and other resources which are required by such Subborrower for the carrying out of its Subproject in respect of which the Subloan is to be made.

Section 3.04. CCB shall maintain records and accounts adequate to record the financial progress of the Subprojects and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of CCB.

Section 3.05. (a) ADB, CCB, ChemChina, and CHC shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) CCB, ChemChina, and CHC shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of their obligations under this Project Agreement, the respective Onlending Agreements, the Subproject Agreements, the Subloan Agreements, or the REF and IDA Management Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB, CCB, ChemChina, and CHC shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, the Loan, and matters affecting ADB relating to CCB, ChemChina, and CHC.

Section 3.06. (a) ChemChina and CHC shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the Project; (iii) the Subborrowers, the Subprojects, and the Subloans; and (iv) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, CCB and CHC respectively shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of CCB and CHC respectively as they relate to the Project. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after the Loan Closing Date, but in any event not later than 3 months after the said closing date or such later date as ADB may agree for this purpose,

ChemChina and CHC shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the utilization of the Loan, the execution of the Subprojects, their costs, the performance by CCB of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 3.07. (a) CCB shall (i) maintain separate accounts and financial records for the Subprojects; (ii) prepare an annual Statement of Utilization of Funds for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such Statement of Utilization of Funds audited annually 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; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the Statement of Utilization of Funds, use of the Subloan proceeds and compliance with the use of the procedures for the statement of expenditures) and a Management Letter; and (v) furnish to ADB, through ChemChina, no later than 6 months after the end of each fiscal year to which they relate, copies of such audited Statement of Utilization of Funds, audit report and Management Letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) In addition to the annual audited Statement of Utilization of Funds referred to in subsection (a) hereinabove, ChemChina and CHC shall, and shall cause DSC and Huatai to (i) provide their annual financial statements for the Project prepared in accordance with national accrual-based financing reporting standards acceptable to ADB; (ii) have such financial statements audited annually 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; (iii) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Subloan proceeds and compliance with the financial covenants of the Loan Agreement and this Project Agreement as well as on the use of the procedures of the statement of expenditures) and a Management Letter; and (iv) furnish to ADB, through CHC, no later than 6 months after the end of each fiscal year to which they relate, copies of such audited financial statements, audit report and Management Letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(c) ADB shall disclose on its website the annual Statement of Utilization of Funds, the financial statements and the opinion of the auditors thereto, as set forth in subsections (a) and (b) hereinabove, within 30 days of the date of their receipt.

(d) ChemChina, CHC, DSC, and Huatai shall enable ADB, upon ADB's request, to discuss the financial statements for ChemChina, CHC, DSC, and Huatai and their financial affairs where they relate to the Project with the auditors appointed by ChemChina, CHC, DSC, and Huatai pursuant to subsections (a)(iii) and (b)(ii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of authorized officers of ChemChina, CHC, DSC, and Huatai, unless ChemChina, CHC, DSC, and Huatai shall otherwise agree.

Section 3.08. CCB, ChemChina, and CHC shall enable ADB's representatives to inspect any Subborrower, any Subproject, the Goods, and any relevant records and documents.

Section 3.09. (a) CCB, ChemChina, and CHC shall, promptly as required, take all action within their powers to maintain their corporate existence, to carry on their operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of their business.

(b) CCB, ChemChina, and CHC shall at all times conduct their business in accordance with sound applicable technical, financial, and business practices, and under the supervision of competent and experienced management and personnel.

(c) Except as ADB may otherwise agree, CCB, ChemChina, and CHC shall not sell, lease or otherwise dispose of any of their assets which shall be required for the efficient carrying on of their operations relating to the Project or the disposal of which may prejudice their ability to perform satisfactorily any of their obligations under this Project Agreement.

Section 3.10. Except as ADB may otherwise agree, CCB, ChemChina, and CHC shall duly perform all their obligations under their respective Onlending Agreements and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under their respective Onlending Agreements.

Section 3.11. CCB, ChemChina, and CHC shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of their charters, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. CCB, ChemChina, and CHC shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

ARTICLE IV

Effective Date; Termination

Section 4.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement comes into force and effect. ADB shall promptly notify CCB, ChemChina, and CHC of such date.

Section 4.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Section 4.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE V**Miscellaneous**

Section 5.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

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

Facsimile Numbers:

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

For ChemChina

No. 62 4th Ring Road,
West Haidian District
Beijing 100080

Facsimile Number:

(8610) 82677879.

