

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

HISTORY

We have more than 50 years of operating history in construction-related businesses in the PRC, particularly in railway construction and related areas. Over such period, we have established a large scale of operations and an eminent brand name, accumulated extensive expertise and experience and developed advanced equipment for use in our various business areas. We commenced operations under the name of our predecessor, the General Bureau of Capital Construction. On 14 June 1989, the MOR issued a notice, The Decision on the Establishment of China Railway Engineering Corporation (Document Tie Lao [1989] No. 68), which dissolved the General Bureau of Capital Construction and established CRECG. The date of registration of CRECG is 7 March 1990.

CRECG is now registered as a state-owned enterprise with a registered capital of RMB10,814,925,000 and holds an Enterprise Legal Person Business Licence (Registration Number: 1000001001051) which is issued by the SAIC. CRECG has passed the annual enterprise inspection for the year 2006. CRECG is currently owned by SASAC.

THE REORGANIZATION

In preparation for the Global Offering, our Controlling Shareholder, CRECG, undertook the Reorganization pursuant to which we were established as a joint stock company with limited liability under PRC law on 12 September 2007 with CRECG holding 100% of our share capital. Pursuant to the Reorganization, CRECG transferred to us all of its businesses which were controlled or held by CRECG as at 31 December 2006, except for the Retained Operations. In connection with the Reorganization, we entered into the Reorganization Agreement with CRECG on 18 September 2007 with respect to the businesses that were transferred to us and the Retained Operations held by CRECG.

Acquisition of shares held by the Employee Share Ownership Committees

For the purpose of restructuring certain State-owned enterprises that are subsidiaries of CRECG, employees of the subsidiaries of CRECG have set up Employee Share Ownership Committees as associations of employees through which the employees hold shares of the respective entity in which they are employed. The Employee Share Ownership Committees were set up in accordance with the regulations of the Ministry of Finance and the MOR. Each Employee Share Ownership Committee has over a thousand of members and some Employee Share Ownership Committees have up to 20,000 members. During the Track Record Period, CRECG had a controlling interest of 51% or more in all its subsidiaries which had interests held by Employee Share Ownership Committees. As part of the Reorganization, all equity interests in the entities within our Group that were held by the Employee Share Ownership Committees were either assigned or transferred to CRECG or its subsidiaries. Where the equity interests were assigned to CRECG or its subsidiaries for nil consideration, the assignment is accounted for as capital contribution by equity participants. Where the equity interests were acquired by CRECG or its subsidiaries for a cash consideration, the acquisition is accounted for using the purchase method. The transfer of all equity interests previously held by the Employees Share Ownership Committees has been completed and there will not be any trust arrangement between CRECG and the Employee Share Ownership Committees at the time of the listing of our Company on the Hong Kong Stock Exchange. We have been advised by our PRC legal advisor, Jia Yuan Law Firm, that the establishment of the Employees Share Ownership Committees and the acquisition of equity interests held by the Employee Share Ownership Committees do not violate the applicable laws and regulations in the PRC.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Reorganization Agreement

Businesses transferred to us by CRECG

Pursuant to the Reorganization Agreement, CRECG transferred to us all of its businesses (other than the Retained Operations) which were controlled or held by CRECG as at 31 December 2006 in return for the issuance of 12,800,000,000 Domestic Shares.

The businesses (including the associated assets and liabilities) that CRECG transferred to us pursuant to the Reorganization Agreement include:

- all of the main operating assets and liabilities relating to our Infrastructure Construction Business, including but not limited to all equity interests in 19 operating subsidiaries and associates directly held by CRECG as at 31 December 2006;
- all of the main operating assets and liabilities relating to our Survey, Design and Consulting Services Business, including but not limited to all equity interests in seven operating subsidiaries and associates directly held by CRECG as at 31 December 2006;
- all of the main operating assets and liabilities relating to our Engineering Equipment and Component Manufacturing Business, including but not limited to all equity interests in six operating subsidiaries directly held by CRECG as at 31 December 2006;
- all of the main operating assets and liabilities relating to our Property Development Business and Other Businesses, including but not limited to all equity interests in 14 subsidiaries and associates directly held by CRECG as at 31 December 2006;
- contractual rights and obligations relating to the businesses, assets and equity interests transferred to us;
- employees (including their personnel files and records and data with respect to their remuneration and other benefits and related liabilities) relating to the businesses, assets and equity interests transferred to us;
- qualifications, licenses and approvals relating to the businesses, assets and equity interests transferred to us;
- rights to claim and set-off against third parties and any other similar rights in connection with the businesses, assets and equity interests transferred to us; and
- (a) business, accounting and financial data, books and/or records, (b) technological records, data, plans and books, (c) research and development data and (d) all the other know-how, relating to the businesses, assets and equity interests transferred to us.

