

CONFORMED COPY

LOAN NUMBER 3910 CHA

Project Agreement

(Inland Waterways Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

GUANGXI-ZHUANGZU AUTONOMOUS REGION
HUNAN PROVINCE

and

ZHEJIANG PROVINCE

Dated August 31, 1995

LOAN NUMBER 3910 CHA

PROJECT AGREEMENT

AGREEMENT, dated August 31, 1995 , between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and GUANGXI-ZHUANGZU AUTONOMOUS REGION (Guangxi Province), HUNAN PROVINCE (Hunan Province) and ZHEJIANG PROVINCE (Zhejiang Province) (Guangxi Province, Hunan Province and Zhejiang Province hereinafter collectively referred to as the Project Provinces and individually as a Project Province).

WHEREAS 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 two hundred ten million dollars (\$210,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS the Project Provinces, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have 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, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Each Project Province 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 its Respective Part of the Project, or cause its Respective Part of the Project to be carried out, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and economic practices and health, safety and environmental standards acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the generality of the provisions of paragraph (a) of this Section, and except as the Bank and the Project Province concerned shall otherwise agree, each Project Province shall carry out its Respective Part of the Project, or cause its Respective Part of the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 2 to this Agreement and shall take such other actions in respect of the Project, or cause such other actions in respect thereof to be taken, in accordance with the provisions of said Schedule 2.

Section 2.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works 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.

(b) Bidders for works for the dam and shiplock to be constructed under Part A(1) of the Project shall be prequalified in accordance with procedures acceptable to the Bank.

Section 2.03. (a) Each Project Province shall carry out or cause to be carried 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 its Respective Part of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, each Project Province shall:

(i) prepare or cause to be prepared, 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 said Project Province, a plan for the future operation of its Respective Part of the Project;

(ii) afford the Bank a reasonable opportunity to exchange views with said Project Province 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. Each Project Province shall:

(a) at the request of the Bank, exchange views with the Bank with regard to the progress of its Respective Part of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan; and

(b) promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its Respective Part of the Project, the

accomplishment of the purposes of Loan, or the performance by said Project Province of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each Project Province shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its Respective Part of the Project, of the departments or agencies of said Project Province responsible for the carrying out of said Part of the Project.

(b) Each Project Province shall:

(i) have the records and accounts referred to in paragraph (a) of this Section 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, 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 and accounts, as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 3.02. (a) Guangxi and Zhejiang Provinces shall each:

(i) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices its inland waterways operations and the financial condition thereof;

(ii) have the financial statements relating to its inland waterways operations (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with the provisions of Section 3.01 of this Agreement;

(iii) furnish to the Bank, together with the audit report furnished under Section 3.01 of this Agreement, (A) certified copies of said 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

(iv) furnish to the Bank such other information concerning said financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

(b) Except as the Bank shall otherwise agree, Guangxi Province shall:

(i) maintain for each of its fiscal years after its fiscal year ending on December 31, 1995, a ratio of total operating expenses in respect of inland waterways operations to total operating revenues in respect of said operations not higher than 75%; and

(ii) commencing January 1, 2000, and at all times thereafter, not incur any debt in respect of its inland waterways operations, unless a reasonable forecast of its revenues and expenditures in respect of said operations shows that its estimated net revenues in respect of said operations for each fiscal year during the term of the debt to be incurred shall be at least 2 times its estimated debt service requirements in such year on all of its debt in respect of said operations, including the debt to be incurred.

(c) Except as the Bank shall otherwise agree, Zhejiang Province shall:

(i) maintain for each of its fiscal years after its fiscal year ending on December 31, 1995, a ratio of total operating expenses in respect of inland waterways operations to total operating revenues in respect of said operations not higher than 75%; and

(ii) not incur any debt in respect of its inland waterways operations, unless a reasonable forecast of its revenues and expenditures in respect of said operations shows that its estimated net revenues in respect of said operations for each fiscal year during the term of the debt to be incurred shall be at least the following times its estimated debt service requirements in each such year on all of its debt in respect of said operations, including the debt to be incurred: (A) during its fiscal year 1999, 2000 or 2001: 1.0 time; (B) during its fiscal year 2002 or 2003: 1.1 times; and (C) during any fiscal year thereafter: 1.5 times.

