

CONFORMED COPY

LOAN NUMBER 3846 CHA

PROJECT AGREEMENT

(Zhejiang Power Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

ZHEJIANG PROVINCIAL ELECTRIC POWER COMPANY

Dated May 25, 1995

LOAN NUMBER 3846 CHA

PROJECT AGREEMENT

AGREEMENT, dated May 25, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ZHEJIANG PROVINCIAL ELECTRIC POWER COMPANY (ZPEPC).

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 make available to the Borrower an amount in various currencies equivalent to four hundred million dollars (\$400,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that ZPEPC agree to undertake such obligations toward the Bank as are set forth in this Agreement;

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

WHEREAS ZPEPC, 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 the General Conditions (as so defined) have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Environmental Mitigation Measures and Monitoring Plan" means the environmental mitigation measures and monitoring plan, specified in the following documents, as said measures and plan may be amended from time to time in agreement with the Bank:

(i) Environmental Assessment Report for the Second Phase of Beilungang Thermal Power Plant Volumes 1 and 2, Zhejiang Provincial Environment Protection Scientific Research Institute March 1993;

(ii) Supplemental Environmental Impact Assessment Report on Extension of No. 5 Set for Phase II Project Beilungang Power Plant East China Electric Power Design Institute of Ministry of Electric Power Industry October 1994;

(iii) Zhejiang Electric Power Development Project Associated 500 kV & Substation Projects - Report on Environmental Impact. Zhejiang Electric Power Design Institute, January 1994;

(iv) Supplementary Report on Environmental Assessment for the Associated Transmission Line of Beilungang Power Plant No. 5 Unit. Zhejiang Electric Power Design Institute, December 1994;

(v) Hangzhou City Electric Power Distribution Network Renovation Project Report on Environmental Effects. Zhejiang Power Design Institute, January 1994;

(vi) Ningbo City Electric Power Distribution Network Report on Environmental Effects. Zhejiang Electric Power Design Institute, January 1994; and

(vii) Zhejiang Provincial Electric Power Corporation Environmental Monitoring Plan. Zhejiang Provincial Electric Power Company, January 1995.

(b) "Resettlement Action Plans" means the resettlement action plans, specified in the following documents, as said plans may be amended from time to time in agreement with the Bank:

(i) Action Plan and Implementation Procedures for Land Acquisition & Resettlement-General Report. Zhejiang Provincial Power Company, February 1994;

(ii) Phase II Works of Beilungang Power Plant Operational Action Plan and Resettlement. Implementation Procedures for land Acquisition and Zhejiang Provincial Power Plant Engineering Company, February 1994;

(iii) Action Plan and Implementation Procedures for Land Acquisition and Resettlement Supplementary Information. Zhejiang Provincial Electric Power Company, April 1994;

(iv) 500kv Transmission Line and Substations for Stage II Works (Unit No.5) In Beilungang Power Plant, Land Expropriation & Moving Action Schedule and Implementation (Supplement to Sub-Report No. 3). Zhejiang Provincial Power Company, January 1995; and

(v) The Outline of Independent Evaluation of Resettlement Component.

ARTICLE II

Execution of the Project

Section 2.01. (a) ZPEPC declares its commitment to the objectives of the Project as set forth in Schedule 1 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 and environmental 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 ZPEPC shall otherwise agree, ZPEPC 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) ZPEPC 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, respectively) in respect of the Project Agreement.

(b) Without limitation upon the provisions of paragraph (a) of this Section, ZPEPC 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 ZPEPC, a plan for the future operation of the Project;

(ii) afford the Bank a reasonable opportunity to exchange views with ZPEPC on said plan; and

(iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

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

Section 2.05. (a) ZPEPC 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) ZPEPC 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 ZPEPC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of ZPEPC

Section 3.01. ZPEPC shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in

adequate numbers.

Section 3.02. ZPEPC 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 and environmental practices.

Section 3.03. ZPEPC 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) ZPEPC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) ZPEPC 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 months after the end of each such year, (A) certified copies of its financial statements 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 said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, ZPEPC shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1994, funds from internal sources equivalent to not less than 30% of the annual average of ZPEPC's capital expenditures incurred, or expected to be incurred, for that year, the previous year and the next following fiscal year.

(b) Before April 30 in each of its fiscal years commencing in 1995, ZPEPC shall, on the basis of forecasts prepared by ZPEPC and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that ZPEPC would not meet the requirements set forth in paragraph (a) for ZPEPC's fiscal years covered by such review, ZPEPC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt

service requirements, all cash dividends and other cash
distributions of surplus, increase in working capital other
than cash and other cash outflows other than capital expenditures.

