中国铁建

# 中國鐵建股份有限公司
# China Railway Construction Corporation Limited

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

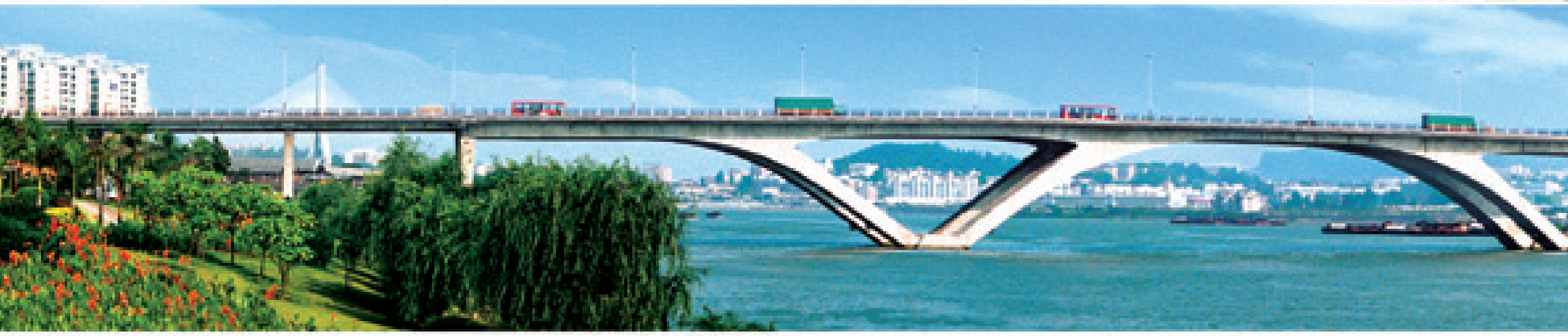
Stock Code: 1186

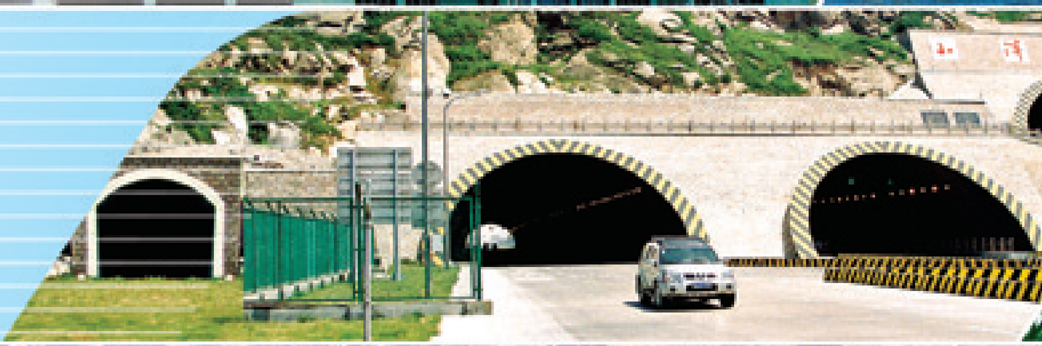
# Annual Report 2007

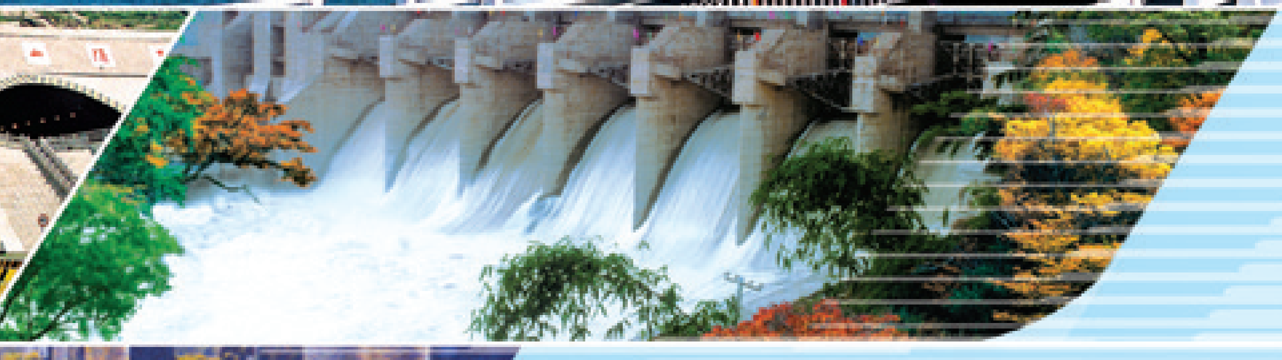
# CONTENTS

"Any discrepancies in any table between totals and sum of amounts listed therein are due to rounding."

# 中國鐵建







# 2007 年報

# annual report

# Corporate Information

| | |
|---|---|
| Chinese name | 中國鐵建股份有限公司 |
| English name | CHINA RAILWAY CONSTRUCTION CORPORATION LIMITED |
| Registered date of the Company | 5 November 2007 |
| Registered office and head office | East, No. 40 Fuxing Road, Haidian District, Beijing, China |
| Principal place of business in Hong Kong | 23/F, Railway Plaza, 39 Chatham Road South,<br>Tsim Sha Tsui, Kowloon, Hong Kong |
| Legal representative of the Company | Li Guorui |
| Joint company secretaries | Li Tingzhu    Law Chun Biu |
| Information and enquiry department | Office of the Board of Directors |
| Telephone | (86)10 5188 6158 |
| Website address | www.crcc.cn |
| Hong Kong share registrar | Computershare Hong Kong Investor Services<br>18th Floor, Hopewell Centre, 183 Queen's Road East,<br>Wanchai, Hong Kong |
| Place of listing of shares | The Stock Exchange of Hong Kong Limited<br>Shanghai Stock Exchange |
| Stock name | China Rail Cons |
| Stock code | 601186 (Shanghai)    1186 (Hong Kong) |
| Principal bankers | Industrial and Commercial Bank of China Limited<br>China Construction Bank Corporation<br>Bank of China Limited<br>Bank of Communications Co., Ltd. |
| Independent auditors | Ernst & Young<br>Certified Public Accountants<br>18/F, Two International Finance Centre, 8 Finance Street,<br>Central, Hong Kong |
| Legal advisers | As to Hong Kong law:<br>Baker & McKenzie<br>14/F, Hutchison House, 10 Harcourt Road, Central,<br>Hong Kong<br><br>As to PRC law:<br>Beijing Deheng Law Office<br>12/F, Tower B, Focus Place, No. 19 Finance Street,<br>Beijing, China |

# Corporate Profile

**Mr. Li Guorui**
*Chairman*

**Mr. Jin Puqing**
*Executive Director and President*

As the successor of the Railway Engineering Corps, China Railway Construction Corporation Limited ("CRCC" or the "Company") was established by China Railway Construction Corporation ("CRCCG") as a sole promoter in Beijing on 5 November 2007 and is an ultra-large construction enterprise supervised by the State-owned Assets Supervision and Administration Commission (the "SASAC") of the State Council. The Company successfully issued RMB denominated ordinary shares (A shares) and overseas listed foreign shares (H shares), which were listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") respectively on 10 March 2008 and 13 March 2008.