Issuance of Domestic Shares

In connection with the Reorganization and pursuant to the Reorganization Agreement, we and CRECG agreed that from 1 January 2007, we would be deemed to have legally assumed the rights and obligations relating to the assets and equity interests (including associated asset ownership, rights, interest, obligations and liabilities) transferred to us by CRECG. We have, however, agreed to make the Special Distribution to CRECG for the profit generated during the period from 1 January 2007 to the establishment date of our Company. Also, pursuant to the Reorganization Agreement, we issued 12,800,000,000 Domestic Shares, with a nominal value of RMB1.00 per Domestic Share, to CRECG upon our establishment on 12 September 2007 as consideration for the capital contribution made by CRECG in the form of businesses and assets injected into us.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Representations and warranties

Pursuant to the Reorganization Agreement, CRECG has provided certain representations and warranties in our favour, including:

- full compliance with its articles of association, business license and other constitutional documents;
- receipt of all the government approvals and third party consents;
- no breach of any laws, regulations, court judgments, arbitral awards or administrative rulings;
- all information provided to us by CRECG and the professional advisers retained for the purpose of the Reorganization being complete, true and accurate in all material aspects;
- except as disclosed in this Prospectus, no litigation, arbitration or other proceedings against CRECG that may have a material and adverse effect on the businesses (including the assets or equity interests) that CRECG transferred to us pursuant to the Reorganization Agreement; and
- no material adverse change in the financial status of the businesses that CRECG transferred to us pursuant to the Reorganization Agreement during the period between 31 December 2006 and 12 September 2007, being the date of establishment of our Company.

Indemnity

Pursuant to the Reorganization Agreement, CRECG has agreed to indemnify us against, among other things, the following:

- tax liabilities on the assets and equity interests transferred to us by CRECG arising prior to our establishment except for those expressly assumed by us pursuant to the Reorganization Agreement;
- tax liabilities and related claims arising from the transfer of assets and interests by CRECG to us;
- tax liabilities on the assets and interests retained by CRECG;
- tax liabilities due to the increase in asset value arising from the asset valuation conducted by China United Assets Appraisal Co., Ltd of the assets transferred to us pursuant to the Reorganization;
- claims arising in connection with the assets transferred to us on or before the date of establishment of our Company, unless the estimated losses relating to such claims have been disclosed and provision has been made in the accountants' reports (audited) for the three years ended 31 December 2004, 2005 and 2006 in accordance with the PRC GAAP;
- all losses, claims, payments and other expenses incurred by us arising from any actual, pending or threatened arbitration, litigation, claim or other legal or administrative proceedings affecting the assets and/or equity interests transferred to us;
- all losses and damages suffered by us in connection with title defects in the land use rights and real properties transferred to us; and
- claims arising from any breach on the part of CRECG of any provisions of the Reorganization Agreement.

Retained Operations

Pursuant to the Reorganization, CRECG retained its interests in certain entities (the "**Retained Operations**"), the businesses of which are clearly delineated from or not directly related to ours, or in which CRECG only has minority equity interest or which are intended to be liquidated or disposed of over time. See "Relationship with CRECG — Retained Operations" for details.

Non-Competition Agreement

We have entered into a Non-Competition Agreement with CRECG on 18 September 2007, pursuant to which CRECG, its other subsidiaries (other than us) and associates are legally restricted from conducting any business that competes or is likely to compete, directly or indirectly, with our businesses. See “Relationship with CRECG — Non-Competition” for details.

