



Pre-Feasibility Study Water Treatment Plant N°5 + Associated Assets City of Yangzhou

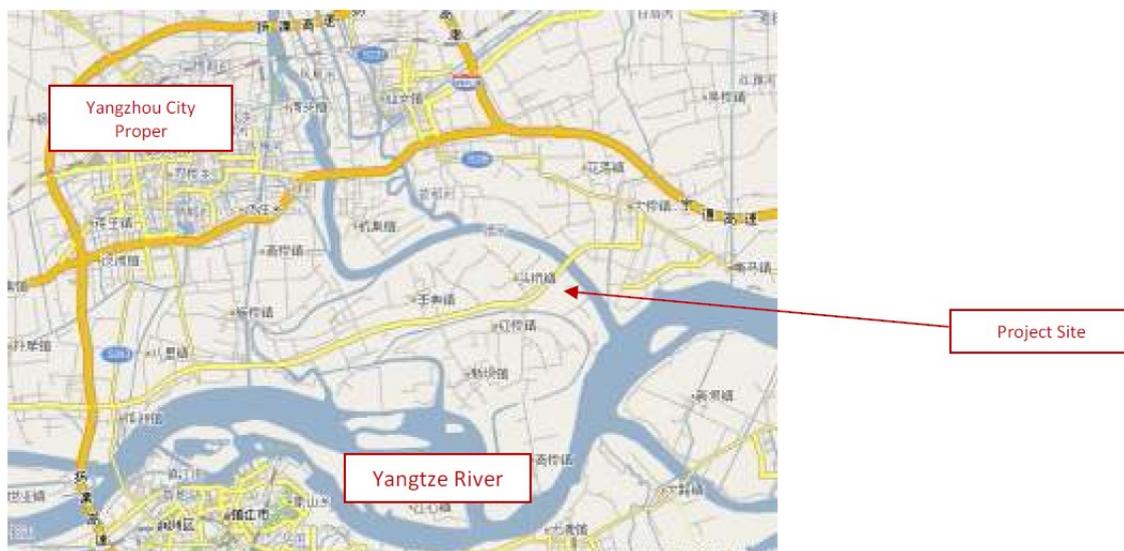
April 2009
Executive Summary



i. Introduction & Executive Summary

A. Project Location & Orientation

1. Yangzhou City is located on the Yangtze River in Jiangsu Province, approximately 240km northwest of Shanghai and 70 km northeast of Jiangsu’s provincial capital, Nanjing. Due to its distinguished history and strategic location at the confluence of the Yangtze River and the Grand Canal, Yangzhou is one of 24 historic cities nationwide so designated by the State Council. The municipality, which covers 6,634km², includes Yangzhou City proper, Yizheng City, Jiangdu City, Gaoyou City and Baoying County.



B. Background of the Project

2. To keep pace with the growing demand for water due to its continued urbanisation and economic growth, the City of Yangzhou has built two water intake plants and three water treatment plants since the completion of its first water supply plant in 1960. Expansion of the City, integration of outlying and suburban areas and growth of industry along the Yangtze has raised demand for water to a point which the existing plants cannot satisfy.

3. Like all Chinese cities, Yangzhou prepares and executes master development plans every five years (“Five-Year Plans”). Construction of the No. 5 Water Treatment Plant (the

“Plant”) and its associated water intake plant, pumping station and intake and water distribution piping (together, the “Project”) are key elements in the City’s current (the 11th) Five-Year Plan, part of the City’s overall plan for improving of its Ning Zhen Tai Tong area water supply.

4. The Project was authorized by Jiangsu Development and Reform Commission (JDRC) in April 2007, and the EIA, water source assessment, flood control assessment of project were approved by related departments. The feasibility study and preliminary design were approved by JDRC in Nov, 2007 and April 2008 respectively.

5. The total capacity of the Plant will reach 300,000 m³/d in two phases, with Phase I reaching 150,000 m³/d. The site of the Plant, in Antie Village, has an area of 134,480 m²; the water intake site is on the Yangtze River at Jiusheng Village, and has an area of 16,332 m². Connecting the water intake plant with the treatment plant is 5.24 km of intake (Rawdy water supply) pipeline. The length of distribution (product water) pipeline is 34.9 km. The total investment is forecast to be RMB

6. 389.132m. The construction period is from 2008 to 2010. The city is seeking bank debt to finance completion of the Project.