For CHC

No. 19 Xiao Ying Road
Chaoyang District
Beijing 100101

Facsimile Number:

(8610) 58650685.

For CCB

Room 1714, Entry 4 Building
No. 28 Xuanwumen West Avenue
Beijing 100053
People's Republic of China

Facsimile Number:

(8610) 51990893.

Section 5.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of CCB, ChemChina, and CHC may be taken or executed by: (i) General Manager of ChemChina; (ii) General Manager of CHC; and (iii) Project Manager of CCB or by such other person or persons as he or she shall so designate in writing notified to ADB.

(b) CCB, ChemChina, and CHC shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

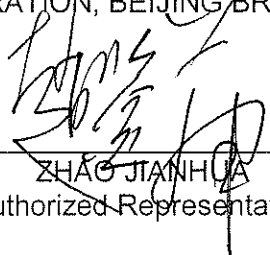
Section 5.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project 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.

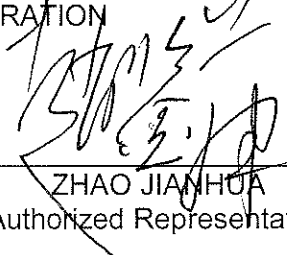
ASIAN DEVELOPMENT BANK

By 
AYUMI KONISHI
Director General
East Asia Department

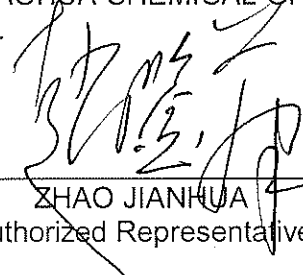
CHINA CONSTRUCTION BANK
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By 
ZHAO JIANHUA
Authorized Representative

CHINA NATIONAL CHEMICAL
CORPORATION

By 
ZHAO JIANHUA
Authorized Representative

CHINA HAOHUA CHEMICAL GROUP
CO., LTD.

By 
ZHAO JIANHUA
Authorized Representative

SCHEDULE

Execution of Project; Financial Matters

Implementation Arrangements

1. CCB, ChemChina and CHC shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by ChemChina and ADB. In the event of any discrepancy between the PAM, this Project Agreement, and the Loan Agreement, the provisions of the Loan Agreement shall prevail.
2. CCB, as a financial intermediary shall be responsible for: (a) onlending the proceeds of the Loan to ChemChina in accordance with the terms and conditions set out in Section 3.01 (b) of the Loan Agreement and Section 2.01 (a) of this Project Agreement; (b) establishment and management of the REF and IDA Accounts; (c) execution and implementation of the REF and IDA Management Agreement; (d) conducting financial due diligence of the Subprojects of the Subsequent Batches, including without limitation, creditworthiness assessment of the Subborrowers; and (e) related disbursement, repayment and administration matters.
3. ChemChina and CHC shall ensure that CCB remains the financial intermediary for the Project throughout the implementation of the Project and ADB's prior written approval is sought in case of any change in the financial intermediary requirements.
4. ChemChina, as the Project Executing Agency shall be responsible for: (a) onlending the proceeds of the Loan to CHC; and (b) the overall coordination and supervision of the Project in accordance with the provisions of the Loan Agreement and this Project Agreement.
5. CHC, as the Project Implementing Agency shall be responsible for the implementation of the Project, in particular: (a) providing management support and oversight to PIU in implementing the Project and selecting the Subprojects of the Subsequent Batches; (b) executing and implementing the REF and IDA Management Agreement; (c) executing and implementing the Subproject Agreements; and (d) supporting the Project implementation, particularly in relation to procurement and contract management under the Project, O&M of the Project facilities, and social and environmental monitoring.
6. ChemChina and CHC shall ensure that (a) the Project steering committee is established consisting of representatives from CCB, ChemChina, CHC, and Subborrowers; and (b) strategic guidance is received from the Project steering committee for the successful execution and implementation of the Project and to ensure that the Project is implemented in accordance with ADB's policies and procedures.

Counterpart Financing

7. ChemChina, and CHC shall ensure that (a) all counterpart funds are made available in a timely manner; and (b) O&M of all Project facilities is fully funded. ChemChina shall further ensure that all funding shortfall for the DSC Subproject is provided in a timely manner.