CRCC, together with its subsidiaries (the "Group"), is one of the ultra-large integrated construction enterprises in China and in the world. It was listed among the Fortune Global 500 companies in 2006 and 2007 in succession, ranking No.485 and No.384, respectively. The Group was included among the Top 225 Global Contractors for nine consecutive years, ranking No.6 in 2006. In 2006 and 2007, it was listed among the Top 500 Chinese Enterprises, ranking No.20 and No.15, respectively. The Group has been ranking among the top construction contractors in China in terms of revenue from construction operations for three consecutive years since 2004, which marks CRCC out as one of the largest construction contractors in China.

The activities of the Group comprise construction, survey, design and consultancy, manufacturing, real estate development, capital investment operations and logistics, which constitute an entire construction industry chain and the most complete qualification system in the industry covering research and development, planning, survey, design, construction, supervision, operation and manufacturing. It has established a leading position in plateau railways, high-speed railways, highways, bridges, tunnels and metropolitan railway engineering design and construction fields in the industry.

The Company has 28 wholly-owned subsidiaries (including indirect shareholding), which are invested by CRCCG by way of equity contribution, namely:

Subsidiaries engaged in construction operations:

(1) China Civil Engineering Construction Corporation

(2) China Railway 11th Bureau Group Co., Ltd.

(3) China Railway 12th Bureau Group Co., Ltd.

(4) China Railway 13th Bureau Group Co., Ltd.

(5) China Railway 14th Bureau Group Co., Ltd.

(6) China Railway 15th Bureau Group Co., Ltd.

(7) China Railway 16th Bureau Group Co., Ltd.

(8) China Railway 17th Bureau Group Co., Ltd.

(9) China Railway 18th Bureau Group Co., Ltd.

(10) China Railway 19th Bureau Group Co., Ltd.

(11) China Railway 20th Bureau Group Co., Ltd.

(12) China Railway 21st Bureau Group Co., Ltd.

(13) China Railway 22nd Bureau Group Co., Ltd.

(14) China Railway 23rd Bureau Group Co., Ltd.

(15) China Railway 24th Bureau Group Co., Ltd.

(16) China Railway 25th Bureau Group Co., Ltd.

(17) China Railway Construction Group Ltd.

(18) China Railway Electrification Bureau (Group) Co., Ltd.

(19) China Railway Construction (HK) Limited

Subsidiaries engaged in survey, design and consultancy operations:

(20) China Railway First Survey and Design Institute Group Co., Ltd. (the "First Design Institute")

(21) China Railway Fourth Survey and Design Institute Group Co., Ltd. (the "Fourth Design Institute")

(22) China Railway Fifth Survey and Design Institute Group Co., Ltd. (the "Fifth Design Institute")

(23) China Railway Shanghai Design Institute Group Co., Ltd.

(24) Beijing Tiecheng Construction Supervision Co., Ltd.

Subsidiaries engaged in manufacturing operations:

(25) Kunming China Railway Large Road Maintenance Machinery Co., Ltd.

(26) China Railway Rail System Group Co., Ltd.

Subsidiary engaged in real estate development operations:

(27) China Railway Real Estate Group Co., Ltd.

Subsidiary engaged in logistics operations:

(28) China Railway Goods and Materials Co., Ltd.

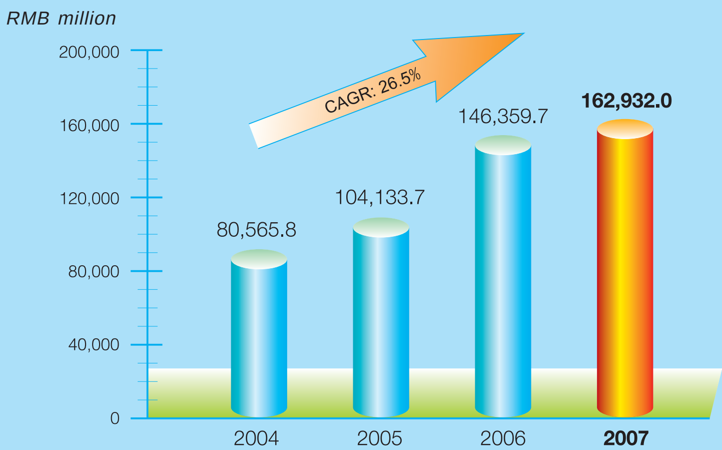
# Financial Highlights

## (I) SUMMARY

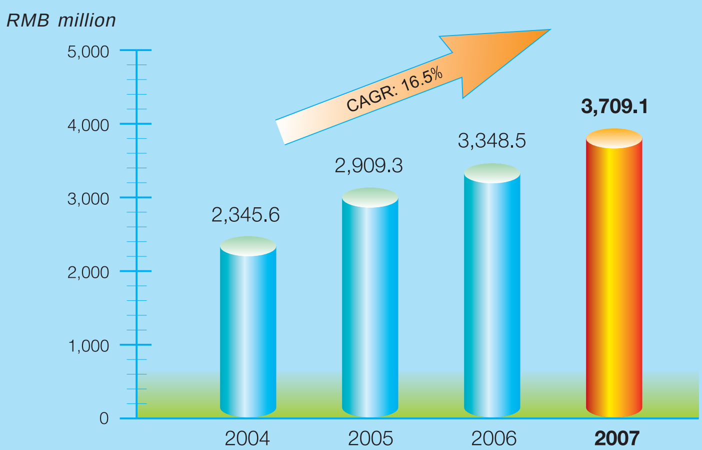
- Total revenue from operations totalled RMB171,997.4 million, representing an increase of 12.0% from RMB153,609.0 million in the corresponding period of last year.
- Profit for the year amounted to RMB2,305.9 million, representing an increase of 53.5% from RMB1,502.0 million in the corresponding period of last year.
- Profit attributable to equity holder of the Company amounted to RMB2,300.8 million, representing an increase of 89.7% from RMB1,213.0 million in the corresponding period of last year.
- Basic earnings per share amounted to RMB0.2876, representing an increase of 89.7% from RMB0.1516 in the corresponding period of last year.
- Total assets amounted to RMB156,877.8 million, representing an increase of 26.0% from RMB124,549.7 million in the corresponding period of last year.
- Total equity amounted to RMB5,273.8 million, representing an increase of 43.0% from RMB3,687.8 million in the corresponding period of last year.
- Accumulated new contract value increased by 35.3% to RMB286,999.0 million year-on-year, including overseas new contract value of RMB90,113.5 million.

