

CONFORMED COPY

LOAN NUMBER 4350 CHA

Loan Agreement

(Hunan Power Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated June 7, 1999

LOAN NUMBER 4350 CHA

LOAN AGREEMENT

AGREEMENT, dated June 7, 1999, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Hunan Electric Power Company (HEPC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to HEPC the proceeds of the Loan as provided in this Agreement;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and HEPC;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) (the General Conditions), constitute an integral part of

this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings wherever used herein:

(a) "Affected Person" means a person who on account of the execution of Parts A and B of the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected; and "Affected Persons" means collectively all persons who qualify as an Affected Person.

(b) "Environmental Management Plan" means the Hunan Power Development Project: Environmental Assessment of the Leiyang Power Plant Phase II Extension Project dated February 1998 prepared by HEPC, PowerGen and the Nanjing Environmental Protection Research Institute and approved by the Borrower's National Environmental Protection Administration in February 1998.

(c) "HEPC" means Hunan Electric Power Company, a corporation established and existing under the laws of the Borrower and in accordance with: (i) Business License No. 18377057-6 dated August 18, 1995 issued by the Hunan Industry and Commerce Administration Bureau; and (ii) the HEPC Charter; and such term includes any successor or successors thereto.

(d) "HEPC Charter" means the charter of HEPC, dated July 28, 1993, as amended to the date of this Agreement.

(e) "Phase I RAP" means the Resettlement Action Plan, acceptable to the Bank, dated February 1998, prepared by HEPC, for the compensation, resettlement and rehabilitation of Affected Persons under Parts A, B(1) and B(2) of the Project and setting forth the policies and principles for the compensation, resettlement and rehabilitation of Affected Persons under Part B(3) of the Project, as said Plan may be supplemented or amended from time to time with the prior agreement of the Bank.

(f) "Phase II RAP" means the Resettlement Action Plan, acceptable to the Bank, to be prepared by HEPC in accordance with the policies and principles set forth in the Phase I RAP, for the compensation, resettlement and rehabilitation of Affected Persons under Part B(3) of the Project, as said Plan may be supplemented or amended from time to time with prior agreement of the Bank.

(g) "Project Agreement" means the agreement between the Bank and HEPC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(i) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and HEPC pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to three hundred million Dollars (\$300,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter and, after the initial period, each period from and including an Interest Payment Date to, but excluding, the next following Interest Payment Date.

(ii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iii) "LIBOR Total Spread" means, for each Interest Period: (A) one half percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

## Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause HEPC to perform in accordance with the provisions of the Project Agreement all the obligations of HEPC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable HEPC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to HEPC under a subsidiary loan agreement to be entered into between the Borrower and HEPC (the Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Bank. Such terms and conditions shall include the following:

(i) the principal amount of the subsidiary loan shall be repaid by HEPC in Dollars to the Borrower over a period not exceeding twenty years, including a grace period not exceeding five years;

(ii) the principal amount of the subsidiary loan repayable by HEPC shall be the equivalent in Dollars (determined as of the date, or respective dates, of repayment) of the value of the currency or currencies withdrawn from the Loan Account; and

(iii) the subsidiary loan shall be charged: (a) interest on the outstanding balance thereof at a rate equal to the rate payable by the Borrower from time to time pursuant to Section 2.05 (a) of this 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.

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

Section 3.02. 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 the Project Agreement.

Section 3.03. The Borrower and the Bank hereby agree that 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 shall be carried out by HEPC pursuant to Section 2.03 of the Project Agreement.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditures, the Borrower shall:

(i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and

(ii) the Borrower shall:

(iii) have the records and accounts referred to in paragraph (a) (i) of

this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and

(iv) 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, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) HEPC shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that HEPC will be able to perform its obligations under the Project Agreement.

(c) The HEPC Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of HEPC to perform any of its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and HEPC.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by HEPC, and is legally binding upon HEPC in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and HEPC and is legally binding upon the Borrower and HEPC in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Sanlihe  
Beijing 100820  
People's Republic of China

Cable address:

Telex:

22486 MFPRC CN

For the Bank:

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

Cable address:

Telex:

INTBAFRAD  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Zhaoxing

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Michel Severino

Authorized Representative

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
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(1)	Consultants' services	4,500,000	100%
(2)	Goods	256,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3)	Training	1,000,000	100%
(4)	Unallocated	38,300,000	
	TOTAL	300,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from that region shall be deemed to be "foreign expenditures"; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$10,000,000 may be made on account of expenditures before that date but after March 31, 1998.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$300,000 equivalent; (b) services provided by consulting firms under contracts costing less than \$100,000 equivalent each; (c) services provided by individual consultants under contracts costing less than \$50,000 equivalent each; and (d) training in each case under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower to relieve power shortages in Hunan Province through the provision of an efficient, reliable and environmentally sound power supply.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A: Leiyang Power Plant

Supply and installation of two 300 megawatt (MW) anthracite-fired generating units at the Leiyang Power Plant near Leiyang city, Hunan Province.

Part B: Power Transmission

Reinforcement of the existing 220 kilovolt (kV) transmission system in Hunan Province, including:

(1) supply and installation of approximately 42 kilometers (km) of 220 kV transmission lines and three 220 kV substations (Dongfenghu, Hengbei and Wangcheng) providing 480 megavolt amperes (MVA) transformer capacity in the aggregate;

(2) supply and installation of approximately 5.6 km of 220 kV of underground transmission cables and a substation at Furong (3 x 180 MVA); and

(3) supply and installation of approximately 746 km of 220 kV transmission lines and five substations (Jiahe, Chenbei, Yongzhou, Hanshou and Qiyang), and extension of two substations (Lounan and Xinhua), providing 900 MVA transformer capacity in the aggregate.

Part C: Resettlement

Resettlement and rehabilitation of Affected Persons.

Part D: Construction Management and Reorganization

(1) Strengthening the construction managerial capacity of HEPC through the provision of consultants' services in connection with setting up of a construction management system, coordination of construction interfaces, cost control and project financial accounting and setting up and implementing quality control and quality assurance systems.

(2) Implementation of HEPC's reorganization into separate operating companies, through the provision of consultants' services in connection with the preparation of charters, incorporation documents and financial statements, development of operational and financial modeling of the Hunan power system to establish baseline capacity and energy tariffs, and preparation of model power purchase, maintenance, dispatch and related agreements.

(3) Improving HEPC's financial management through the provision of consultants' services in connection with the redefinition of internal organizational structures; upgrading of accounting and financial management practices and systems; and development of modern, computerized financial management information systems.

Part E: Institutional Development and Training

Strengthening the managerial capacity of HEPC through training of selected HEPC staff in management, finance, law, power sector regulation, human resources and related subject areas.

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The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
March 15, 2004	6,540,000
March 15, 2005	6,930,000
March 15, 2006	7,345,000
March 15, 2007	7,790,000
March 15, 2008	8,255,000
March 15, 2009	8,750,000
March 15, 2010	9,275,000
March 15, 2011	9,830,000
March 15, 2012	10,420,000
March 15, 2013	11,045,000
March 15, 2014	11,710,000
March 15, 2015	12,410,000
March 15, 2016	13,155,000
March 15, 2017	13,945,000



\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$20,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$12,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$120,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

