

CONFORMED COPY

LOAN NUMBER 4200 CHA

Project Agreement

(Xiaolangdi Multipurpose Project: Stage II)

between

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

and

YELLOW RIVER WATER AND HYDROPOWER
DEVELOPMENT CORPORATION

Dated September 11, 1997

LOAN NUMBER 4200 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 11, 1997 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and YELLOW RIVER WATER AND HYDROPOWER DEVELOPMENT CORPORATION (YRWHDC).

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 a loan in two currency tranches, one in dollars in an amount equal to two hundred thirty million dollars (\$230,000,000), the other in Deutsche Mark in an amount equal to three hundred forty-six million five hundred thousand Deutsche Mark (DEM 346,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that YRWHDC 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 YRWHDC, part of the proceeds of the loan provided for under the Loan Agreement will be relented to YRWHDC on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS, YRWHDC, 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.

ARTICLE II

Execution of the Project

Section 2.01. (a) YRWHDC 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 Parts A through C of the Project with due diligence and efficiency and in conformity with appropriate financial, economic, engineering and public utility practices and sound 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 provisions of paragraph (a) of this Section and except as the Bank and YRWHDC shall otherwise agree, YRWHDC shall carry out the actions set forth in the Implementation Program set forth in Schedule 2 to this Agreement in order to ensure the proper carrying out of Parts A through C of the Project and the achievement of the Project's objectives.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A through C of 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) YRWHDC 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 and Parts A through C of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, YRWHDC shall: (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Borrower for consolidation and forwarding to the Bank pursuant to Section 3.03 of the Loan Agreement, a plan for the future operation of Parts A through C of the Project; and (ii) afford the Bank a reasonable opportunity to exchange views with YRWHDC on said plan.

Section 2.04. YRWHDC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, YRWHDC 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) YRWHDC shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Parts A through C 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) YRWHDC shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts A through C of the Project, the accomplishment of the purposes of the Loan, or the performance by YRWHDC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of YRWHDC

Section 3.01. YRWHDC shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices and sound health, safety and environmental standards, under the supervision of qualified and experienced management assisted by competent staff in adequate

numbers.

Section 3.02. YRWHDC shall: (a) 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 public utility practices and sound health, safety and environmental standards; and (b) except as the Bank shall otherwise agree, not dispose of any of its assets necessary for the implementation of the Project or operation of the Xiaolangdi Dam.

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

(b) YRWHDC shall:

(i) have its records, accounts and financial statements (balance sheets, 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 detail as the Bank shall have reasonably requested; in such 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, YRWHDC shall produce (i) for each of its Fiscal Years 2002, 2003, 2004, 2005, 2006 and 2007, funds from internal sources equivalent to not less than 1.2 times the estimated debt service requirements of YRWHDC in such Fiscal Year on all debt of YRWHDC, and (ii) for each of its Fiscal Years thereafter, funds from internal sources equivalent to not less than 1.6 times the estimated debt service requirements of YRWHDC in such Fiscal Year on all debt of YRWHDC.

(b) Before June 30 in each of its Fiscal Years, YRWHDC shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) above 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. If any such review shows that YRWHDC would not meet the requirements set forth in paragraph (a) above for the Fiscal Years covered by such review, YRWHDC shall promptly take all necessary measures (including, without limitation, adjustments to the structure or levels of its tariffs) in order to meet such requirements.

(c) 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, deposits and consumer contributions in aid of consumer

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, 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 12 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 12 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 "debt" means any indebtedness of YRWHDC maturing by its terms more than one year after the date on which it is originally incurred.

(viii) 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.

(ix) 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, YRWHDC shall earn:

(i) for each of its Fiscal Years 2004, 2005, 2006 and 2007, an annual return of not less than 2% of the average current net value of its fixed assets in operation; and

(ii) for each of its Fiscal Years thereafter, an annual return of not less than 5% of the average current net value of its fixed assets in operation.

(b) Before June 30 in each of its Fiscal Years, YRWHDC shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion. If any such review shows that YRWHDC would not meet the requirements set forth in paragraph (a) of this Section for its Fiscal Years covered by such review, YRWHDC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

(c) For the purposes of this Section:

(i) The annual return shall be calculated by dividing YRWHDC's net income for the Fiscal Year in question by one half of the sum of the current net value of YRWHDC's fixed assets in operation at the beginning and at the end of that Fiscal Year.