## (II) REVENUE FROM MAJOR BUSINESS SEGMENTS

### Construction operations

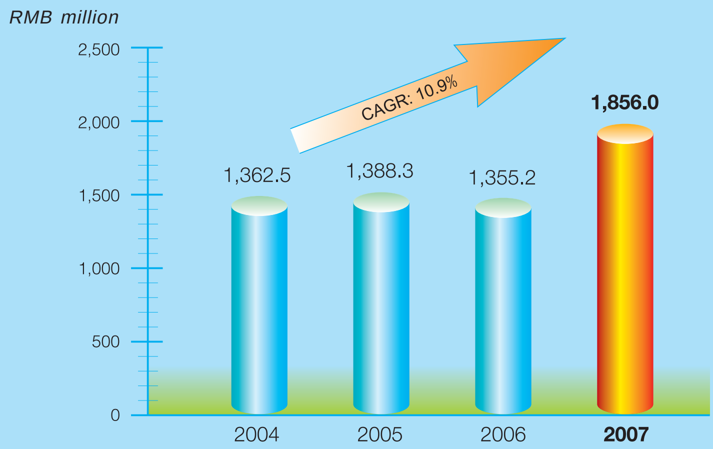



### Survey, design and consultancy operations



## (II) REVENUE FROM MAJOR BUSINESS SEGMENTS *(CONTINUED)*

### Manufacturing operations




### Other operations

## (III) SUMMARY OF FINANCIAL STATEMENTS

### Financial highlights prepared under International Financial Reporting Standards ("IFRSs")

| Consolidated Income Statement | 2007<br>*RMB'000* | 2006<br>*RMB'000* |
|---|---|---|
| **Revenue** | 171,997,410 | 153,608,974 |
| Cost of sales | (160,598,330) | (144,012,964) |
| Gross profit | 11,399,080 | 9,596,010 |
| Other income and gains, net | 612,945 | 185,868 |
| Selling and distribution costs | (696,113) | (893,106) |
| Administrative expenses | (6,736,186) | (6,002,090) |
| Other expenses | (210,599) | (448,343) |
| **Profit from operations** | 4,369,127 | 2,438,339 |
| Finance revenue | 652,160 | 546,587 |
| Finance costs | (1,272,223) | (909,326) |
| Share of profits and losses of: | | |
| Jointly-controlled entities | 14,624 | 25,535 |
| Associates | 24,010 | (2,888) |
| **Profit before tax** | 3,787,698 | 2,098,247 |
| Tax | (1,481,766) | (596,289) |
| **Profit for the year** | 2,305,932 | 1,501,958 |
| Attributable to: | | |
| Equity holder of the Company | 2,300,770 | 1,212,950 |
| Minority interests | 5,162 | 289,008 |
| | 2,305,932 | 1,501,958 |
| Distributions | 4,684,989 | 305,142 |
| Earnings per share attributable to equity holder of the Company: | | |
| Basic | 28.76 cents | 15.16 cents |
| Diluted | N/A | N/A |

The consolidated total assets and the total liabilities of the Group are summarised as follows:

| | 31 December 2007<br>*RMB'000* | 31 December 2006<br>*RMB'000* |
|---|---|---|
| Total assets | 156,877,781 | 124,549,726 |
| Total liabilities | 151,603,943 | 120,861,957 |
| Net assets | 5,273,838 | 3,687,769 |

As one of the ultra-large integrated construction groups in the world, the Group is extensively engaged in fields including construction operations, survey, design and consultancy operations, manufacturing operations, real estate development, capital investment operations and logistics operations, building up an entire service system in the construction industry. Meanwhile, the Group taps on the synergy among different businesses to provide all-round comprehensive service for customers by capitalising on facilities and resources among different businesses. This gives us significant advantages especially in undertaking super-large and complicated projects, where outstanding achievements have been made. The Company's business scope covers all over 31 provinces, autonomous regions and municipalities in China (excluding Taiwan), Hong Kong and Macau Special Administrative Regions as well as over 60 countries and regions across the world.

In 2007, the Company expanded external markets and strengthened internal management and hence achieved the production and operation targets made at the beginning of the year with a new pattern in operation work by focusing on integrated restructuring plan for listing and establishment of six profitable business segments.

The Company's business for 2007 kept on stable and rapid growth. Total revenue from operations totaled RMB171,997.4 million for the year, representing an increase of 12.0% from RMB153,609.0 million for the same period of last year; profit attributable to equity holder of the Company amounted to RMB2,300.8 million, representing an increase of 89.7% over last year; earnings per share were RMB0.2876. Total new contract value increased by 35.3% to RMB286,999.0 million year-on-year, including overseas new contract value of RMB90,113.5 million which ranked first among overseas Chinese contractors.

Thanks to such outstanding business performance, the Company was again listed among the Fortune Global 500 companies in 2007, ranking No.384, and ranked No.6 and No.15 respectively among the Top 225 Global Contractors and the Top 500 Chinese Enterprises.

## BUSINESS REVIEW

### Construction operations

The Company has a proven track record to rank in the top quartile in markets including railway, highway, bridge, tunnel, metropolitan railway constructions. The Company's revenue and operating profit from construction operations before inter-segment elimination recorded RMB162,932.0 million and RMB3,624.3 million for 2007, representing a year-on-year increase of 11.3% and 73.1% respectively as compared to 2006.

## BUSINESS REVIEW *(CONTINUED)*

### Construction operations *(continued)*

The Company maintained the leading position in the railway and highway industries, completed railway track lines of 1,276 kilometres, and constructed highways of 1,933 kilometres during the year. The Beijing-Tianjin Intercity Railway undertaken by the Company and completed in 2007 is currently in trial running.

Besides, the Company's construction capability has been improved substantially, and both the levels of construction difficulty and technique have reached the global first-rate level. This is especially demonstrated by the high-speed railways and long and large tunnels with complicated geological conditions, and bridge construction requiring sophisticated technology such as Nanjing Changjiang River Tunnel, Shiziyang Tunnel of Guangzhou-Shenzhen-Hong Kong Railway, Shanghai-Chengdu Xilongtuan River Bridge with a pier height of 179.5m and Wuhan Tianxingzhou Changjiang River Bridge. The Company completed bridges of 956.411 kilometres and tunnels of 1,099.628 kilometres in 2007. There are 18 tunnels completed or under construction by the Company with length of over 10 kilometres.