(d) Guangxi Province and Zhejiang Province shall each:

(i) review, before June 30 in each of its fiscal years, on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements applicable to it set forth in paragraphs (b)(i) and (c)(i) 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; and

(ii) promptly take, if any such review prepared by it shows that it would not meet the requirements applicable to it set forth in paragraphs (b)(i) and (c)(i) of this Section for the fiscal years covered by such review, all necessary measures (including, without limitation, adjustments of the structure or levels of its prices in respect of inland waterways operations) in order to meet such requirements.

(e) For the purposes of this Section:

(i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, and provision for depreciation on a basis acceptable to the Bank, but excluding interest and other charges on debt and taxes.

(ii) The term "inland waterways operations" means: in respect of Zhejiang Province, all of its waterways operations, in respect of the four channels referred to in Part C(1) of the Project and operations in respect of the three ports referred to in Part C(2) of the Project; and, in respect of Guangxi Province, all of its waterways operations, including port operations, in respect of the waterways from Nanning Municipality to Wuzhou Municipality, and power operations related to the hydropower generation facility to be constructed under its Respective Part of the Project.

(iii) The term "total operating revenues" means revenues from all sources related to operations.

(iv) The term "debt" means any indebtedness of the respective Project Province maturing by its terms more than one year after the date on which it is originally incurred.

(v) 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.

(vi) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations and net non-operating income; 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.

(vii) 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.

(viii) 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.

(ix) The term "reasonable forecast" means a forecast prepared by the respective Project Province not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and said Project Province accept as reasonable and as to which the Bank has notified said Project Province 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 operating results of the inland waterways activities of said Project Province.

(x) 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.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of each Project Province thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify each Project Province thereof.

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

ARTICLE V

Miscellaneous Provisions

Section 5.01. 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:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For Guangxi Province:

Guangxi Communications Department
67 Xingmin Road
Nanning
Guangxi Zhuangzu Autonomous Region
People's Republic of China

Cable address:

Nanning 3333

For Hunan Province:

Hunan Province Communications Department
105 Yanjiang Road
Changsha
Hunan
People's Republic of China

Cable address:

Changsha
5117

For Zhejiang Province:

Zhejiang Province Communications Department
4 Meihuabei
Hangzhou 310009
People's Republic of China

Cable address:

Hangzhou
0074

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of a Project Province may be taken or executed by the Governor or any Vice Governor of said Project Province or such other person or persons as such Governor or Vice Governor shall designate in writing, and such Governor or Vice Governor shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. 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

GUANGXI-ZHUANGZU AUTONOMOUS REGION
HUNAN PROVINCE
ZHEJIANG PROVINCE

By /s/ Zhou Wenzhong

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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 (the Guidelines) and the following provisions of this Section I, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for civil works for the dam and shiplock under Part B(1) of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for Domestically Manufactured Goods and Domestic Contractors

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 and works to be carried out by domestic contractors.

(c) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods for Part C of the Project estimated to cost \$300,000 equivalent or less per contract up to an aggregate amount not to exceed \$3,400,000 equivalent, (b) works for inundation control under Part A(1) of the Project estimated to cost \$4,000,000 equivalent or less per contract up to an

aggregate amount not to exceed \$11,100,000 equivalent, (c) preliminary works for dam construction under Part B(1) of the Project estimated to cost \$2,100,000 equivalent or less per contract up to an aggregate amount not to exceed \$2,100,000 equivalent, (d) works for channel improvements under Part C(1) of the Project estimated to cost \$8,300,000 or less per contract up to an aggregate amount not to exceed \$60,300,000 equivalent and (e) works for the construction of ports under Part C(2) of the Project estimated to cost \$10,000,000 or less per contract up to an aggregate amount not to exceed \$21,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost \$200,000 equivalent or less per contract up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 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 and works 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

With respect to (a) each contract for goods estimated to cost the equivalent of \$500,000 or more and (b) each contract for works estimated to cost the equivalent of \$3,000,000 or more, the procedures set forth in paragraphs 2 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

A. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

B. Notwithstanding the provisions of Part A of this Section II, 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 (1) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (2) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (1) the terms of reference for such contracts, (2) single-source selection of consulting firms, (3) assignments of a critical nature, as reasonably determined by the Bank, (4) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (5) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

Implementation Program

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

A. Resettlement and Land Acquisition; Environmental Action Plans

1. Each Project Province shall take and cause to be taken all measures necessary to ensure that (a) all land and rights in respect thereof, required for the carrying out of its Respective Part of the Project, shall be acquired in accordance with a time-bound action plan acceptable to the Bank, and (b) all persons displaced as a result of its Respective Part of the Project shall be resettled in accordance with a resettlement plan, acceptable to the Bank, designed to improve the living standards and productivity of such persons.

2. In order to ensure the carrying out of the Project in accordance with health, safety and environmental standards acceptable to the Bank, each Project Province shall take all measures necessary to ensure that its Respective Part of the Project shall be carried out in accordance with an environmental action plan acceptable to the Bank.

B. Parts A and C of the Project: Monitoring and Reporting

Guangxi Province and Zhejiang Province shall each:

1. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of its Respective Part of the Project, including the land acquisition plan and resettlement plan for said Project Province referred to in Part A.1 of this Schedule, and the achievement of the objectives thereof;

2. prepare, under terms of reference acceptable to the Bank, and furnish to the Bank: (a) quarterly reports on or about February 15, May 15, August 15 and November 15 in each fiscal year, integrating the results of the monitoring and evaluation activities performed pursuant to Section 1 of this Part B, on the progress achieved in the carrying out of its Respective Part of the Project during the preceding calendar quarter and setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the then current calendar quarter; (b) annual reports on or about February 15 in each calendar year, on the monitoring and evaluation activities performed pursuant to Section 1 of this Part B on the progress achieved in the carrying out of the land acquisition plan and resettlement plan for said Project Province referred to in Part A.1 of this Schedule during the preceding calendar year, together with any revisions proposed to be made thereto; and (c) a mid-term report on or about May 15, 1998, integrating the results of the monitoring and evaluation activities performed pursuant to Section 1 of this Part B, on the progress achieved to date in the carrying out of its respective Part of the Project and setting out the measures recommended to ensure the efficient carrying out of said Part of the Project and the achievement of the objectives thereof during the period following such dates; and

3. review with the Bank each report furnished to the Bank pursuant to Section 2 (b) of this Part B, and promptly take all measures required to ensure the efficient completion of its Respective Part of the Project and the achievement of the objectives thereof, including, as applicable, introduction of revisions to the land acquisition plan and resettlement plan for said Project Province referred to in Part A.1 of this Schedule, based on the conclusions and recommendations of said report and the Bank's views on the matter.

C. Part A of the Project: Dam Safety

In order to ensure the safety of the dam to be constructed under Part A(1) of the Project, Guangxi Province shall:

1. continue to employ a panel of experts, with membership, terms of reference and resources acceptable to the Bank, to be responsible for reviewing the adequacy of the design and construction of said dam and its associated structures;

2. ensure that said panel shall, on the basis of guidelines acceptable to the Bank: (a) undertake periodic reviews of said dam and its associated structures and their design, throughout the period of design and construction thereof; and (b) prepare and furnish to Guangxi Province and the Bank upon completion of each said review, a report of the results of said review, together with any proposed changes to be introduced in the design or construction of said dam;

3. promptly introduce such changes, taking into account the comments of the Bank on the matter;

4. ensure that said dam and its associated structures shall be inspected by said panel not less than annually, for the first three (3) years following completion of their construction, and not less than once every two (2) years thereafter, in accordance with sound engineering practices and under arrangements acceptable to the Bank, in order to identify any deficiencies in the condition of said dam and its associated structures, or in the quality and adequacy of their maintenance or methods of operation, which may endanger their safety and promptly to rectify any such deficiencies; and

5. to this end, prepare and furnish to the Bank appropriate arrangements for said inspection not later than January 15, 1999 and thereafter, promptly implement said arrangements, taking into account the Bank's views on the matter.