Change in Ownership Structure of CCB

8. In the event of any material organizational change, either financial or operational in CCB, where such change may have an adverse effect on CCB's ability to perform its obligations under this Project Agreement, the REF and IDA Management Agreement, or the Subloan Agreements, CCB shall ensure that: (i) CCB consults with ADB at least 6 months prior to the implementation of such change; and (ii) such change is carried out in a lawful manner and does not affect repayment of the Loan made under the Loan Agreement. Depending on the nature of the agreed change in ownership structure, ADB shall have the right to modify the repayment terms of the Loan, if required.

Change in Ownership of ChemChina, CHC and Huatai

9. In the event of (a) any change in ownership of the Project facilities, or (b) any sale, transfer or assignment of shares or interest or other change of control in ChemChina, CHC, or Huatai is anticipated, ChemChina and CHC shall ensure that ChemChina, CHC, and Huatai, as the case may be, consult with ADB and CCB at least 6 months prior to the implementation of such change, provided that, if none of ChemChina, CHC, or Huatai is aware of the proposed change in the ownership or control of ChemChina by 6 months before the change is proposed to occur then such obligation to consult shall commence from the date any of them first become aware of the proposed change; provided further that: (i) neither a sale, transfer or assignment of shares or interest or other change of control in ChemChina to a different agency of the Borrower at the national level or to a new state owned enterprise 100% controlled by Borrower at the national level; and (ii) nor an internal reorganization of ChemChina group that results in CHC or Huatai continuing to be directly or indirectly owned and controlled by ChemChina will be considered a change for purposes of this paragraph.

10. In case of any internal reorganization of ChemChina group, ChemChina shall ensure that: (a) CHC, Huatai, and DSC are provided with all resources and support required to perform their obligations under this Project Agreement; (b) all intermediate holding companies between ChemChina and CHC become parties to this Project Agreement in place of or in addition to CHC and Huatai at the time of such reorganization and perform CHC's, Huatai's, and DSC's obligations under this Project Agreement; (c) ChemChina, CHC and Huatai, as the case may be, ensure that such change is carried out in a lawful and transparent manner; and (d) ChemChina, CHC and Huatai, as the case may be, further ensure that their new controlling management complies with (i) all Project related agreements executed between ADB, the Borrower, ChemChina, CHC, Subborrowers or CCB; and (ii) ADB's policies relevant to the Project.

Financial Management

11. ChemChina shall cause CHC and through CHC shall cause Huatai and DSC to (i) develop and maintain sound financial management systems in accordance with ADB's Financial Management and Analysis of projects, including the establishment of separate Project accounts and the maintenance of minimum balances to ensure smooth cash flow and the timely settlement of the Project related liabilities and future debt servicing; and (ii) maintain a debt service coverage ratio of at least 1:2 times; and a long-term debt-to-equity ratio of not more than 80:20 starting from the effectiveness of their respective Subloan Agreements till the completion of their respective Subprojects. For the purposes of this paragraph, (a) the term "debt service coverage ratio" means cash flow from operations

divided by annual debt service obligations including interest and principal payments, where the term “cash flow from operations” include the adjusted cash flow from operating activities as stated in the cash flow statement of the annual audited financial report for the fiscal year; and (b) the term “debt to equity ratio” means total liabilities divided by total shareholder’s equity, where the term “total liabilities” include total current liabilities and total non-current liabilities as stated in the balance sheet of the annual audited financial report for the fiscal year; the term “total shareholder’s equity” includes total paid-up capital and retained earnings as stated in the balance sheet of the annual audited financial report for the fiscal year.

12. If, in the opinion of ADB, it appears that CHC, Huatai, and DSC cannot meet the requirements set forth in paragraph 11 above or cannot meet any debt service obligations, ChemChina shall ensure that appropriate measures are taken for CHC, Huatai, and DSC to strengthen their financial management systems, including, but not limited to, provision of necessary financing to CHC, Huatai, and DSC.

13. ChemChina shall through CHC cause the Subborrowers to ensure that (a) the Loan amount is used to procure Goods and Consulting Services in accordance with the Procurement Plan; and (b) separate accounts for the Subprojects are maintained and audited in accordance with the audit systems established for the Project and detailed in this Project Agreement and the PAM.

Selection of Subprojects and Applicability of ESMS

14. ChemChina shall through CHC cause the PIU to (a) select Subprojects of the Subsequent Batches for ChemChina’s approval, in accordance with the detailed procedures and the Selection Criteria as agreed between ADB, ChemChina, and CCB and set forth in the PAM; and (b) execute required Subloan Agreements on similar terms and conditions that were used for the Subloan Agreements for the Subprojects of the First Batch.