### Survey, design and consultancy operations

The Company is a leading and highly proficient provider of survey, design and consultancy services in the domestic infrastructure construction industry. The Company owns five first-tier large construction design and research institutes in China, all being leading players in the survey, design and consultancy services market for railway infrastructure construction. The Company's revenue and operating profit from the survey, design and consultancy segment before inter-segment elimination recorded RMB3,709.1 million and RMB299.6 million for 2007, representing a year-on-year increase of 10.8% and 271.3% as compared to 2006 respectively.

In 2007, the Company's First Design Institute and Fourth Design Institute, being the main forces for high-speed railway design, were responsible for designing all the cross-river and cross-sea tunnels, where the Fourth Design Institute designed the 2nd Wanzhou Changjiang River Bridge and Yichang Changjiang River Bridge. The Company changed the design concept, upgraded technical expertise and deepened the cooperation with constructors by undertaking major overseas projects. The Company's Fifth Design Institute obtained Class A qualification and has commenced to undertake certain railway design tasks. Beijing China Railway Construction Electrification Design and Research Institute Co., Ltd. has also been established.

### Manufacturing Operations

The Company is currently the largest large-scale track maintenance machinery manufacturer in Asia and the second largest in the world, ranking the top in terms of output and sales in China with the largest capacities for the research, development and manufacturing of large track maintenance machinery. The manufacturing operations segment recorded revenue and profit before inter-segment elimination of RMB1,856.0 million and RMB124.8 million for 2007, representing a year-on-year increase of 36.9% and 649.7% respectively as compared to 2006.

Kunming China Railway Large Road Maintenance Machinery Co., Ltd., one of the Company's subsidiaries, maintains approximately 80% of the railway market share, establishing the absolute predominance in the industry. New profit growth sources are expected to emerge from the success in complying meeting standards of the first 250-kilometre railway switches of China Railway Rail System Group Co., Ltd., the established production capacity of high-speed railway switches, the completion of the negotiation on cooperative production of high-strength fasteners and the completion of production lines of concrete products and pillars for contact system.

## BUSINESS REVIEW *(CONTINUED)*

### Real Estate Development, Logistics and Others

On real estate development, logistics and capital investment operations, we are the largest railway construction logistic service provider in China and the second largest railway material supplier in the world, and have established our well-recognized brand name, "Zhong Tie Di Chan" (「中鐵地產」), in the market. The said operations in aggregation recorded revenue and profit before inter-segment elimination of RMB5,376.7 million and RMB320.4 million for 2007, representing a year-on-year increase of 51.3% and 29.4% respectively as compared to 2006.

On logistics operations, the Company attained 55 bidding dealership on materials under administration of the Ministry of Railways in 2007, with a total value of more than RMB60 billion. Together with the oil and explosives markets developed by the Group, the logistics operations are demonstrating a fast growth.

Despite a late start, the Group's real estate development is growing fast. The 21 projects, currently in various stages of development, cover a total site area of 2.28 million square meters and the gross floor area available for sale amounted to 4.91 million square metres.

By virtue of complete industry chain and scale merit, the Company is positioned to ward off operating risks for its sustainable development, with a cross-segment synergy to offer integrated and multifaceted services to our customers. This gives us significant advantages especially in undertaking super-large and technologically sophisticated projects.

### Overseas business

In 2007, the Company had a strong presence in overseas market and undertook 76 overseas projects with an aggregate contract value of RMB90,113.5 million, another record high. Such overseas constructions, impressive with their quantity and scale as well, granted the Company obvious competitive edges especially in Africa.

In 2007, Nigeria Railway Project constructed by the Company was proceeding smoothly. New breakthrough has been made in Algerian Railway, Israel Red Line Subway and Abuja Metropolitan Railway projects. Also our existing projects in Nigeria such as office building for Ministry of Finance, Dama Highway and Lagos Bridge are making progress.

### Technological innovations

In 2007, the Company's 117 technological achievements were identified and assessed by provincial and ministerial level authorities. In particular, 52 achievements were identified as international leading, five achievements were awarded Zhan Tianyou Civil Engineering Award, two achievements were awarded Science and Technology Progress Award (National-level), 49 achievements were awarded Science and Technology Progress Award (provincial and ministerial level), and patent applications were made for 43 innovations.

In 2007, the first three-sleeper continuous tamping machine of Kunming China Railway Large Road Maintenance Machinery Co., Ltd., one of the Company's subsidiaries, completed its successful initial operation, and was granted 14 national utility model patents. The Company was also identified as a national high technology enterprise.

# Biographies of Directors, Supervisors and Senior Management

## DIRECTORS

The following table sets forth information regarding the Directors of the Company:

| Name | Age | Position |
|---|---|---|
| Mr. Li Guorui | 58 | Chairman and Non-executive Director |
| Mr. Ding Yuanchen | 58 | Vice Chairman and Executive Director |
| Mr. Jin Puqing | 58 | President and Executive Director |
| Mr. Huo Jingui | 57 | Non-executive Director |
| Mr. Wu Xiaohua | 61 | Non-executive Director |
| Mr. Li Kecheng | 64 | Independent Non-executive Director |
| Mr. Zhao Guangjie | 62 | Independent Non-executive Director |
| Mr. Wu Taishi | 60 | Independent Non-executive Director |
| Mr. Ngai Wai Fung | 46 | Independent Non-executive Director |

**Mr. Li Guorui**, 58, Chairman, Non-executive Director and secretary to the communist party committee of the Company. Mr. Li is also the chairman, the general manager of CRCCG and the chairman of Nanjing Changjiang Tunnel Company Limited. Mr. Li is a member of the 11th National Committee of the Chinese People's Political Consulative Conference. He has substantial senior management experience in large-scale State-owned construction enterprises in the PRC and more than 38 years of experience and in-depth knowledge of the PRC construction industry. Mr. Li joined CRCCG Group in December 1997. Prior to joining CRCCG Group, Mr. Li was the secretary to the communist party committee of China Railway Engineering Corporation from April 1996 to December 1997. Mr. Li was the secretary to the communist party committee of CRCCG from December 1997 to November 2007. During the period from July 2002 to August 2005, he was also the deputy general manager of CRCCG. Mr. Li has been the chairman of CRCCG since August 2005 and has been the general manager of CRCCG since November 2007. Mr. Li has served as the chairman and secretary to the communist party committee of the Company since November 2007. He provides leadership to the Board and is responsible for formulating our corporate and business strategies. He is responsible for making major corporate and operational decisions of the Group. Mr. Li completed a two and a half years' specialized course in railway engineering from Southwest Jiaotong University, PRC in 1982. Mr. Li is a senior engineer.