(ii) The term "net operating income" means total operation revenues less total operating expenses.

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

(iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 2% per annum of the average current gross value of YRWHDC's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(v) The average current gross value of YRWHDC's fixed assets in operation shall be calculated as 1/2 of the sum of the gross value of its fixed assets in operation at the beginning and at the end of the Fiscal Year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(vi) The term "current net value of YRWHDC's fixed assets in operation" means the gross value of YRWHDC's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 4.04. (a) Except as the Bank shall otherwise agree, YRWHDC shall earn:

(i) for each of its Fiscal Years 2001 and 2002, an annual return of not less than 5% of the average current net value of its fixed assets in operation attributable to power operations; and

(ii) for each of its Fiscal Years thereafter, an annual return of not less than 10% of the average current net value of its fixed assets in operation attributable to power operations.

(b) Before June 30 in each of its Fiscal Years, YRWHDC shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion. If any such review shows that YRWHDC would not meet the requirements set forth in paragraph (a) of this Section for its Fiscal Years covered by such review, YRWHDC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet

such requirements.

(c) For the purposes of this Section:

(i) The annual return shall be calculated by dividing YRWHDC's net income for the Fiscal Year in question by one half of the sum of the current net value of YRWHDC's fixed assets in operation attributable to power operations at the beginning and at the end of that Fiscal Year.

(ii) The term "net operating income" means total operation revenues less total operating expenses.

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

(iv) The term "total operating expenses" means all expenses related to power operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 2% per annum of the average current gross value of YRWHDC's fixed assets in operation attributable to power operations, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(v) The average current gross value of YRWHDC's fixed assets in operation attributable to power operations shall be calculated as 1/2 of the sum of the gross value of its fixed assets in operation attributable to power operations at the beginning and at the end of the Fiscal Year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(vi) The term "current net value of YRWHDC's fixed assets in operation" means the gross value of YRWHDC's fixed assets in operation attributable to power operations less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 4.05. (a) Except as the Bank shall otherwise agree, YRWHDC shall maintain, during its Fiscal Year 2001, and during each of its Fiscal Years thereafter, a ratio of current assets to current liabilities of not less than 1.0.

(b) Before June 30 in each of its Fiscal Years, YRWHDC shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the following Fiscal Year and shall furnish to the Bank the results of such review upon its completion. If any such review shows that YRWHDC would not meet the requirements set forth in paragraph (a) of this Section for its Fiscal Years covered by such review, YRWHDC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(c) For the purposes of this Section:

(i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within 12 months, including accounts receivable, marketable securities, inventories, and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(ii) The term "current liabilities" means all liabilities which will become due and payable or could, under circumstances then existing, be called for payment within 12 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(iii) 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.

(iv) 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 4.06. (a) YRWHDC shall maintain a deposit account with a bank acceptable to the Bank and on terms and conditions acceptable to the Bank (including appropriate protection against set off, seizure and attachment) into which it shall deposit out of its net cash earnings from operations such amounts as will enable it to maintain a balance in said account at all times, except during periods of Low Hydrology, of at least 15% of its Annual Cash Requirements. YRWHDC shall use said amounts exclusively to cover its Annual Cash Requirements during periods of Low Hydrology.

(b) For purposes of this Section:

(i) The term "Annual Cash Requirements" means for any Fiscal Year, a reasonable forecast of YRWHDC's cash requirements for operations and debt service for said year, determined on the basis of guidelines acceptable to the Bank; and

(ii) The term "period of Low Hydrology" means any period during which the water flows of the Yellow River into the Xiaolangdi Dam are lower than the water flows into said dam during the type of drought that is expected to occur not more than once every twenty years.