D. Parts A(3) and C(3) of the Project: Management of Inland Waterways

Guangxi Province and Zhejiang Province shall each carry out the program, included in its Respective Part of the Project, to strengthen the organization, management and finances of the agencies responsible for management of said Project Province's inland waterways as follows.

1. Each of said Project Provinces shall:

(a) employ consultants, in accordance with the provisions of Section II to Schedule 1 to this Agreement, not later than September 30, 1996 to assist said Project Province in the development of a suitable cost accounting system, financial accounting and management system and structure of tariffs for its inland waterways operations;

(b) ensure that said systems and structure shall be developed and furnished to the Bank not later than December 31, 1998;

(c) afford the Bank a reasonable opportunity to exchange views with said Project Province on said systems and structure; and

(d) thereafter, promptly introduce and apply said systems and structure, taking into consideration the Bank's views on the matter.

2. Each of said Project Provinces shall develop and carry out the training program in policy and project development and management of project construction and supervision, in accordance with a time-bound action plan acceptable to the Bank.

3. Guangxi Province shall:

(a) establish, not later than March 1, 2000, a company under the Company Law, in accordance with guidelines satisfactory to the Bank, to be responsible for all inland waterways operations in Guangxi Province and to which Guangxi Province will transfer all assets and liabilities relating to inland waterways, including those constructed under Part A of the Project;

(b) ensure that such company shall adopt not later than March 1, 2000 and thereafter at all times apply operational policies and procedures acceptable to the Bank, designed to ensure the effective and financially and managerially sound operation and management of inland waterways in Guangxi Province; and

(c) ensure that the prices at which said company sells the electric power generated by the hydropower generating facility to be constructed under Part A(2) of

the Project shall be based on the same principles as those set forth in Part B.5 (b) of the Annex to this Schedule 2.

E. Parts A(4) and C(4) of the Project: Environmental Protection

Guangxi Province and Zhejiang Province shall each carry out the training program in environmental management, included in its Respective Part of the Project, in accordance with a time-bound action plan acceptable to the Bank.

F. Part B of the Project: Hunan Province

1. HXNCDC Subsidiary Loan Agreement

(a) For the purpose of carrying out Part B of the Project, Hunan Province, represented by the Hunan Province Communications Department, shall relend its Respective Proceeds of the Loan to HXNCDC under a subsidiary loan agreement to be entered into between Hunan Province and HXNCDC, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in the Annex to this Schedule 2.

(b) Hunan Province shall:

(i) (A) cause HXNCDC to perform, in accordance with the provisions of the HXNCDC Subsidiary Loan Agreement, all of the obligations of HXNCDC therein set forth; (B) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable HXNCDC to perform such obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance; and

(ii) exercise its rights under the HXNCDC Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Bank, Hunan Province and HXNCDC and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the HXNCDC Subsidiary Loan Agreement or any provision thereof.

2. Prices; Power Sales Agreement

Without limitation on the generality of Section 1 of this Part F, Hunan Province:

(a) shall take all measures required on its part to establish a structure and levels of prices to be charged by HXNCDC which would enable HXNCDC to comply with its obligations referred to in Parts B.6 and B.9 of the Annex to this Schedule 2; and

(b) represented by the Hunan Province Electricity Bureau, shall enter into the power sales agreement referred to in Part B.5 of the Annex to this Schedule 2 with HXNCDC not later than March 1, 1998 in accordance with the provisions thereof.

ANNEX

TO

SCHEDULE 2

Principal Terms and Conditions
of the
HXNCDC Subsidiary Loan Agreement

The principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of Part F.1 of Schedule 2 to this Agreement.

A. Terms

1. The principal amount of the HXNCDC Subsidiary Loan shall be the equivalent in Dollars (determined as of the date or respective dates of withdrawal from the Loan

Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the goods and services required for Part B of the Project to be financed out of the proceeds of the Loan.

2. The HXNCDC Subsidiary Loan shall be made for a period not exceeding 20 years, inclusive of a grace period not exceeding 5 years.