15. For Subprojects of the Subsequent Batches, ChemChina shall, and shall cause the PIU to ensure that each Subproject is selected in accordance with the ESMS and Selection Criteria to specifically ensure that: (a) all Subprojects are screened against the list of prohibited investment activities provided in Appendix 5 of the SPS; (b) there are no involuntary resettlement or indigenous peoples impacts, all within the meaning of the SPS; and (c) each Subproject does not include any labor retrenchment.

Interest Difference Account

16. CCB and ChemChina shall cause CHC to ensure that within 1 year of the Effective Date, guidelines are developed, in a manner and substance acceptable to ADB, for managing the IDA. Such guidelines shall include, among others, provisions relating to: (a) increasing the equity of Huatai; (b) reward mechanism to provide interest rebates to Subborrowers subject to successful completion of the relevant Subprojects and achieving the stated energy savings; and (c) an operating fund to prepare necessary due diligence documents. Funding of IDA will principally come from the retained interest spread between the Subloan rate to the Subborrowers and the interest rate of the Loan. ChemChina, CHC, and CCB shall ensure that (a) no disbursements are made for any Subproject until the IDA guidelines have been prepared and approved by ADB; (b) IDA is established, maintained, replenished and liquidated for supporting the Project, in accordance with the terms specified in the guidelines; and (c) in case at any point if the funds in the IDA are insufficient for repayment of interest to ADB, CHC shall provide additional funds to cover such funding

shortfall. In case of adverse market constellations which may render the interest differential negative, ADB, ChemChina, CHC, and CCB commit to discuss measures to address the negative interest differential.

Revolving Escrow Fund Account

17. ChemChina and CHC shall ensure that all documentary requirements essential for financing of Subprojects of the First Batch are completed prior to the transfer of Loan proceeds for those Subprojects of the First Batch from CHC to REF account. ChemChina, CHC, and CCB shall further ensure that within 3 working days of receipt of the Loan proceeds into the REF account for a Subproject of the First Batch, these funds are transferred to the Subborrower of the said Subproject of the First Batch.

Policy Change

18. ChemChina shall ensure that ADB is informed, in due course, of any changes in the Borrower's energy efficiency regulations, in particular, of any changes in its policies and regulations to the industrial energy efficiency, including incentive mechanisms for promoting energy efficiency, benchmark standards for energy efficiency for different industries, regulations for phasing out obsolete and inefficient industrial capacity and to provide further incentives to promote the ESCO industry.

Project Performance and Monitoring

19. ChemChina and CHC shall ensure that the PIU requires the Subborrowers to ensure that the Project outcomes and outputs, as provided in the PAM are monitored and evaluated through the Project performance monitoring system (PPMS), as agreed to by ChemChina and ADB and set forth in the PAM.

20. ChemChina and CHC shall ensure that given the unique nature of the DSC Subproject, it will be implemented in accordance with the implementation procedures agreed between ADB and CHC including engagement of specific type of contractors like design institutes and contractors to supervise and manage equipment and Goods and to supervise the contracts.

Labor Retrenchment

21. ChemChina and CHC shall, and shall cause the PIU to ensure that no labor retrenchment is undertaken as a result of any Subproject implementation under the Project and to further ensure that in case of a mandatory release of certain labor force, such labor force is relocated elsewhere within the ChemChina group.

Indigenous Peoples and Involuntary Resettlement Safeguards

22. ChemChina and CHC shall, and shall cause the PIU to ensure that the Subprojects do not have any indigenous peoples or involuntary resettlement impacts, all within the meaning of the SPS.

Emergency Response System

23. ChemChina and CHC shall, and shall cause the PIU to ensure that in case of identification of any potential hazards during the implementation of the Project: (a) the affected communities are informed in a culturally appropriate manner; (b) accidental and emergency response documents required to respond effectively to emergencies associated with the potential Project hazards are prepared, addressing issues including training, resources, responsibilities, communications, procedures, and other aspects; and (c) appropriate information about emergency preparedness and response activities, resources, and responsibilities is disclosed to affected communities.

Environmental Audit Report

24. ChemChina and CHC shall, and shall cause the PIU to ensure that all the corrective or preventive actions identified in the EAR are strictly implemented within the prescribed time frame.