Approvals

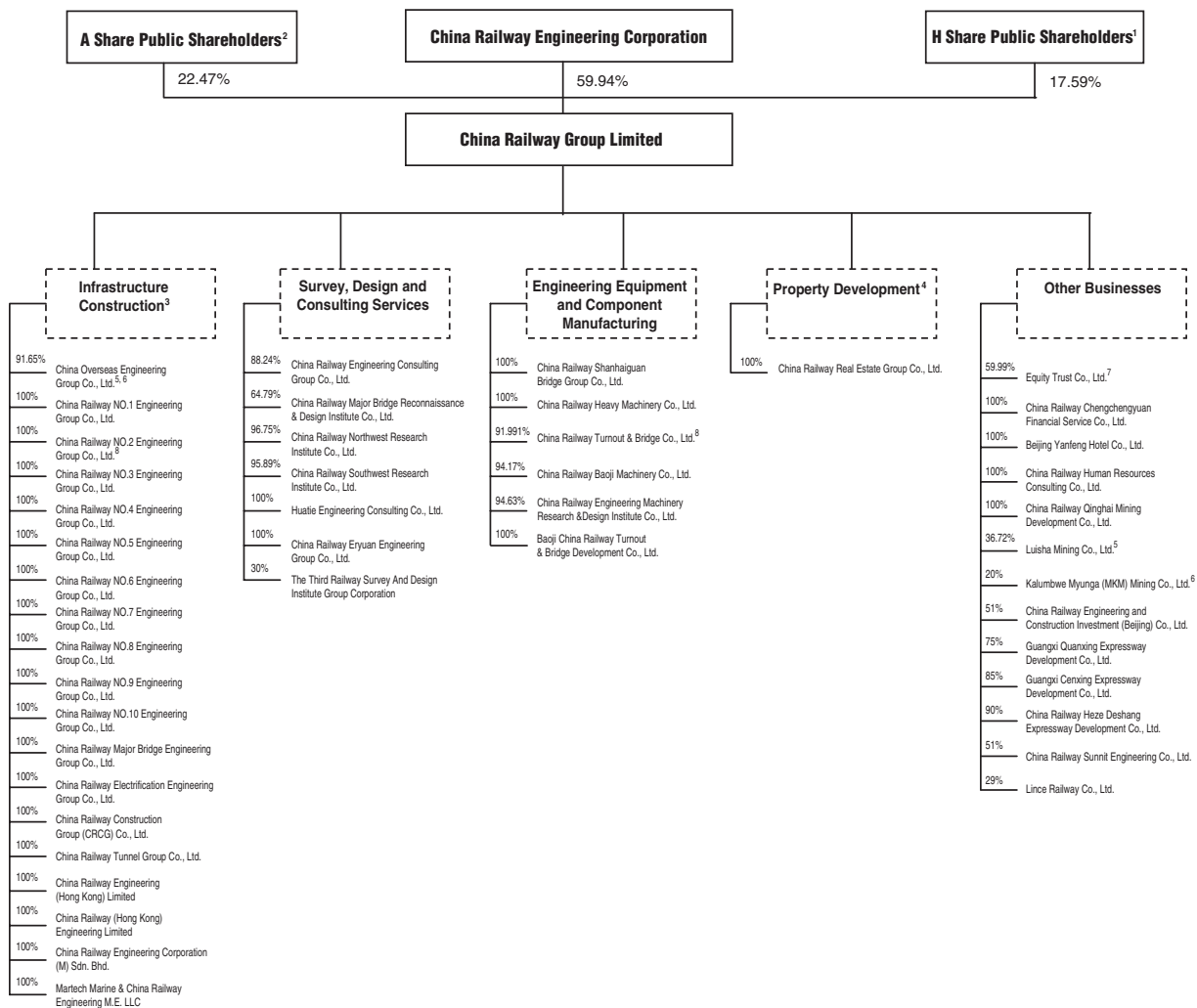
SASAC, with the approval from the State Council, approved our Reorganization on 4 June 2007. Jia Yuan Law Firm, our PRC legal advisor, confirmed that we have obtained all the necessary approvals from the relevant PRC government authorities with respect to the Reorganization.

Our Directors confirm that we have obtained all the necessary rights and certificates, and all material business contracts (other than those in relation to the Retained Operations) have been successfully transferred to the Group with respect to the Reorganization.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Corporate Structure

The following chart illustrates our ownership structure and direct subsidiaries and associates following the Reorganization and upon completion of the Global Offering assuming that the Over-allotment Option is not exercised:



Note (1): Upon completion of the Global Offering and assuming the Over-allotment Option is not exercised, 332,600,000 H Shares will be converted from Domestic Shares and held by the National Social Security Fund as a result of transfer by CRECG of their Domestic Shares to the National Social Security Fund pursuant to relevant PRC regulations regarding disposal of state-owned shares.

Note (2): There is no over-allotment in the A Share Offering and we will be in full compliance with Rule 8.08 of the Hong Kong Listing Rules.

Note (3): Most of the principal operating subsidiaries in our Infrastructure Construction Business also engage in a variety of other businesses including provision of Survey, Design and Consulting services, Engineering Equipment and Component Manufacturing and Property Development businesses.

Note (4): Certain operating subsidiaries which are engaged in our Property Development Business are directly or indirectly held by entities which are engaged in our Infrastructure Construction Business or Survey, Design and Consulting Services Business.

Note (5): We also indirectly own an additional 35.3% of the Luishia Mine through China Overseas Engineering Group Co., Ltd.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Note (6): We also indirectly own an additional 51% of the MKM Mine through China Overseas Engineering Group Co., Ltd.

Note (7): The primary business operations of Equity Trust Co., Ltd. include the provision of various financial services, such as custodian, financial advisory, fund management and entrusted loan services.

Note (8): As at the Latest Practicable Date, China Railway NO. 2 Engineering Group Co., Ltd. holds 49.74% equity interest, and China Railway Turnout & Bridge Co., Ltd. holds 1.93% equity interest, in China Railway Erju Co., Ltd., a publicly listed company in the A Share market. The revenue of China Railway Erju Co., Ltd. for the year ended 31 December 2006 and for the six months ended 30 June 2007 are approximately RMB13,742 million and RMB8,308 million, respectively and the net profit of this company for the same periods are approximately RMB101 million and RMB142 million, respectively.