Project Agreement

(Kunming Urban Rail Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

YUNNAN PROVINCE

Dated July 28, 2011
PROJECT AGREEMENT

AGREEMENT dated July 28, 2011, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and YUNNAN PROVINCE (“Project Implementing Entity” or “Yunnan”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and the Project Implementing Entity (Yunnan) hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

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

ARTICLE II — PROJECT

2.01. The Project Implementing Entity (Yunnan) declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity (Yunnan) shall:

(a) carry out, and shall cause Kunming to carry out through KRTC, 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 shall otherwise agree, the Project Implementing Entity (Yunnan) shall cause Kunming to carry out through KRTC, the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity’s (Yunnan’s) Representative is its Governor or Vice-Governor or such other person or persons as said Governor or Vice-Governor shall designate in writing, and the Project Implementing Entity (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 248423(MCI) or 1-202-477-6391
Facsimile: 64145(MCI)

3.03. The Project Implementing Entity’s (Yunnan’s) Address is:

Wuhuashan
Kunming
Yunnan
People’s Republic of China

Facsimile:

0086-871-3631025

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. Onlending and Implementation Arrangements

1. The Project Implementing Entity (Yunnan) shall make available to Kunming, and through Kunming to KRTC, part of the proceeds of the Loan under a Subsidiary Agreement satisfactory to the Bank, which shall include, without limitation, the principal terms and conditions set forth in Annex A to this Schedule.

2. The Project Implementing Entity (Yunnan) shall maintain, and cause to be maintained, throughout the period of implementation of the Project, for purposes of carrying out the Project, the following organizations, with functions, terms of reference, staffing and other resources acceptable to the Bank:

   (a) a Project Leading Group at Kunming, to meet, at least, twice a year to provide overall policy guidance; and

   (b) a Project Management Office, in KRTC, to coordinate and manage the liaison with the Bank.

3. The Project Implementing Entity (Yunnan) shall:

   (a) prepare, in accordance with the terms of reference satisfactory to the Bank, and furnish to the Bank by February 15 in each calendar year, beginning on February 15, 2011, a proposed annual work plan for the carrying out the Project during the same calendar year; said work plan to include, *inter alia*, the scope and schedule of activities under the Project, the financing plan and detailed budget arrangements, including required counterpart funds;

   (b) thereafter, carry out or caused to be carried out the Project in accordance with such annual work plan as shall have been approved by the Bank; and

   (c) not amend, suspend, abrogate or waive any annual work plan or any part thereof without the prior approval of the Bank.

4. The Project Implementing Entity (Yunnan) shall, from time to time, engage consultants in adequate numbers, with expertise, terms of reference, qualification and experience, acceptable to the Bank, as required for supervision of civil works implemented under the Project.
5. The Project Implementing Entity (Yunnan) shall:

(a) carry out the Project in accordance with designs, alignment, technical specifications and standards satisfactory to the Bank; and

(b) upon the completion of the Project, maintain and operate Line 3 in a technically, financially and administratively viable manner, in accordance with arrangements and procedures satisfactory to the Bank.

B. Anti-Corruption

The Project Implementing Entity (Yunnan) shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards: Resettlement, Environment Protection

1. The Project Implementing Entity (Yunnan) shall cause Kunming and KRTC to:

(a) 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, 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 activity would give rise to Displaced Persons, provide, 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 agreed with the Bank and, thereafter, implement in a manner satisfactory to the Bank such resettlement action plan as shall have been accepted by the Bank.

2. The Project Implementing Entity (Yunnan) shall cause Kunming and KRTC, in carrying out the Project to implement the applicable EMP in a manner satisfactory to the Bank, and shall ensure that the Project is implemented in accordance with sound environmental practices and standards.
3. The Project Implementing Entity (Yunnan) shall in carrying out the Project, cause Kunming or KRTC to 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, and the achievement of the objectives of said plans, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank.

4. The Project Implementing Entity (Yunnan), in carrying out the Project, shall provide, and shall cause Kunming and KRTC to provide, to the Bank for its prior concurrence any proposed modification or waiver of any EMP or RAP, and put into effect only such modification or waiver as shall have been agreed by the Bank.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity (Yunnan) shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of indicators set forth in Annex B to this Schedule. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than March 15 and September 15 in each year, commencing on March 15, 2012.