Environmental Safeguards for Subprojects of the First Batch

25. For Subprojects of the First Batch, the following provisions shall apply:
- (a) Environment. ChemChina and CHC shall, and shall cause the PIU to ensure that the preparation, design, construction, implementation, operation and decommissioning of the Subprojects and all Project facilities comply with (i) all applicable laws and regulations of the Borrower relating to environment, occupational hazards, health and safety; (ii) the Environmental Safeguards; and (iii) all measures and requirements set forth in the EAR, the EIA, the EMP, and any corrective or preventative actions (A) set forth in a Safeguards Monitoring Report, or (B) which are subsequently agreed between ADB and the Borrower.
 - (b) Human and Financial Resources to Implement Safeguards Requirements. ChemChina and CHC shall, and shall cause the PIU to make available necessary budgetary and human resources to fully implement any corrective actions set forth in the EAR, the EMP, and the ESMS.
 - (c) Safeguards-Related Provisions in Bidding Documents and Works Contracts. ChemChina and CHC shall, and shall cause the PIU to ensure that all bidding documents and contracts for Works contain provisions that require contractors to:
 - (i) comply with the measures relevant to the contractor set forth in the EIA, and the EMP (to the extent they concern impacts on the respective affected people under the Environmental Safeguards during construction), and any corrective or preventative actions set forth in (A) a Safeguards Monitoring Report, or (B) subsequently agreed between ADB and the Borrower;

- (ii) make available a budget for all such environmental and social measures; and
 - (iii) provide ChemChina with a written notice of any unanticipated environmental and/or social risks or impacts that arise during construction, implementation or operation of the Subprojects that were not considered in the EIA, the EMP, or the ESMS.
- (d) Safeguards Monitoring and Reporting. ChemChina and CHC shall, and shall cause the PIU to do the following:
- (i) Submit Safeguards Monitoring Reports to ADB in respect of implementation of and compliance with Environmental Safeguards, any corrective actions set forth in the EAR, and the EMP, semi-annually during construction and thereafter annually during operation, until the issuance of ADB's Project completion report unless a longer period is agreed in the EMP and disclose relevant information from such reports to the respective affected people under the Environmental Safeguards promptly upon submission;
 - (ii) if any unanticipated environmental and/or social impacts arise during construction, implementation or operation of the Subprojects that were not considered in the EIA and the EMP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan;
 - (iii) For Environmental Safeguards, no later than 90 days of the commencement of Works, engage qualified and experienced external expert(s) or qualified NGO(s) under a selection process and terms of reference acceptable to ADB, to verify information produced through the Project monitoring process, and facilitate the carrying out of any verification activities by such external experts; and
 - (iv) report any actual or potential breach of compliance with the measures and requirements set forth in the EAR and the EMP promptly after becoming aware of the breach.

Environmental Safeguards for Subprojects of the Subsequent Batches

26. For Subprojects of the Subsequent Batches, the following provisions shall apply:

- (a) Environment. ChemChina and CHC shall, and shall cause the PIU to ensure that the preparation, design, construction, implementation, operation and decommissioning of each Subproject and all Project facilities comply with (i) all applicable laws and regulations of the Borrower relating to environment, occupational hazards, health, and safety; (ii) the Environmental Safeguards; (iii) the ESMS; and (iv) all measures and requirements set forth in the EIA or IEE, as applicable

and prepared in accordance with the ESMS, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

- (b) Human and Financial Resources to Implement Safeguards Requirements. ChemChina and CHC shall, and shall cause the PIU to ensure that (a) necessary budgetary and human resources are made available to fully implement the ESMS; and (b) each Subborrower makes necessary budget and human resources available to fully implement the respective corrective actions set forth in the EAR, and the EMP of that Subproject.
- (c) Safeguards Monitoring and Reporting. ChemChina and CHC shall, and shall cause the PIU to do the following:
 - (i) submit Safeguards Monitoring Reports to ADB semi-annually during construction and thereafter annually during operation;
 - (ii) submit an ESMS implementation Report to ADB annually during construction and operation;
 - (iii) if any unanticipated environmental and/or social risks and impacts arise during the Subproject implementation, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan;
 - (iv) ensure that no later than 90 days of the commencement of Works, the Subborrowers engage qualified and experienced external expert(s) or qualified NGO(s) under a selection process and terms of reference acceptable to ADB, to verify information produced through the Subproject monitoring process, and facilitate the carrying out of any verification activities by such external experts; and
 - (v) report any actual or potential breach of compliance with the measures and requirements set forth in the ESMS, the EAR, and the EMP, promptly after becoming aware of the breach.

