Project Agreement

(Additional Financing for the Yunnan Urban Environment Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

YUNNAN PROVINCE

Dated August 23, 2010
PROJECT AGREEMENT

AGREEMENT dated August 23, 2010 entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and YUNNAN PROVINCE (“Yunnan” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of the same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and Yunnan hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined and modified in Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II – PROJECT

2.01. Yunnan declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall: (a) carry out, and cause Zhaoyang District of Zhaotong Municipality and ZMWSWC or ZUCIDC to carry out, the Project in accordance with the provisions of Article V of the General Conditions; and (b) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Yunnan shall otherwise agree, Yunnan shall carry out, and shall cause to be carried out, the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

3.01. Yunnan’s Representative is its Governor or a Vice-Governor or such other person or persons as said Governor or a Vice-Governor shall designate in writing, and Yunnan shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.
3.02. The Bank’s Address is:

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

Cable: INTBAFRAD  
Telex: 248423(MCI) or 1-202-477-6391  
Facsimile: 64145(MCI)

3.03. Yunnan’s Address is:

Foreign Financed Project Management Office  
Yunnan Provincial Environmental Protection Department  
27 Xi Yuan Nan Lu  
Kunming 650034  
Yunnan Province  
People’s Republic of China

Facsimile: 86-871-4158238

AGREED at Beijing, People’s Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Klaus Rohland  
Authorized Representative

YUNNAN PROVINCE

By /s/ Luo Zhengfu  
Authorized Representative
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Project Management

1. Yunnan shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:

(a) The Provincial Leading Committee chaired by a Vice Governor of Yunnan Province, responsible for liaising with central government agencies concerning the Project, supervising YPMO, and providing overall policy guidance.

(b) The Yunnan Project Management Office (“YPMO”) established within the jurisdiction of the Environment Protection Department of Yunnan Province, responsible for overall Project implementation coordination, and interagency coordination.

(c) The Leading Technical Group established at the provincial level, responsible for supervision of engineering aspects of the Project; specifically, engineering aspects in the preliminary design, detailed design, bid preparation and contract implementation.

(d) The District Project Management Office (“DPMO”) established under Zhaoyang District Government, responsible for implementing the Project and ensuring implementation by ZUCIDC and ZMWSWC of their respective parts of the Project.

B. Anti-Corruption

Yunnan shall carry out, and cause the Project Participants and Project Companies to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

C. Resettlement, Environment Protection, and Dam Safety

1. Yunnan shall:

(a) take, and shall cause the Project Participants and Project Companies to take, all necessary actions to minimize, to the extent possible, any
involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, in carrying out the Project and activities described in subparagraph (b)(ii) below; and

(b) for this purpose:

(i) prior to the commencement of any works under the Project, implement, and cause the relevant Zhaoyang District of Zhaotong Municipality and ZUCIDC and ZMWSWC to implement, the applicable RAP in a manner satisfactory to the Bank; and

(ii) whenever modification of Project design or works or finalization of any water supply network alignment would give rise to Displaced Persons, provide, and cause Zhaoyang District of Zhaotong Municipality and ZUCIDC and ZMWSWC before commencing any works related thereto, to provide to the Bank for its review, a resettlement action plan prepared in accordance with the principles and procedures set forth in the Resettlement Policy Framework and, thereafter, implement in a manner satisfactory to the Bank such resettlement action plan as shall have been accepted by the Bank.

2. Yunnan in carrying out the Project shall implement, and shall cause Zhaoyang District of Zhaotong Municipality and ZUCIDC and ZMWSWC to implement, the applicable EMP in a manner satisfactory to the Bank, ensure that the Project is implemented in accordance with sound environmental practices and standards, where applicable.

3. Yunnan shall cause Zhaoyang District of Zhaotong Municipality to:

(a) furnish to the Bank by December 31, 2010, a report of review of the safety of the associated dam at the Yudong Reservoir, satisfactory to the Bank;

(b) furnish to the Bank by December 31, 2010, the conclusions of final acceptance of remedial construction at the associated dams at the Jiaojiazha, Qingmen, Yangjiufen, Fangyangchong, Shenggengtang, and Toudaong reservoirs, satisfactory to the Bank;

(c) furnish to the Bank by June 30, 2011, a long-term operation, maintenance and emergency preparedness plan (including the proposed budget and source of financing) for the Project Dams located within its
jurisdiction and thereafter, promptly implement said plan taking into account the views of the Bank thereon; and

(d) complete by June 30, 2013, all remedial, construction and inspection works at the associated dam at the Beizha reservoir in accordance with the provisions of the report of review of the safety of such reservoir’s dam dated February 22, 2009.