**Mr. Ding Yuanchen**, 58, Vice Chairman and Executive Director of the Company. Mr. Ding is also a vice chairman of CRCCG. Mr. Ding joined CRCCG Group in 1969 and was previously a deputy head and then the head, deputy secretary to the communist party committee and then secretary to the communist party committee of the 17th Engineering Bureau of the Ministry of Railways (the predecessor of China Railway 17th Bureau Group Co., Ltd.) from January 1992 to December 1999. Mr. Ding was the head and deputy secretary to the communist party committee of the 17th Engineering Bureau of the China Railway from December 1999 to March 2001. Mr. Ding served as the deputy general manager of CRCCG from April 2001 to August 2001. Mr. Ding had been the general manager and secretary to the communist party committee of CCECC from August 2001 to August 2004. From August 2004 to August 2005, Mr. Ding served as the deputy general manager of CRCCG as well as the general manager and secretary to the communist party committee of CCECC. Mr. Ding has served as the vice chairman of CRCCG since August 2005. Mr. Ding has been appointed as the vice chairman of the Group since November 2007. Through serving CRCCG and its subsidiaries, Mr. Ding has gained more than 38 years of experience in the management and operation of the PRC construction business and has substantial knowledge in the development and management of overseas construction business through his previous position with CCECC. He is responsible for assisting the Chairman in formulating our corporate and business strategies and assists the Chairman in macro management of the Company. Mr. Ding completed an undergraduate course in economics and management from the Central Communist Party School, PRC in 2001 and is a senior engineer, senior professional manager and State-recognized first grade construction engineer.

**Mr. Jin Puqing**, 58, Executive Director and President of the Company. Mr. Jin is also a director of CRCCG. Mr. Jin has significant understanding of the PRC construction industry. Mr. Jin joined CRCCG Group in 1968, was previously a deputy head of the 12th Engineering Bureau of Ministry of Railways (the predecessor of China Railway 12th Bureau Group Co., Ltd.) from August 1993 to June 1998. Mr. Jin was the chairman, general manager and deputy secretary to the communist party committee of China Railway 12th Bureau Group Co., Ltd. from June 1998 to August 2005. Mr. Jin was the general manager and deputy secretary to the communist party committee of CRCCG from August 2005 to November 2007 and he has been a director of CRCCG since August 2005. Mr. Jin has been an executive director, the president and deputy secretary to the communist party committee of the Company, as well as the secretary to the communist party committee of CRCCG, since November 2007. Through serving CRCCG and its subsidiaries, Mr. Jin has gained more than 39 years of experience in the management and operation of the large-scale PRC construction enterprise. He is responsible for the administration and day-to-day management of our Group. Mr. Jin graduated from the Jinzhou Communist Party School of the Ministry of Railways, PRC in 1986 majoring in party and politics management. He is a senior engineer and a State-recognized first grade project manager.

## DIRECTORS *(CONTINUED)*

**Mr. Huo Jingui**, 57, Non-executive Director and Deputy Secretary to the communist party committee of the Company. Mr. Huo joined CRCCG Group in 1968, and he was previously a deputy head and then the head, deputy secretary to the communist party committee of 15th Engineering Bureau of Ministry of Railways (the predecessor of China Railway 15th Bureau Group Co., Ltd.) from May 1993 to December 1999. Mr. Huo served as the head and deputy secretary to the communist party committee of China Railway 15th Bureau Group Co., Ltd. from December 1999 to March 2001. Mr. Huo has served as the deputy secretary to the communist party committee of CRCCG since March 2001, the chairman of the labour union of CRCCG from February 2005 to February 2006 and a director of CRCCG from August 2005 to November 2007. Mr. Huo has been a non-executive director and deputy secretary to the communist party committee of the Company since November 2007. Through serving CRCCG and its subsidiaries, Mr. Huo has gained more than 39 years of experience in human resource management and the establishment and promotion of corporate culture of the large-scale PRC construction enterprise. He is responsible for the management of our major corporate personnel and the promotion of corporate culture of the Company. Mr. Huo completed an associate course in party and politics management from Jinzhou Communist Party School of the Ministry of Railways, PRC in 1986. He is a senior engineer.

**Mr. Wu Xiaohua**, 61, Non-executive Director of the Company. Mr. Wu had been a deputy chief of Electronic and Engineering Bureau of the Ministry of Machinery, a deputy chief of National Machinery Commission and Material Events Office of the Ministry of Machinery and Electronics, a section chief and then deputy chief of Coordination Office of Crucial Assignment of the First Equipment Department of the Ministry of Machinery and Electronics, the deputy general manager and member of the standing committee of communist party committee of Xi'an Power Machinery Production Company, the commissioner of Material Equipment Department of Mechanical Engineering Commission, the vice president and member of the standing committee of party committee of China National Machinery & Equipment Corporation, the vice chairman of board of Directors, the vice president and member of the standing committee of party committee of China National Machinery & Equipment Corporation, the party secretary and general manager of China National Machinery & Equipment Import and Export Corporation; the deputy director and member of the party committee and director of State Bureau of Machine Building Industry; the director and party secretary of State Bureau of Machine Building Industry; the deputy secretary of working committee of central State-owned enterprises; the vice chairman and member of the party committee of SASAC. Mr. Wu was the vice chairman of the SASAC from March 2003 to March 2006 and an external director of CRCCG from November 2006 to November 2007. Mr. Wu has been an independent non-executive director of China BlueChemical Ltd. (a Hong Kong listed company) and Shanghai International Port (Group) Co. Ltd. (a Shanghai listed company) since July 2006 and August 2006, respectively. Mr. Wu has served as a non-executive director of the Board since November 2007. Mr. Wu graduated from the University of Science and Technology of China in 1968 majoring in semiconductor and is a senior engineer. Through serving various senior positions with the electronic and engineering bureaux, Mr. Wu has extensive knowledge in mechanical and electrical engineering as well as heavy machinery manufacturing, which is relevant to our construction operations and manufacturing operations.

**Mr. Li Kecheng**, 64, Independent Non-executive Director of the Company. Mr. Li had held various positions in Machinery Factory of Pipeline Bureau of Ministry of Petroleum, including positions as party secretary, member of the standing committee of the party committee and secretary of the disciplinary committee. Mr. Li was the secretary to the communist party committee of Northeast Petroleum Administration Bureau, a director of general office, a director of policy research department, confidential secretary of the standing committee, and the director of the political and ideological department of China National Petroleum Holding Corporation. Mr. Li was also the executive deputy secretary and member of the party committee for institutions directly under China National Petroleum Corporation. Mr. Li was also the secretary of the disciplinary committee and a member of the standing committee of the party committee of China National Petroleum Corporation from June 2000 to November 2005, chairman of board of supervisors of PetroChina Company Limited from January 1999 to November 2005, an external director of China Electronics Corporation Limited from May 2006 and an external director, equivalent to an independent non-executive director under the Listing Rules, of CRCCG from November 2006 to November 2007. He has served as an independent non-executive director of Erzhong Group (Deyang) Heavy Equipment Corporation Limited since December 2007. He has substantial experience in management of large-scale State-owned enterprises. Mr. Li has been an independent non-executive director of the Company since November 2007. Mr. Li graduated from Beijing Institute of Iron & Steel Technology in 1966 majoring in metallography & heat treatment. He is a senior engineer. Through serving various senior positions with the pipeline bureau of the Ministry of Petroleum and Northeast Petroleum Administration Bureau, Mr. Li has more than 30 years of experience in infrastructure construction investment, operations and management, which is relevant to the Group as a large-scale construction company in the PRC.