Prohibited List of Investments

27. ChemChina and CHC shall, and shall cause the PIU to ensure that (a) no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS; and (b) if ozone depleting substances, as listed in the Montreal Protocol, are involved in the Project, they are (i) entirely used as the feedstock for the fluoropolymer production; and (ii) there is no increase in the amount of controlled substances used in the production process as a result of the Subproject.

Environmental and Social Management System for Screening, Categorization, Environmental Planning, and Monitoring

28. ChemChina and CHC shall, and shall cause the PIU to ensure that before any Subproject of the Subsequent Batches is approved for financing:

- (a) the ESMS is used to screen and categorize the significance of potential environmental and social impacts associated with such Subproject of the Subsequent Batches;
- (b) an EAR, EIA, or IEE, including the EMP are prepared for such Subproject of the Subsequent Batches as required pursuant to the ESMS; and
- (c) For the Subprojects of the Subsequent Batches that are selected during the Project implementation period, the said EAR, EIA, or IEE, including the EMP are cleared by ADB if such Subprojects of the Subsequent Batches are Category A or Category B within the meaning of the SPS.

Grievance Redress Mechanism

29. ChemChina and CHC shall, and shall cause the PIU and the Subborrowers to ensure that safeguards grievance redress mechanism is established for each Subproject in accordance with the provisions of the EIA or the IEE, as applicable, the EMP, and the ESMS at the PIU, within the timeframes specified in the relevant EIA, or the IEE, as applicable, the EMP, and the ESMS to consider safeguards complaints.

30. ChemChina and CHC shall, and shall cause the PIU to ensure that within 90 days following the Effective Date, a grievance redress mechanism acceptable to ADB is established for non-safeguards complaints in accordance with the PAM. Such grievance redress mechanism shall function to (a) review and document eligible complaints of the Project stakeholders; (b) proactively address grievances; (c) provide the complainants with notice of the chosen mechanism and/or action; and (d) prepare and make available to ADB upon request periodic reports to summarize (i) the number of complaints received and resolved, (ii) chosen actions, and (iii) final outcomes of the grievances and make these reports available to ADB upon request. Eligible non-safeguards complaints include those related to the Project, the Subprojects, any of the service providers, any person responsible for carrying out the Project or Subprojects, complaints on misuse of funds and other irregularities as well as gender issues.

Labor Standards, Health and Safety

31. ChemChina and CHC shall, and shall cause the PIU to ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during the Project and Subprojects implementation by ensuring that: (a) the Borrower's applicable labor law, regulations and applicable workplace occupational safety norms are complied with; (b) child labor is not used; (c) workers are not discriminated against in respect of employment and occupation; (d) forced labor is not used; (e) freedom of association is allowed and the right to collective bargaining is effectively recognized; and (f) information on the risks of sexually transmitted diseases, including HIV/AIDS, disseminated, or appropriate service

providers are engaged to disseminate, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

32. ChemChina and CHC shall, and shall cause the PIU to strictly monitor compliance with the requirements set forth in paragraph 31 above and provide ADB with regular reports.

Gender and Development

33. ChemChina and CHC shall, and shall cause the PIU to ensure that the principles of gender equity aimed at increasing the Project benefits and impacts on women consistent with ADB's Policy on Gender and Development (1998) are followed during implementation of the Project and the Subprojects, including (a) equal pay to men and women for work of equal value; and (b) enabling working conditions for women workers.

Governance and Anticorruption

34. ChemChina and CHC shall, and shall cause the PIU to, (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project and subprojects; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

35. ChemChina and CHC shall, and shall cause the PIU to ensure that (a) all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of consultants, contractors, CCB, Subborrowers, suppliers, and other service providers as they relate to the Project and Subprojects; (b) periodic inspection of contractors is undertaken to ensure that fund withdrawal and settlement procedures are followed; and (c) CCB maintains proper internal controls in its operations and shall cause CCB to adopt acceptable computerized accounting and management information system, and prepare financial statements and reports in accordance with national accounting standards.

Combating Money Laundering and Financing of Terrorism

36. ChemChina, CHC and CCB shall ensure that CCB:

- (a) complies with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and that Loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;
- (b) formulates and implements internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and
- (c) promptly informs the Borrower and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs CCB of its concern that there has been such an alleged

violation, CCB shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.