Section 4.07. (a) In furtherance of its policy to recover the recurrent costs of operation and maintenance of the Xiaolangdi Dam and the capital costs thereof from the users of the water supplied from said dam, taking into account the need to provide incentives to encourage the efficient use of water and to relate the charges on the users thereof to their ability to pay and income levels, YRWHDC shall, immediately upon commissioning of the Xiaolangdi Dam, charge and collect from all said users, water tariffs sufficient to recover:

(i) the costs of operation and maintenance of said dam in full as they are incurred; and

(ii) the capital costs of said dam in full not later than December 31, 2014. To this end, YRWHDC shall prepare and not later than December 31, 1999, furnish to the Bank for its review, the proposed schedule of such water tariffs to be charged and collected, together with any explanatory information pertaining thereto that the Bank may reasonably request, and thereafter implement said schedule, taking into account the comments of the Bank on the matter.

(b) YRWHDC shall review and adjust said water tariffs in consultation with the Bank, at intervals not exceeding three years each, so as to continue to give effect to the provisions of paragraph (a) above.

Section 4.08. YRWHDC shall carry out a program acceptable to the Bank designed to achieve by the twelfth calendar year of operation of the Xiaolangdi Dam a rate of collection of water tariffs charged by YRWHDC of not less than 85%.

Section 4.09. The provisions of Sections 4.02, 4.03 and 4.04 of the Xiaolangdi I Project Agreement are amended to read as set forth, respectively, in Sections 4.02, 4.06, 4.07 and 4.08 of this Agreement.

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 YRWHDC thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify YRWHDC 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 (MCI) or
64145 (MCI)

For YRWHDC:

Yellow River Water and Hydropower
Development Corporation
11 Jinshui Road
45003 Zhengzhou
Henan, People's Republic of China

Telex:

460127 YRWHDC

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 YRWHDC may be taken or executed by its General Manager or such other person or persons as said General Manager shall designate in writing, and YRWHDC 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/ Yukon Huang

Acting Regional Vice President
East Asia and Pacific

YELLOW RIVER WATER AND
HYDROPOWER DEVELOPMENT CORPORATION

By /s/ Zhou Wenzhong

Authorized Representative

SCHEDULE 1

Procurement

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 and revised in January and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

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) Grouping of contracts

To the extent practicable, contracts for (i) goods shall be grouped in bid packages estimated to cost \$400,000 equivalent or more each and (ii) works shall be grouped in bid packages estimated to cost \$5,000,000 equivalent or more each.

(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.

(d) Notification and Advertising

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

Part C: Other Procurement Procedures

1. Limited International Bidding

Mechanical gate bearings which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$4,400,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

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 works estimated to cost the equivalent of \$5,000,000, or more, and (b) each contract for goods estimated to cost the equivalent of \$400,000 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

Part A: General

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Part A of the Project for claims management shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services under Part A of the Project for construction supervision may, with the

Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

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

2. Post Review

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

SCHEDULE 2

Implementation Program

A. Project Management

In order to ensure the proper implementation of the Project, YRWHDC shall maintain at all times throughout the period of Project implementation, the following offices with terms of reference, staffing and resources acceptable to the Bank:

1. a Project management office to be responsible for the supervision of Parts A through C of the Project, including procurement of goods and services and monitoring and evaluation of the progress of said Parts of the Project; and
2. one environmental management office at the Xiaolangdi Dam site, to be responsible for coordination and supervision of the environmental management plan included in Part C of the Project, as it relates to the impact of dam construction, and a separate environmental management office, to be responsible for coordination and supervision of said plan as it relates to resettlement implementation.

B. Annual Implementation Plan

1. YRWHDC shall prepare, under guidelines acceptable to the Bank, and furnish to the Bank not later than September 15 of each Fiscal Year, an annual action plan for the implementation of Parts A through C of the Project, together with a financing plan therefor, afford the Bank a reasonable opportunity to exchange views with YRWHDC on each said plan, and thereafter implement said plan with due diligence and efficiency, taking into account the views of the Bank on the matter.

2. Without limitation upon the foregoing, YRWHDC shall carry out the training and technical assistance under Part B of the Project in accordance with a program acceptable to the Bank. To this end, YRWHDC shall include in each action plan referred to in Section 1 of this Part B, a proposed action plan for the implementation of said training and technical assistance during the following Fiscal Year.