3. The HXNCDC Subsidiary Loan shall be charged: (a) interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate equal to the rate applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement; and (b) a commitment charge on the principal amount thereof not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

B. Conditions

1. General

HXNCDC shall undertake to:

(a) carry out Part B of the Project with due diligence and efficiency and in accordance with appropriate (1) technical, financial and engineering practices, and (2) health, safety and environmental standards acceptable to the Bank; provide, promptly as needed, the funds, facilities and other resources required for the purpose; and maintain records and procedures adequate to record and monitor the progress of said Part B;

(b) procure the goods and services required for Part B of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods and services exclusively in the carrying out of said Part B;

(c) enable the Bank and Hunan Province to inspect such goods and the sites and works included in Part B of the Project, the operation thereof, and any relevant records and documents; and

(d) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods required for Part B of the Project and to be financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by HXNCDC to replace or repair such goods.

2. Land Acquisition and Resettlement; Environmental Action Plan

Without limiting the generality of Section 1 of this Part B, HXNCDC shall undertake to:

(a) ensure that: (i) all land, and rights in respect thereof, required for it to carry out Part B of the Project, shall be acquired in accordance with the time-bound action plan for said Part B referred to in Part A.1 of Schedule 2 to this Agreement; and (ii) all persons displaced as a result of Part B of the Project shall be resettled in accordance with the resettlement plan for said Part B referred to in Part A.1 of Schedule 2 to this Agreement; and

(b) in order to ensure the carrying out of Part B of the Project in accordance with health, safety and environmental standards acceptable to the Bank, carry out said Part of the Project in accordance with the environmental action plan for said Part B referred to in Part A.2 of Schedule 2 to this Agreement.

3. Project Monitoring and Reporting

HXNCDC shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank,

the carrying out of Part B of the Project, including the land acquisition plan and resettlement plan for said Part B referred to in Part A.1 of Schedule 2 to this Agreement, and the achievement of the objectives thereof;

(b) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank: (i) quarterly reports on or about February 15, May 15, August 15 and November 15 in each fiscal year, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section 3, on the progress achieved in the carrying out of Part B of the Project during the preceding calendar quarter and setting out the measures recommended to ensure the efficient carrying out of said Part B and the achievement of the objectives thereof during the then current calendar quarter;

(ii) annual reports on or about February 15 in each calendar year, on the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section 3, on the progress achieved in the carrying out of the land acquisition plan and resettlement plan for said Part B referred to in Part A.1 of Schedule 2 to this Agreement during the preceding calendar year, together with any revisions proposed to be made thereto; and (iii) a mid-term report on or about May 15, 1998 integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section 3, on the progress achieved to date in the carrying out of Part B of the Project and setting out the measures recommended to ensure the efficient carrying out of said Part B and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank each report furnished to the Bank pursuant to paragraph (b) of this Section 3, and promptly take all measures required to ensure the efficient completion of Part B of the Project and the achievement of the objectives thereof, including, as applicable, introduction of revisions to the land acquisition plan and resettlement plan for said Part B referred to in Part A.1 of Schedule 2 to this Agreement, based on the conclusions and recommendations of said report and the Bank's views on the matter.

4. Dam Safety

In order to ensure the safety of the dam to be constructed under Part B(1) of the Project, HXNCDC shall undertake to:

(a) continue to employ a panel of experts, with membership, terms of reference and resources acceptable to the Bank, to be responsible for reviewing the adequacy of the design and construction of said dam and its associated structures;

(b) ensure that said panel shall, on the basis of guidelines acceptable to the Bank: (i) undertake periodic reviews of said dam and associated structures and their design, throughout the period of design and construction thereof; (ii) prepare and furnish to the Bank upon completion of each said review, a report of the results of said review, together with any proposed changes to be introduced in the design or construction of said dam; and (iii) promptly introduce such changes, taking into account the comments of the Bank on the matter; and

(c) (i) ensure that said dam and associated structures shall be inspected by the panel referred to in paragraph (a) of this Section 4 not less than annually for the first three (3) years following completion of their construction, and not less than once every two (2) years thereafter, in accordance with sound engineering practices and under arrangements acceptable to the Bank, in order to identify any deficiencies in the condition of said dam and associated structures, or in the quality and adequacy of their maintenance or methods of operation, which may endanger their safety and promptly to rectify any such deficiencies; and (ii) to this end, prepare and furnish to the Bank appropriate arrangements for said inspection not later than December 31, 1999, and thereafter, promptly implement said arrangements, taking into account the Bank's views on the matter.