4. Yunnan shall, and shall cause Zhaoyang District of Zhaotong Municipality and ZUCIDC and ZMWSWC to:

(a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the EMPs, the RAPs, the Resettlement Policy Framework and remedial/construction works at the associated dam at the Beizha reservoir and the achievement of the objectives of said plans and framework, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank; and

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by March 15 and September 15 of each year, commencing on September 15, 2011, semi-annual reports of the results of the monitoring and evaluation activities with respect to the EMPs, RAPs, Resettlement Policy Framework and dam remedial/construction works referred to in sub-paragraph (a) above, together with any revisions proposed to be introduced into said plans and framework in order to achieve their respective objectives.

5. Yunnan shall provide, and shall cause the Zhaoyang District of Zhaotong Municipality and ZUCIDC and ZMWSWC to provide, to the Bank for its prior concurrence any proposed modification or waiver of any EMP or RAP or the Resettlement Policy Framework, and put into effect only such modification or waiver as shall have been agreed by the Bank.

D. Financial Arrangements

1. Yunnan shall allocate to Zhaoyang District of Zhaotong Municipality an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:

(a) Yunnan shall make available the principal amount, which has been allocated to Zhaoyang District of Zhaotong Municipality, in Dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of the
Project (in whole or part) to be implemented within the jurisdiction of the Project Participant.

(b) Yunnan shall recover such principal amount so made available (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of twenty-five (25) years, inclusive of a grace period of eight (8) years.

(c) Yunnan shall charge interest on such principal amount, withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

E. Subsidiary Agreements

1. Yunnan shall cause:

(a) Zhaoyang District of Zhaotong Municipality to relend a portion of the proceeds of the Loan, which was allocated to it pursuant to Section I, Part D, paragraph 1 of this Schedule, to ZMWSWC for purposes of carrying out ZMWSWC’s respective part of the Project, under a subsidiary agreement to be entered into between Zhaoyang District of Zhaotong Municipality and ZMWSWC: (i) on the principal terms set forth in paragraphs 1 through 3 of Annex A to this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 11 of Annex A to this Schedule (“Subsidiary Loan Agreement”).

(b) Zhaoyang District of Zhaotong Municipality to make available a portion of the proceeds of the Loan, which was allocated to it pursuant to Section I, Section D, paragraph 1 of this Schedule, to ZUCIDC for purposes of carrying out said ZUCIDC’s respective part of the Project, under a subsidiary agreement to be entered into between Zhaoyang District of Zhaotong Municipality and its ZUCIDC under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 8 and paragraph 11 of the Annex A to this Schedule (“Subsidiary Agency Agreement”).

2. Yunnan shall ensure that Zhaoyang District of Zhaotong Municipality:

(a) Causes each of ZUCIDC and ZMWSWC: (i) to perform, in accordance with the provisions of the Subsidiary Agreement to which either ZUCIDC or ZMWSWC is a party, all of the obligations of ZUCIDC or ZMWSWC therein set forth; (ii) to take, or cause to be taken, all action,
including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said ZUCIDC or ZMWSWC to perform such obligations; and (iii) not to take and not permit to be taken any action which would prevent or interfere with such performance.

(b) Exercises its rights under each Subsidiary Agreement to which said Zhaoyang District of Zhaotong Municipality is a party in such manner as to protect the interests of the Borrower, the Bank, Yunnan and Zhaoyang District of Zhaotong Municipality, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Agreement to which Zhaoyang District of Zhaotong Municipality is a party or any provision thereof.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

Yunnan shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank by March 15 and September 15 each year, starting September 15, 2011.

B. Financial Management, Financial Reports and Audits

1. Yunnan shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.

2. Yunnan shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of Yunnan. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.
ANNEX A

to

SCHEDULE

Principal Terms and Conditions of the
Subsidiary Agreements

For the purposes of Section I, Part E, paragraph 1 of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds under a Subsidiary Loan Agreement shall be those set forth in paragraphs 1 through 3 of this Annex A; and (b) the Subsidiary Loan Agreements with ZMWSWC shall be entered into on the conditions set forth in paragraphs 4 through 11 of this Annex and the Subsidiary Agency Agreements with ZUCIDC shall be entered into on the conditions set forth in paragraphs 4 through 8 and paragraph 11 of this Annex A.

Terms of Availability

1. The principal amount of each subsidiary loan made by Zhaoyang District of Zhaotong Municipality to ZMWSWC shall be the amount equivalent in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of ZMWSWC’s respective part of the Project.

2. ZMWSWC shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of not more than twenty-five (25) years, inclusive of a grace period of eight (8) years.