C. Background of the CDIA Engagement

7. In October 2008, City officials of Yangzhou City, Jiangsu Province, Peoples Republic of China requested technical assistance from the Cities Development Initiative for Asia (“CDIA”) with regard to identifying appropriate sources of medium or long-term financing for completion of the Project by its company, the Yangzhou Yancheng Water Industry Co., Ltd. (“YYWIC” or the “Company”).

8. After completion in 2Q 2008 of due feasibility studies and approval of all engineering designs for its Fifth Water Treatment Plant and associated water intake on the Yangtze River (the “Project”), in August 2008, YYWIC began construction on the Project. At that time, construction was expected to continue until Project commissioning and acceptance, expected in 2Q 2010. At that time, however it was expected that certain central government financing would be extended to YYWIC to supplement the company’s commercial credit facilities from local and provincial banks, available for regular operations. After the Sichuan Earthquake, central government funds were diverted to urgent reconstruction in the affected areas and were not extended to Yangzhou City for the Project.

9. The result was that by late 4Q 2008, YYWIC was short of funding for Project construction, and the project had been delayed by 3-4 months. CDIA was requested by the Yangzhou City Government to field a team to evaluate the Project, examine the financial alternatives open to YYWIC, and to assist the City and YYWIC to identify the best sources of financing to complete the Project. Yangzhou City duly made formal application to CDIA (see annex 1).

10. After the City’s CDIA application was approved, an initial mission visited Yangzhou in December 2008 for meetings with the City Government (Finance Bureau, DRC and Yangzhou City Investment Company), as well as with the Company in December 2008. The mission also visited the existing No. 4 WTP and the Project sites (of the Plant and the water intake station), noting that construction (pile-driving) was continuing, although at a conservative speed, and that the site was being well-prepared. Yangzhou City officials mentioned that they had recently applied to china Development Bank (CDB) for credit in the amount of RMB 200 million and that the application was to be acted upon by 31 DEC 08.

11. Additional missions in February, March and April 2009 provided the Consultants with greater insights into the City's and YYWIC's financial situation.

D. Summary of Project Financing Recommendations

12. Fortunately, by February 2009, in response to the financial crisis, the government of the PRC had announced and begun deploying through SOE commercial and policy banks a large stimulus package for municipal infrastructure spending and other economic measures. With these stimulus funds now available, the existing bank creditors of YYWIC have expressed an interest in extending additional funds for completion of the Project, and this represents the best short-term option for YYWIC.

13. Although immediate funding problems are thus addressed with the increased availability of short- to medium-term bank credit, our recommendation is that the City explore additional long-term sources of funds for YYWIC, including:

- 13.1. refinancing YYWIC's bank debt with multilateral or bilateral concessional loans (e.g. from ADB's subsovereign window or KfW),
- 13.2. strengthening YYWIC's capital position and reducing gearing by issuing equity shares in YYWIC to local, national or international private-sector institutional investors, and
- 13.3. issuance of medium-term bonds by YYWIC or by YUCSOP for the benefit of YYWIC.

14. These options are discussed more fully below.

E. Summary of Technical Review

15. As pre-feasibility studies, feasibility studies, and, indeed, final engineering designs had been prepared already for the Project and it was already under construction (albeit subject to financing constraints which were the focus of this Review), the role of the Engineering team was principally to validate the scope and appropriateness of the Project design, to evaluate the suitability of technology proposed in the existing designs, and to generally validate the overall costings and budget for the Project in line with other WTPs in Yangzhou and current standards and costs for construction of comparable assets in the PRC.

16. The Technical Review found the Project plans to be generally sound and with reasonable budgets for materials and construction costs.

F. Summary of Other Risks Assessment

17. Resettlement Risks: none (land for project has already properly been acquired by the government for the project, and resettlement and crop compensation have been duly paid (v. pp. 56-57)).

18. Environmental Risks: none (a full Environmental Impact Assessment was prepared and approved by the Yangzhou Environmental Protection Bureau).

G. Principal Development Impacts of the projects

19. Supports increased economic activity and employment, as additional water supply from the Project Plant will support a new industrial park and commercial / light industry area;

20. Widens access to clean water for residents of the new water supply coverage area;

-
21. Improves conditions for agriculture in outlying rural parts of the new water supply coverage area; and
 22. Halts depletion of surface and ground water in the new water supply coverage area, as households and businesses will be connected to water network instead of relying on wells.