B. Financial Management, Financial Reports and Audits

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

2. Without limitation on the provisions of Part A.1 of this Section, the Project Implementing Entity (Yunnan) shall prepare and furnish to the Bank as part of the Project Report, interim un-audited financial reports for the Project covering the calendar semester period of each Project Report, in form and substance satisfactory to the Bank.

3. The Project Implementing Entity (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 the Project Implementing Entity (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 and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.
ANNEX A

to

SCHEDULE

Principal Terms and Conditions of the Subsidiary Agreement

For the purposes of Section I, Part A, paragraph 1 of the Schedule to this Agreement, the terms of availability of the Loan proceeds under the Subsidiary Agreement and its conditions shall be those set forth below:

Terms of Availability

1. The principal amount of the subsidiary loan made by the Project Implementing Entity (Yunnan) through Kunming to KRTC 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 KRTC of the Project.

2. KRTC shall repay such principal amount (including an amount equal to the fee paid pursuant to Section 2.03 of the Loan Agreement and any Premium for Interest Rate Caps or Interest Rate Collars paid pursuant to Section 2.07(c) of the Loan Agreement and Section 4.05(c) of the General Conditions) over a period of not more than thirty (30) years, inclusive of a grace period of five (5) years.

3. KRTC 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 Agreement shall include the following principal conditions:

4. KRTC shall undertake to: (a) carry out 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 the Project shall be implemented in accordance with the relevant EMP and RAP.

5. KRTC 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 the Project.

6. KRTC 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, the Project Implementing Entity (Yunnan), and Kunming, 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. KRTC 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. KRTC shall undertake:

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

(b) 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;

(c) to furnish to the Bank, the Project Implementing Entity (Yunnan) and Kunming, 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 (Yunnan) or Kunming shall have reasonably requested;

(d) to prepare and furnish to the Bank, and to the Project Implementing Entity (Yunnan) all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Project Implementing Entity (Yunnan) or Kunming shall reasonably request; and

(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 to the Schedule to this Agreement the carrying out 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 (Yunnan) 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 the Project during the period preceding the date of each such report.

9. The Project Implementing Entity (Yunnan) or Kunming shall have the right to suspend or terminate the right of KRTC to the use of the proceeds of the loan made available under the Subsidiary Agreement with KRTC upon failure by KRTC to perform its obligations under such agreement.
ANNEX B
to
Schedule

Performance Indicators

<table>
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<th>PDO</th>
<th>Project Outcome Indicators</th>
<th>Use of Project Outcome Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support compact, transit-oriented development in Kunming by providing high quality, integrated public transport on the east-west Line 3 corridor.</td>
<td>Introduction of high quality service measured by reduction in peak period travel time along line 3 corridor and percentage of new riders who have access to private vehicles.</td>
<td>Assess the enhanced level of service for public transport operations along corridor and its ability to attract and retain ‘choice’ customers.</td>
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<tr>
<td></td>
<td>Successful multi-modal integration with buses, and cycles (see below)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ridership and revenue attributable to line 3, and operating ratio</td>
<td>Assess degree to which public transport is being integrated across modes.</td>
</tr>
<tr>
<td></td>
<td>Percentage of total new development that occurs along rail lines</td>
<td>Cost effectiveness of rail investment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Intermediate Outcomes</th>
<th>Intermediate Outcome Indicators</th>
<th>Use of Intermediate Outcome Monitoring</th>
</tr>
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<tbody>
<tr>
<td>Integrated bus/bike facilities</td>
<td>Rail stations designed with integrated bus/bike facilities</td>
<td>Assess the degree to which the rail system is integrated with bus and bike user and system needs.</td>
</tr>
<tr>
<td>Integrated bus routes</td>
<td>Bus routes restructured to support integrated public transport as per the results of the integration study</td>
<td>Assess degree to which bus and rail operations are integrated.</td>
</tr>
<tr>
<td>Single fare media</td>
<td>Adoption of single card for bus and rail use</td>
<td>Assess degree to which bus and rail fares are integrated.</td>
</tr>
</tbody>
</table>
### Arrangements for results monitoring