3. ZMWSWC shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

Conditions

The Subsidiary Agreements shall include the following principal conditions:

4. ZMWSWC and ZUCIDC shall undertake to: (a) carry out their respective parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental and standards acceptable to the Bank (including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower) and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (b) without limitation on the foregoing, take all measures necessary to ensure that
their respective parts of the Project shall be implemented in accordance with the relevant EMP and RAP, and the Resettlement Policy Framework.

5. ZMWSWC and ZUCIDC shall undertake to procure the goods, works and consultants’ services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants’ services exclusively in the carrying out of its Respective Part of the Project.

6. ZMWSWC and ZUCIDC shall undertake to: (a) ensure that all facilities relevant to their respective parts of the Project shall at all times be properly operated and maintained and that all necessary repairs and renewals of such facilities shall be made promptly as needed; and (b) enable the Bank, Yunnan and Zhaoyang District of Zhaotong Municipality to inspect such goods and the sites and works included in their respective parts of the Project, the operation thereof, and any relevant records and documents.

7. ZMWSWC and ZUCIDC shall undertake to 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 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 to replace or repair such goods.

8. ZMWSWC and ZUCIDC shall undertake:

(a) In the case of:

   (i) ZMWSWC, to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition; and

   (ii) ZUCIDC, to maintain records and accounts adequate to reflect the operations, resources and expenditures related to its Respective Part of the Project.

(b) In the case of:

   (i) ZMWSWC, to 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
(ii) ZUCIDC, to have the records and accounts referred to in subparagraph (a)(ii) above audited in accordance with appropriate auditing principles consistently applied and by independent auditors, both acceptable to the Bank.

(c) To furnish to the Bank, Yunnan and Zhaoyang District of Zhaotong Municipality, as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year: (i) certified copies of said financial statements or records and accounts, as the case may be, for such year as so audited; and (ii) an opinion on such statements by said auditors in such scope and detail as the Bank, Project Implementing Entity or Zhaoyang District of Zhaotong Municipality shall have reasonably requested.

(d) To prepare and furnish to the Bank, Project Implementing Entity and Zhaoyang District of Zhaotong Municipality concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Project Implementing Entity or Zhaoyang District of Zhaotong Municipality concerned shall reasonably request.

(e) (i) To maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Annex B of the Schedule to this Agreement the carrying out of their respective parts of the Project and the achievement of the objectives thereof; and

(ii) to prepare, under terms of reference satisfactory to the Bank, and furnish to Project Implementing Entity for its review, consolidation in the Project Reports and submission to the Bank, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of their respective parts of the Project during the period preceding the date of each such report.

9. (a) Except as the Bank shall otherwise agree, ZMWSWC shall undertake to produce for each of its fiscal years beginning in Fiscal Year 2016, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciations.

(b) Before October 31 in each of its fiscal years, ZMWSWC shall, on the basis of forecasts prepared by ZMWSWC and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph
(a) of this paragraph in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that ZMWSWC would not meet the requirements set forth in sub-paragraph (a) of this paragraph for ZMWSWC’s fiscal years covered by such review, the Project Company shall promptly take all necessary measures in order to meet such requirements.

(d) For purposes of this paragraph, the following terms have the following meanings:

(i) The term “total revenues” means the sum of total operating revenues and net non-operating income.

(ii) The term “total operating revenues” means revenues from all sources related to operations.

(iii) The term “net non-operating income” means the difference between:

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

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

(iv) The term “total operating expenses” means all expenses related to ZMWSWC’s wastewater 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 3.3% per annum of the average current gross value of ZMWSWC’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 ZMWSWC’s fixed assets in operation shall be calculated as one half of the sum of the gross value of ZMWSWC’s fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
(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.

10. Whenever for the purposes of paragraph 9 of this Annex 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.

11. Zhaoyang District of Zhaotong Municipality shall have the right to suspend or terminate the right of ZMWSWC or ZUCIDC to the use of the proceeds of the loan made available under the Subsidiary Agreement with ZMWSWC or ZUCIDC upon failure by ZMWSWC or ZUCIDC to perform its obligations under such agreement.
## ANNEX B
to
SCHEDULE

**Indicators**

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<td>Number of population served by water supply system</td>
<td>270,050</td>
<td>272,700</td>
<td>275,400</td>
<td>278,200</td>
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<td>303,600</td>
<td>324,900</td>
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<tr>
<td>Number of population served by wastewater services</td>
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<td>194,000</td>
<td>197,800</td>
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<td>209,900</td>
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<td>NA¹</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>≤40</td>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>≤40</td>
<td>≤40</td>
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¹ Not Applicable.