5. Power Sales Agreement

In order to ensure the proper operation of the hydropower generation facility to be constructed under Part B(2) of the Project, HXNCDC shall undertake to take all measures required on its part to enter into an agreement, not later than March 1, 1998

with Hunan Province, represented by the Hunan Province Electricity Bureau, whereby HXNCDC shall undertake to sell to Hunan Province and Hunan Province shall undertake to purchase from HXNCDC and distribute all electricity generated by said facility under terms and conditions which shall be acceptable to the Bank, and which shall be based on the following principles:

(a) the structure of the prices of such electricity payable by Hunan Province shall be designed to ensure an efficient supply of power from said hydropower generation facility and to minimize the financial risk to HXNCDC of reduced supplies of electricity caused by low-flow hydrological conditions;

(b) the price of such electricity shall be set initially at, and thereafter periodically adjusted to, levels designed to ensure that HXNCDC shall earn, for each of its fiscal years after its fiscal year ending on December 31, 1999, a financial internal rate of return on the operations of said hydropower generation facility, of not less than 10%; and

(c) the responsibilities for the operation of said hydropower generation facility and related dam, and for the distribution of such electricity shall be allocated between HXNCDC and Hunan Province in such manner as to maximize the benefits of said facility.

6. Management of Inland Waterways

Under Part B(3) of the Project, HXNCDC shall undertake to:

(a) (i) employ consultants, in accordance with the provisions of Section II to Schedule 1 to this Agreement, not later than September 30, 1996 to assist HXNCDC in the development of a suitable cost accounting system, financial accounting and management system and structure of tariffs for its inland waterways operations;

(ii) ensure that said systems and structure shall be developed and furnished to the Bank not later than December 31, 1998;

(iii) afford the Bank a reasonable opportunity to exchange views with HXNCDC on said systems and tariff structure; and

(iv) thereafter, take all measures required on its part to introduce and apply said system and structure, taking into consideration the Bank's views on the matter; and

(b) develop and carry out the training program in policy and project development and management of project construction and supervision, in accordance with a time-bound action plan acceptable to the Bank.

7. Environmental Protection

HXNCDC shall undertake to carry out the training program in environmental management, included in Part B(4) of the Project, in accordance with a with a time-bound action plan acceptable to the Bank.

8. Financial Reporting

HXNCDC shall undertake to:

(a) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition;

(b) have its 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 and Hunan Province;

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

(d) prepare and furnish to the Bank and Hunan Province, all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank and/or Hunan Province shall reasonably request.

9. Financial Ratios

Except as the Bank shall otherwise agree, HXNCDC shall undertake:

(a) (i) to maintain a ratio of total operating expenses to total operating revenues not higher than 85% for each of fiscal years 1996, 1997, 1998 and 1999; and not higher than 75% for each of its fiscal years thereafter;

(ii) to review before June 30 in each of its fiscal years, on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet said requirements in respect of such year and the next following fiscal year, and furnish to the Bank the results of such review upon its completion; and

(iii) if any such review shows that it would not meet said requirements for the fiscal years covered by such review, promptly to take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements; and

(b) not to incur any debt, unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least the following times its estimated debt service requirements in each such year on all of its debt, including the debt to be incurred: (i) if the debt is to be incurred during fiscal year 2000, 2001 or 2002: 1.2 times; and (ii) if the debt is to be incurred during any fiscal year thereafter, 1.5 times.

10. Definitions

For the purposes of Sections 5 and 9 of this Part B, the terms used in said Sections shall have the meanings set forth in Section 3.03(d) of this Agreement; and term "annual financial internal rate of return" means in respect of a hydropower generation facility, the rate such that the sum, over the years of the expected life of such facility, of the present value of the estimated net revenues related to power operations of said facility equals zero, as calculated on the basis of guidelines acceptable to the Bank.

11. Remedies

Hunan Province shall suspend the right of HXNCDC to the use of the proceeds of the HXNCDC Subsidiary Loan upon failure by HXNCDC to perform its obligations under the HXNCDC Subsidiary Loan Agreement.