<table>
<thead>
<tr>
<th>Objective/Indicator</th>
<th>Intermediate Outcome Indicators</th>
<th>Baseline</th>
<th>Target (by project completion)</th>
<th>Data Collection Method</th>
<th>Frequency of Reporting</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. High Quality Service</strong></td>
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<tr>
<td>Reduction in peak period travel time between origin/destination pairs along Line 3.</td>
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<tr>
<td></td>
<td>2010 (by bus) From Shi Zui station site to Xiaoximen: 40 minutes in vehicle travel + 3 minutes expected wait + transfer</td>
<td>2010</td>
<td>2.5 minute expected wait + 20 minutes travel time</td>
<td>Operational reports from bus company and rail company. Should include a sufficient sample size to provide reasonable accuracy</td>
<td>Data to be collected once per year after metro opening</td>
<td>PMO in cooperation with bus company</td>
</tr>
<tr>
<td></td>
<td>From East Long Distance Bus Terminal to NanPin Walking Street: 38 minutes travel + 3 minutes expected wait + transfer</td>
<td>2010</td>
<td>2.5 minute expected wait + 15 minutes travel time</td>
<td></td>
<td>Data to be collected once per year after metro opening</td>
<td></td>
</tr>
<tr>
<td>Percentage of public transport riders who have access to a private car for their commute</td>
<td></td>
<td>To be provided based on market survey before opening of metro</td>
<td>Share for metro commuters greater than pre-metro baseline</td>
<td>Market Survey conducted by the Rail Company before and after metro opening</td>
<td>Data to be collected once before metro opening, and at least once after</td>
<td>PMO</td>
</tr>
<tr>
<td><strong>2. Development of an Integrated Public Transport System</strong></td>
<td></td>
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<tr>
<td>Success on all 4 of the following intermediate outcome indicators:</td>
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<td></td>
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</tr>
<tr>
<td>Land allocated for bus, cycle and car facilities at stations as identified in integration facilities report</td>
<td>n/a</td>
<td>yes</td>
<td>Site plan reviews, supervision visits</td>
<td>Once</td>
<td>PMO</td>
<td></td>
</tr>
<tr>
<td>Identified bus/bike facilities constructed</td>
<td>n/a</td>
<td>yes</td>
<td>Site plan reviews, supervision visits</td>
<td>Once</td>
<td>PMO</td>
<td></td>
</tr>
<tr>
<td><strong>Bus routes restructured to support integrated public transport as per the results of the route restructuring report</strong></td>
<td>n/a</td>
<td>yes</td>
<td>At conclusion of the study, PMO should provide short report on how adopted fare policy responds to these principles.</td>
<td>Once</td>
<td>PMO in collaboration with KTRI and the Kunming Bus Company</td>
<td></td>
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<tr>
<td><strong>Shared I/C card for both rail and bus use</strong></td>
<td>In planning</td>
<td>yes</td>
<td></td>
<td>Once</td>
<td>PMO in collaboration with the Kunming Bus Company</td>
<td></td>
</tr>
</tbody>
</table>

### 3. Project Cost Effectiveness

<table>
<thead>
<tr>
<th>Average Daily Weekday Ridership on Line 3 after 1 year of operation</th>
<th>N/A</th>
<th>200,000 passengers/weekday</th>
<th>Annually after initial data collected</th>
<th>PMO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Ratio of the Kunming Rail Transit Company Line 3&lt;sup&gt;1&lt;/sup&gt;</td>
<td>N/A</td>
<td>&gt;1.0</td>
<td>Annually after initial data collected</td>
<td>PMO</td>
</tr>
</tbody>
</table>

### 4. Compact City Development

<table>
<thead>
<tr>
<th>Percentage of total new development that occurs along rail lines&lt;sup&gt;2&lt;/sup&gt;</th>
<th>2010 baseline data to be compiled after negotiations</th>
<th>Share of total new development in the municipality (measured in m²) that takes place along metro alignment to increase relative to baseline, outside Ring Road 2</th>
<th>Planning permits</th>
<th>PMO in collaboration with the Planning Bureau</th>
</tr>
</thead>
</table>

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<sup>1</sup> This ratio is a measurement of operating revenue vs. operating costs before depreciation in the second full year of operations.

<sup>2</sup> Each year, this data will be compiled by the PMO. If entrances to new development lie within 750 m of station entrances on either Line 1/2 or Line 3, such development will be considered to be within walking distance of the metro network. A more detailed description of how this metric will be collected is provided in an accompanying document.