## DIRECTORS *(CONTINUED)*

**Mr. Zhao Guangjie**, 62, Independent Non-executive Director of the Company. Mr. Zhao had been a manager researcher, deputy head of the research team and deputy chief of the manager office in Anshan Iron and Steel Group Corporation. Mr. Zhao was also previously the secretary to the general office of Liaoning Province. Mr. Zhao also once served as the general manager and the party secretary of Anshan Iron and Steel Group Corporation Construction Company (from 1985 to 1989). Mr. Zhao was also the secretary general, deputy general manager, deputy party secretary and member of the standing committee to the party committee of Anshan Iron and Steel Group Corporation. From May 2005 to January 2006, he served as the deputy general manager of Anshan Iron and Steel Group Corporation. Mr. Zhao was also an external director of Xinxing Pipes Group Company Limited since November 2006. From November 2006 to November 2007, Mr. Zhao was an external director, equivalent to an independent non-executive director under the Listing Rules, of CRCCG. Mr. Zhao has been an independent non-executive director of the Company since November 2007. He has extensive knowledge and experience in construction materials industry in the PRC. Mr. Zhao graduated from Northwest Industrial University, PRC in 1970 majoring in aero-engine design and is a senior economist. Mr. Zhao Guangjie has substantial experience in investment, construction, building and management of infrastructure projects of Anshan Iron and Steel Group Corporation and his experience is relevant to our construction and manufacturing operations.

**Mr. Wu Taishi**, 60, Independent Non-executive Director of the Company. Mr. Wu also serves as the vice chairmen of the Shanghai Information Association and Beijing ZXJH Management Consulting Co., Ltd. respectively. Mr. Wu was the deputy general manager of finance and economics control department and head of the finance bureau of China Aerospace Industry Corporation since 1993. From 1999, Mr. Wu served as the vice chief accountant of China Aerospace Science and Industry Corporation. Mr. Wu was later re-designated as the deputy director of the general office of Bank of Communications, head of the office for the introduction of foreign investment (chief negotiation officer), deputy head of the office for deepening of the share reform, general manager of the research and development department, chief consultant of comprehensive operation office as well as the chief of the post-doctoral research unit. Mr. Wu has been an independent non-executive director of Aerospace Securities Co., Ltd. since July 2006 and an independent non-executive director of the Company since November 2007. Mr. Wu graduated from Fudan University, PRC in 1991 with a bachelor degree in economics (majoring in business administration) and is a senior accountant of researcher class and a registered accountant in the PRC. Mr. Wu Taishi, as the former vice chief accountant of China Aerospace Science and Industry Corporation and general manager of the research and development department of Bank of Communications, has extensive knowledge in accounting, finance and auditing of large-scale State-owned enterprises, which is relevant to the financial and accounting aspects of our operations.

**Mr. Ngai Wai Fung**, 46, Independent Non-executive Director of the Company. Mr. Ngai is a vice president of the Hong Kong Institute of Chartered Secretaries, the non-executive Chairman of Top Orient Group of Companies, a director and head of Listing Services of KCS Hong Kong Limited (formerly the corporate and commercial divisions of KPMG and Grant Thornton). Mr. Ngai held various senior management positions including executive director, chief financial officer and company secretary in a number of companies listed in Hong Kong, including Cosco Group, China Unicom Limited and Industrial and Commercial Bank of China (Asia) Limited. In addition, Mr. Ngai has been currently an independent non-executive director and a member or the Chairman of the Audit Committee of China Life Insurance Company Limited (Stock code: 2628) (since December 2006), Franshion Properties (China) Limited (Stock code: 0817) (since May 2007), and Bosideng International Holdings Limited (Stock code: 3998) (since September 2007), shares of which are listed on the Hong Kong Stock Exchange. Mr. Ngai had led or participated in a number of significant corporate finance projects including listing, mergers and acquisitions as well as issuance of debt securities, and the provision of professional services and support to many State-owned enterprises and red-chip companies in the areas of regulatory compliance, corporate governance and secretarial services. Mr. Ngai is a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators and a fellow of the Hong Kong Institute of Chartered Secretaries. Mr. Ngai has been our independent non-executive Director since November 2007. Mr. Ngai received a master’s degree in corporate finance from Hong Kong Polytechnic University in 2002 and a master’s degree in business administration from Andrews University of Michigan in 1992. He is a doctoral candidate in finance at Shanghai University of Finance and Economics. Mr. Ngai Wai Fung has extensive experience in accounting and financing as well as in corporate governance, which is relevant to the Company in matters relating to corporate governance practices such as internal control and internal audit.

## SUPERVISORS

The following table sets forth information regarding the Supervisors of the Company:

| Name | Age | Position |
|---|---|---|
| Mr. Peng Shugui | 53 | Chairman of the board of Supervisors |
| Mr. Huang Shaojun | 50 | Supervisor |
| Ms. Yu Fengli | 51 | Supervisor |

**Mr. Peng Shugui**, 53, Chairman of the board of Supervisors of the Company. Mr. Peng is also the deputy party secretary, secretary of the disciplinary committee, and the chairman of the labor union of the Company. Mr. Peng has significant understanding of the construction industry in the PRC and has abundant operation and management experience, as well as a higher level of understanding of theories, policies and legal knowledge. Mr. Peng joined CRCCG Group in 1972. From December 1995 to December 1999, Mr. Peng was the deputy secretary and secretary to the communist party committee of the 14th Bureau of the Ministry of Railways (the predecessor of China Railway 14th Bureau Group Co., Ltd.). From December 1999 to April 2001, Mr. Peng served as the party secretary of China Railway 14th Engineering Bureau. From April 2001 to February 2006, Mr. Peng was the deputy party secretary and the secretary to the disciplinary committee of CRCCG. From February 2006, Mr. Peng served as the deputy party secretary, secretary to the disciplinary committee and the chairman of the labour union of CRCCG. From July 2006 to November 2007, Mr. Peng served as a director representing the employees of CRCCG, as well as the deputy party secretary, secretary to the disciplinary committee and the chairman of the labour union of CRCCG. Mr. Peng has been the chairman of the board of Supervisors since November 2007. Mr. Peng graduated from La Trobe University in Australia in October 2003 with a master's degree in business administration. He is a senior engineer, a state-recognized fjrst grade project manager and a state-recognized first grade construction engineer.

