

CONFORMED COPY

LOAN NUMBER 4350 CHA

Project Agreement

(Hunan Power Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

HUNAN ELECTRIC POWER COMPANY

Dated June 7, 1999

LOAN NUMBER 4350 CHA

PROJECT AGREEMENT

AGREEMENT, dated June 7, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HUNAN ELECTRIC POWER COMPANY (HEPC).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount equal to three hundred million Dollars, on the terms and conditions set forth in the Loan Agreement, but only on condition that HEPC agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

(B) by a subsidiary loan agreement to be entered into between the Borrower and HEPC the proceeds of the Loan provided for under the Loan Agreement will be made available to HEPC on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS HEPC, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth, wherever used herein.

ARTICLE II

Execution of the Project

Section 2.01. (a) HEPC declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, technical and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and HEPC shall otherwise agree, HEPC shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) HEPC shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, HEPC shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and HEPC, a plan for the future operation of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with HEPC on said plan.

Section 2.04. HEPC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, HEPC shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) HEPC shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) HEPC shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by HEPC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of HEPC

Section 3.01. HEPC shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. HEPC shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, technical and public utility practices.

Section 3.03. HEPC shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) HEPC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) HEPC shall:

(i) have its records, accounts and 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;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to above for such year as so audited and (B) the report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning such records, accounts and financial statements as well as the audit thereof, as the Bank may from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, HEPC shall earn: (i) for each of its fiscal years ending on December 31, 1999 and December 31, 2000, an annual return of not less than 8% of the average current value of HEPC's equity; (ii) for each of its fiscal years ending on December 31, 2001 and December 31, 2002, an annual return of not less than 10% of the average current value of HEPC's equity; and (iii) for each of its fiscal years thereafter an annual return of not less than 12% of the average current value of HEPC's equity.

(b) Before June 1 in each of its fiscal years, HEPC shall, on the basis of forecasts prepared by HEPC and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section 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 HEPC would not meet the requirements set forth in paragraph (a) of this Section for HEPC's fiscal years covered by such review, HEPC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates tariffs) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "equity" means the sum of the total unimpaired paid-in capital, retained earnings and reserves of HEPC not allocated to cover specific liabilities excluding consumer contributions.

(ii) The term "net non-operating income" means the difference between (A) revenues from all sources other than those related to

operations; and (B) expenses incurred other than those related to operations, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A).

(iii) 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 5% per annum of the average current gross value of HEPC's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(iv) The average current gross value of HEPC's fixed assets in operation shall be calculated as one half of the sum of the gross value of HEPC'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.

Section 4.03. (a) Except as the Bank shall otherwise agree, HEPC shall not incur any debt unless a reasonable forecast of the revenues and expenditures of HEPC shows that the estimated internal cash generation of HEPC for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of HEPC in such year on all debt of HEPC including the debt to be incurred.

(b) For the purposes of this Section:

(i) 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.

(ii) The term "internal cash generation" means the difference between: (A) the sum of revenues from all sources related to operations and net non-operating income, excluding receipts from customer connection charges; 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.

(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 "reasonable forecast" means a forecast prepared by HEPC not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and HEPC accept as reasonable and as to which the Bank has notified HEPC 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 HEPC.

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

Section 4.04. HEPC shall prepare and furnish to the Bank for its review and comment, by June 1 of each year, a rolling eight-year financial plan containing, inter alia, projected income statements, fund flow statements and balance sheets for each of the next eight years.

ARTICLE V

Effective Date; Termination Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of HEPC thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this 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 or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For HEPC:

Hunan Electric Power Company
64 Shaoshan Road
Changsha, Hunan
People's Republic of China

Cable address:

7176

Facsimile:

(0731) 553-2255
(0731) 554-3160

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of HEPC may be taken or executed by its President, or by such other person or persons as HEPC shall designate in writing, and HEPC shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR AND
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Michel Severino

Authorized Representative

HUNAN ELECTRIC POWER COMPANY

By /s/ Li Zhaoxing

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 and September 1997 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower excluding the Hong Kong Special Administrative Region.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Except as provided in Paragraph C.2, C.3 and C.4 below, goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, and goods, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the

Guidelines.

2. International Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods which are of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods procured under direct contracting and estimated to cost the equivalent of \$300,000 or more, the following procedures shall apply:

(i) prior to the execution of any such contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services

shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

For the purposes of Section 2.01(b) of this Agreement, the Implementation Program shall consist of the following:

Power Sector Reform

1. With respect to Part D(2) of the Project, HEPC shall:

(a) implement its reorganization in accordance with a program and schedule

agreed with the Bank;

(b) exchange views with the Bank: (i) from time to time, at the request of either party, on the progress of implementation of its reorganization; and (ii) in particular, prior to taking any of the following actions, if such action would have a material and adverse effect on HEPC's ability to perform any of its obligations under this Agreement: (1) substantial restructuring or reorganization of its operations; or (2) substantial modification, surrender, abandonment, transfer or other disposition of any of its power generation, transmission or distribution operations.

(c) carry out and complete by December 31, 2000, the technical assistance programs for asset restructuring, corporate reorganization and development of wholesale power purchase agreements, in accordance with terms of reference and a schedule acceptable to the Bank.

Financial Management

2. With respect to Part D(3) of the Project, HEPC shall carry out and complete by December 31, 2001, the technical assistance programs for redefinition of internal organizational structures, upgrading of account and financial management systems and development of modern, computerized financial management information systems in accordance with terms of reference and a schedule, acceptable to the Bank.

Institutional Development

3. With respect to Part E of the Project, HEPC shall carry out a program of management development and training for HEPC staff, acceptable to the Bank.

Environment

4. HEPC shall implement the Environmental Management Plan in accordance with a time bound action plan acceptable to the Bank.

Resettlement

5. With respect to Part C of the Project, HEPC shall:

(a) prior to commencing the implementation of Parts A, B(1) and B(2) of the Project, carry out the compensation, resettlement and rehabilitation of Affected Persons under said Parts of the Project in accordance with the Phase I RAP;

(b) prepare, in accordance with policies, planning principles, institutional arrangements and design criteria acceptable to the Bank and set forth in the Phase I RAP, and furnish to the Bank not later than June 30, 1999, for the Bank's review and approval, a resettlement action plan for Part B(3) of the Project (the Phase II RAP); and

(c) prior to commencing the implementation of Part B(3) of the Project, carry out the compensation, resettlement and rehabilitation of Affected Persons under said Part of the Project, in accordance with the Phase II RAP as shall have been approved by the Bank.

Project Monitoring and Reporting

6. HEPC shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank: (i) the carrying out of the Project, including the Phase I RAP and the Phase II RAP; and (ii) the achievement of the objectives of the Project;

(b) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank unaudited project accounts (including project cost estimates and project expenditures) and semi-annual reports on or about March 31 and September 31 in each year, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above on the progress achieved in the carrying out the Project, including the Phase I RAP and Phase II RAP, during the preceding calendar

semester;

(c) review with the Bank each report furnished to the Bank pursuant to paragraph (b) above hereof and take such measures to further the objectives of the Project as shall have been agreed with the Bank;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about June 30, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above on the progress achieved in the carrying out of the Project during the period since its inception, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(e) review with the Bank, by September 30, 2001, or such later date as the Bank shall agree, the report referred to in paragraph (d) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