- (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, including taxes and payments in lieu of taxes,
incurred in the generation of revenues in (A) above.
- (iii) The term "working capital other than cash" means the difference
between current assets excluding cash and current liabilities
at the end of each fiscal year.
- (iv) The term "current assets excluding cash" means all assets other
than cash which could in the ordinary course of business be
converted into cash within twelve months, including accounts
receivable, marketable securities, inventories and pre-paid
expenses properly chargeable to operating expenses within the next
fiscal year.
- (v) The term "current liabilities" means all liabilities which will
become due and payable or could under circumstances then existing be
called for payment within twelve months, including accounts
payable, customer advances, debt service requirements, taxes and
payments in lieu of taxes, and dividends.
- (vi) The term "debt service requirements" means the aggregate amount of
repayments (including sinking fund payments, if any) of, and interest
and other charges on, debt.
- (vii) The term "capital expenditures" means all expenditures on account
of fixed assets, including interest charged to construction,
related to operations.
- (viii) 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 4.03. (a) Except as the Bank shall otherwise agree, ZPEPC shall not
incur any debt unless a reasonable forecast of the revenues and expenditures of ZPEPC
shows that the estimated net revenues of ZPEPC 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 ZPEPC in such year on all debt of ZPEPC including the debt to be
incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of ZPEPC maturing by its
terms more than one year after the date on which it is
originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or
agreement or other instrument providing for such debt or for the
modification of its terms of payment on the date of such contract,
agreement or instrument; and (B) under a guarantee agreement, on
the date the agreement providing for such guarantee has been
entered into.
- (iii) The term "net revenues" means the difference between:

and net (A) the sum of revenues from all sources related to operations non-operating income; and

administration, (B) the sum of all expenses related to operations including adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term "net non-operating income" means the difference between:

operations; and (A) revenues from all sources other than those related to

incurred in (B) expenses, including taxes and payments in lieu of taxes, the generation of revenues in (A) above.

(v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

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

(vii) 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. ZPEPC shall prepare and, by April 30 of each year commencing in 1995, furnish annually to the Bank for review, until completion of the Project, a rolling long-term financial plan (including projected income statements, sources and uses of funds and balance sheets covering a period of no less than eight years) and exchange views with the Bank on its financial position, focusing on comparison of actual financial performance with agreed targets, operating cost trend, future investment and related financing arrangements.

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 ZPEPC thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify ZPEPC thereof.

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 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 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 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

For ZPEPC:

2 Jinzhu Road (South)
Hangzhou
People's Republic of China

Telex:

35053 ZPEPB CN

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of ZPEPC may be taken or executed by General Manager or such other person or persons as General Manager shall designate in writing, and ZPEPC 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
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell J. Cheetham

Regional Vice President
East Asia and Pacific

ZHEJIANG PROVINCIAL ELECTRIC POWER
COMPANY

By /s/ Li Daoyu

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1 of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, ZPEPC shall use the relevant standard bidding documents issued or agreed to by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, ZPEPC shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Except as provided in paragraph 2 hereof, equipment, estimated to cost less than the equivalent of \$300,000 per contract, up to an aggregate amount equivalent to \$3,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Equipment, estimated to cost less than the equivalent of \$300,000 per contract, up to an aggregate amount equivalent to \$3,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods, estimated to cost the equivalent of \$5,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines

shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Loan Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist ZPEPC in carrying out the Project, ZPEPC shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, ZPEPC shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, ZPEPC shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 2

Implementation Program

1. ZPEPC shall, implement the Action Plan within the time schedule provided therein in a manner satisfactory to the Bank.

2. ZPEPC shall, by January 1, 1996, implement the action plan, agreed with the Bank, for unifying ZPEPC tariffs.

3. ZPEPC shall: (a) without limitation upon its obligations under Section II of Schedule 1 to this Agreement, engage (i) financial management consultants to review its accounting system by December 31, 1995, and (ii) risk management consultants to review its insurance covers by September 30, 1995, both under terms of reference satisfactory to the Bank; (b) furnish the results of such reviews and recommendations pursuant thereto to the Bank; and (c) implement the said recommendations taking into account the comments thereon, if any, by the Bank.

4. ZPEPC shall carry out the Environmental Mitigation Measures and Monitoring Plan in a manner satisfactory to the Bank.

5. ZPEPC shall carry out the Resettlement Action Plans in a manner satisfactory to the Bank.

6. ZPEPC shall carry out the training program, agreed with the Bank, in a manner satisfactory to the Bank.