**Mr. Huang Shaojun**, 50, Supervisor of the Company. He also serves as the chief of audit bureau of the Company, chairman of board of supervisors of Hainan Jinpai Technical Holding Co., Ltd., a supervisor of Beijing Tongda Jingcheng Highway Co., Ltd. as well as a standing committee member of China Institute of Internal Audit and China Risk Managers Association. Mr. Huang has substantial work experience in our industry and has abundant knowledge and experience in modern corporate management and operation management. Mr. Huang joined CRCCG Group in 1976. He served as deputy director of the planning and finance department of the commanding unit of the Beijing-Kowloon Railway in Kanzhou of CRCCG from February 1993 to April 1994, deputy division chief of finance department of CRCCG and deputy division chief of the planning and finance department of the commanding unit of Beijing-Kowloon Railway in Kanzhou of CRCCG from April 1994 to November 1998, chief of the audit division of CRCCG from November 1998 to August 2002, chief of the audit bureau of CRCCG from August 2002 to November 2007. Mr. Huang has served as a Supervisor of the Company since November 2007. Mr. Huang graduated from Central Communist Party School in 1993 majoring in economics and is a senior accountant and a registered senior enterprise risk manager.

**Ms. Yu Fengli, 51**, Supervisor of the Company representing our employees. Ms. Yu also serves as chairman of the board of supervisors of China Railway 12th Bureau Group Co., Ltd., China Railway 20th Bureau Group Co., Ltd., China Railway 22nd Bureau Group Co., Ltd., China Railway First Survey and Design Institute Group Co., Ltd., China Railway Real Estate Group Co., Ltd., Chongqing Tiefa Suiyu Highway Company Limited, Nanjing Changjiang Tunnel Company Limited, Sichuan Naxu Railway Company Limited, supervisor of Shanghai Fengting Water Purification Company Limited and Xi'an Tianchuang Real Estate Company Limited. Ms. Yu joined the CRCCG in 1973. She served as an assistant accountant and then accountant of the management department for ministrial office affairs of CRCCG from December 1989 to February 1996, an accountant of the finance department of CRCCG from February 1996 to September 1999, deputy head of the finance department of CRCCG from September 1999 to December 2005, chairman of the board of supervisors of the office of board of supervisors of CRCCG from December 2005 to November 2007. Ms. Yu has served as a Supervisor of the Company representing employees since November 2007. She graduated from the Central Communist Party School in 1995 majoring in economics and management and is an accountant.

## SENIOR MANAGEMENT

The following table sets forth information regarding the senior management of the Company:

| Name | Age | Position |
|---|---|---|
| Mr. Jin Puqing | 58 | President |
| Mr. Hu Zhenyi | 53 | Vice president, chief economist |
| Mr. Xia Guobin | 49 | Vice president, chief engineer |
| Mr. Fan De | 54 | Vice president |
| Mr. Zhao Guangfa | 55 | Vice president |
| Mr. Zhou Zhiliang | 42 | Vice president |
| Mr. Zhuang Shangbiao | 45 | Chief Financial Officer |
| Mr. Li Tingzhu | 57 | Secretary to the Board, joint company secretary |
| Mr. Law Chun Biu | 34 | Qualified accountant, joint company secretary |

Mr. Jin Puqing, see "Directors".

**Mr. Hu Zhenyi**, 53, Vice President and Chief Economist of the Company. Mr. Hu currently also serves as the chairman of Xianyang Zhongtie Road and Bridge Company Limited, vice chairman of Chongqing Tiefa Suiyu Highway Company Limited, director of Beijing Tongda Jingcheng Highway Co., Ltd., executive director of Xi'an Tianchuang Real Estate Company Limited, shareholders' representative of Shanghai Fengting Water Purification Company Limited and used to be a part-time non-executive director of China Railway Construction (Hong Kong) Co., Ltd.. Mr. Hu has significant knowledge and understanding of the PRC construction industry and substantial operational and management experience. Mr. Hu joined CRCCG Group in 1972. Mr. Hu served as the deputy head and then head of operation department of CRCCG from December 1990 to May 1996, deputy chief economist of CRCCG from May 1996 to December 1997, chief economist of CRCCG from December 1997 to April 2001, deputy general manager and chief economist of CRCCG from April 2001 to November 2007. Mr. Hu has been the vice president and chief economist of the Company since November 2007. He is responsible for our overseas business, including negotiations and liaising with the various PRC authorities for approvals of our overseas business. Mr. Hu is also an expert in China International Engineering Consulting Corporation and Beijing Urban Engineering Design & Research Institute Co., Ltd., deputy chief of the expert committee of the economics division of the construction and commanding unit of Beijing Rail Transit, and chief of the economics division of the design, auditing and consultation committee of Hangzhou Rail Transit. Mr. Hu obtained his master degree in business administration from Xiamen University, PRC in 2004. Mr. Hu is a professor-level senior engineer and enjoys special government allowance of the State Council.

**Mr. Xia Guobin**, 49, Vice President and Chief Engineer of the Company. Mr. Xia has significant understanding of the PRC construction industry, abundant knowledge in science and technology development, survey and design. He also has substantial experience in engineering management and construction management. Mr. Xia joined the CRCCG Group in 1975. He served as the deputy chief engineer and then chief engineer of the 13th Engineering Bureau of the MOR (the predecessor of China Railway 13th Bureau Group Co., Ltd.) from April 1996 to December 1999, chief engineer of 13th Engineering Bureau of China Railway from December 1999 to April 2001, the deputy general manager and chief engineer of CRCCG from April 2001 to November 2007. He has served as the vice president and chief engineer of the Company since November 2007. He is responsible for the management of technology and research and development of the Company. Mr. Xia graduated from Railway Guard Engineering Institute majoring in railway and bridge engineering and obtained his bachelor degree in engineering in 1982. Mr. Xia is a professor-level senior engineer and enjoys special government allowance of the State Council.

**Mr. Fan De**, 54, Vice President of the Company. Mr. Fan joined CRCCG Group in 1980. From June 1988 to April 1990, he served as deputy director for construction engineering section of the project directing department of the MOR. He served as the deputy general manager and then general manager of Beijing China Railway Construction Engineering Corporation from April 1990 to April 2001, the deputy general manager of CRCCG from April 2001 to November 2007. He has substantial experience in the real estate development business. Mr. Fan has been the vice president of the Company since November 2007. He is responsible for the real estate development business of the Company. Mr. Fan graduated from Changsha Railway Institute, PRC in 1980 majoring in civil construction and he is a senior engineer.