C. Dam Safety

In order to ensure the proper design and construction of the Xiaolangdi Dam, YRWHDC shall continue to employ throughout the period of Project implementation, a panel of independent experts whose qualifications, experience and terms of reference shall be acceptable to the Bank, to be responsible for undertaking reviews, at least once every year, or more often, if so required, of (1) the designs and technical specifications of goods and works required for said dam and (2) the construction undertaken in respect of said dam, and for advising on technical issues that may arise during its construction. YRWHDC shall prepare, under guidelines acceptable to the Bank, and furnish to the Bank, promptly upon the completion of each said review, a report setting forth the findings and recommendations of said panel, together with any revisions to the designs, technical specifications or construction indicated by said findings. YRWHDC shall afford the Bank a reasonable opportunity to exchange views with YRWHDC on each such report, and shall thereafter implement the recommendations and introduce the revisions set forth in said report, taking into account the views of the Bank on the matter.

D. Resettlement

1. YRWHDC shall take all measures required on its part to ensure that all persons displaced as a result of the Project shall be resettled in a manner designed to improve the living standards and productivity of all such persons.

2. To give effect to the provisions of Part D.1 of this Schedule:

(a) YRWHDC shall take all measures necessary to ensure that the Resettlement Action Plan shall be implemented in accordance with guidelines acceptable to the Bank; and

(b) without limitation upon the foregoing:

(i) YRWHDC shall ensure that the construction of the Xiaolangdi Dam is undertaken at a pace consistent with the pace of resettlement under the Resettlement Action Plan, and to this end, if said construction is four months or more ahead of its schedule as anticipated in the Resettlement Action Plan, YRWHDC shall make such adjustments to the schedule of implementation of said construction, consistent with the adjustments made by the Borrower in the schedule of resettlement pursuant to Part D.2(b) of Schedule 4 to the Loan Agreement, as shall be necessary to ensure the consistency of the pace of such construction with the pace of such resettlement;

(ii) YRWHDC shall ensure that the coffer dam constructed under Part A of the Project shall not be closed until the resettlement of persons displaced by said closure is completed in accordance with the Resettlement Action Plan; and

(iii) YRWHDC shall ensure that the water level of the Xiaolangdi Dam at no time rises above 265 meters unless and until the final resettlement arrangements for persons to be resettled during the last stage of resettlement under the Resettlement Action Plan shall have been furnished to, and approved by, the Bank.

E. Environmental Management

In order to ensure the proper implementation of the environmental management plan under Part C of the Project, YRWHDC shall continue to employ a panel of experts, with qualification, experience and terms of reference acceptable to the Bank, to be responsible for monitoring and evaluating the implementation of said plan, and the overall impact of implementation of the Project on the environment.

F. Monitoring and Evaluation

1. YRWHDC shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the implementation of Parts A through C of the Project and the achievement of the Project's objectives. YRWHDC shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank: (a) semi-annual reports, not later than January 31 and July 31 of each Fiscal Year, summarizing said monitoring and evaluation activities performed during the preceding calendar semester and setting forth the measures indicated by said monitoring and evaluation activities to ensure the continued efficient implementation of said Parts A through C and the achievement of its objectives during the then current calendar semester; and (b) a mid-term report, not later than July 31, 1999, summarizing said monitoring and evaluation activities performed from the inception of the Project, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Project.

2. YRWHDC shall exchange views with the Bank on each said report, and shall thereafter, promptly take such measures in relation thereto as shall have been agreed between the Bank and YRWHDC.

G. Power Sales Contract

1. In order to ensure the proper operation of the hydropower generation facility to be constructed under Part A(3) of the Project, YRWHDC shall take all measures required on its part to enter into a power sales contract, not later than June 30, 1999, with the entity responsible for electric power transmission in Henan, whereby YRWHDC shall undertake to sell to said entity, and said entity shall undertake to purchase from YRWHDC and distribute, all electricity generated by said facility under terms and conditions which shall be acceptable to the Bank, and which shall ensure that the structure and levels of the tariffs for such electricity payable by said entity shall be designed: (a) to ensure an efficient supply of power from said hydropower generation facility; (b) to minimize the financial risk to YRWHDC of reduced supplies of electricity caused by low-flow hydrological conditions; and (c) to enable YRWHDC to comply with its financial obligations set forth in Sections 4.02 through 4.05 of this Agreement.

2. The provisions of Section 3.04 of the Xiaolangdi I Project Agreement are hereby amended to read as set forth in Part G.1 of this Schedule.