**Mr. Zhao Guangfa**, 55, Vice President of the Company. Mr. Zhao joined CRCCG Group in 1970. He served as deputy chief, then chief and deputy secretary to the communist party committee of the 18th Engineering Bureau of the Ministry of Railways (the predecessor of China Railway 18th Bureau Group Company Limited) from May 1994 to December 1999, a director and deputy secretary of communist party committee of China Railway 18th Engineering Bureau from December 1999 to August 2001, chairman and deputy party secretary of China Railway 18th Bureau Group Co., Ltd. from August 2001 to December 2004, the deputy general manager of CRCCG from December 2004 to November 2007. He has substantial experience in the safety, quality and control aspects of construction project management. Mr. Zhao has been the vice president of the Company since November 2007 and is responsible for our project management. Mr. Zhao graduated from Asia International Open University (Macau) and obtained his master degree in business administration in 2001 and is a senior engineer.

## SENIOR MANAGEMENT *(CONTINUED)*

**Mr. Zhou Zhiliang**, 42, Vice President of the Company. Mr. Zhou has significant knowledge and understanding of the PRC construction industry and abundant operational and management experience. Mr. Zhou joined CRCCG in 2003. Mr. Zhou served as chairman of the labor union, president and deputy party secretary of Fourth Survey and Design Institute of the Ministry of Railways (the predecessor of China Railway Fourth Survey and Design Institute) from January 2000 to December 2004, deputy general manager of CRCCG from December 2004 to November 2007. He has substantial experience in engineering design and project management. Mr. Zhou has been the vice president of the Company since November 2007 and is responsible for the sales and operations of the Company. Mr. Zhou graduated from China University of Mining, PRC in 1985 with a bachelor degree in hydrogeology and engineering geology and is a senior engineer.

**Mr. Zhuang Shangbiao**, 45, Chief Financial Officer of the Company. Mr. Zhuang has substantial experience in corporate Finance and financial management. Mr. Zhuang joined CRCCG in 2005. He served as the deputy general manager of the financial division of China Road and Bridge Construction Corporation from March 1992 to February 1994, the deputy general manager and executive deputy general manager of China Road and Bridge Group (H.K.) Limited from February 1994 to February 2001, chief accountant of China Road and Bridge (Group) Corporation from February 2001 to August 2005, chief accountant of CRCCG from August 2005 to November 2007, as well as the chief legal adviser of CRCCG from April 2006 to November 2007. Mr. Zhuang has been the chief financial officer of the Company since November 2007. Mr. Zhuang graduated from Changsha Jiaotong Institute, PRC in 1985 majoring in engineering and financial accounting and obtained a bachelor degree in engineering. He is a senior accountant.

## SECRETARY TO BOARD OF DIRECTORS

**Mr. Li Tingzhu**, 57, Secretary to Board of Directors of the Company. Mr. Li has significant knowledge and understanding of the PRC construction industry and abundant operational and management experience. He also has the qualification recognized by the PRC regulatory authority for appointment as a secretary to the board of the Directors of a listed company. Mr. Li joined the CRCCG Group in 1968. Mr. Li served as the vice division head of the party committee organization of CRCCG from September 1989 to November 1998, a director of the party office of CRCCG from April 1998 to January 2005, the vice president of the labor union and the director of the party office of CRCCG from January 2005 to December 2005, secretary to the board of directors of CRCCG from December 2005 to November 2007. Mr. Li has been the secretary to the Board of Directors of the Company since November 2007. Mr. Li graduated from the Central Communist Party School, PRC in 1992 majoring in economics and management and is a senior political engineer.

## QUALIFIED ACCOUNTANT

**Mr. Law Chun Biu**, 34, has served as Qualified Accountant of the Company since December 2007. Mr. Law is employed by the Company on a full-time basis and is a member of our senior management as required under Rule 3.24 of the Listing Rules. Mr. Law is a member of Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Before joining the Company, Mr. Law was the group finance manager of South East Asia Holdings Ltd. From October 2006 to April 2007, Mr. Law was a finance manager of Fujikon Industrial Co. Ltd. From March 2003 to October 2006, Mr. Law was a senior accountant of Tonic Electronics Ltd. From March 2000 to December 2002, Mr. Law worked for Harbor Ring Management Limited as an assistant accounting manager. Mr. Law graduated from the Hong Kong University of Science and Technology in 1997 with a bachelor degree of business administration in accounting. He also holds a master's degree in information systems from the Hong Kong Polytechnic University in 2006.

# Chairman's Statement

**Dear Shareholders,**

Firstly, I would like to extend my heartfelt gratitude to all shareholders and all walks of life for the cares and supports to CRCC. I am pleased to present to shareholders the annual report for 2007 in my capacity as the chairman on behalf of the Board.

Year 2007, the first reporting year of CRCC, did witness the Company's efforts and glories. After almost one year's preparation, the Company was incorporated in Beijing on 5 November 2007. On 10 March and 13 March 2008, the Company debuted on the Shanghai Stock Exchange and the Hong Kong Stock Exchange respectively. The market leader in the China construction industry is demonstrating the new look in the global capital market.

## STRONG GROWTH IN BUSINESS RESULTS AND FINANCIAL PERFORMANCE

The Company's new contract value for 2007 increased by 35.3% to RMB286,999.0 million year-on-year, including overseas new contract value of RMB90,113.5 million which ranked the first among overseas Chinese contractors. The Company's revenue from operations and net profit attributable to equity holder of the Company amounted to RMB171,997.4 million and RMB2,300.8 million, representing strong growths of 12.0% and 89.7% respectively year-on-year.

Given such outstanding business performance, the Company was again listed among the Fortune Global 500 companies in 2007, ranking No.384, and ranked No.6 and No.15 respectively among the Top 225 Global Contractors and the Top 500 Chinese Enterprises.

## OPERATIONS DOMINANT IN THE MARKET WITH INCREASING SYNERGY

As one of the ultra-large integrated construction enterprises in China even in the world, the Group owns an entire construction industry chain and a complete qualification system in the industry, with businesses covering nearly all types of infrastructure construction projects. The Company has a proven track record to rank in the top quartile in markets including railway, highway, bridge, tunnel, metropolitan railway constructions. Our revenue and profit from construction operations before inter-segment elimination recorded RMB162,932.0 million and RMB3,624.3 million for 2007, representing a year-on-year increase of 11.3% and 73.1 % respectively as compared to 2006.

As a leading and highly proficient provider of survey, design and consultancy services in the domestic infrastructure construction industry, the Group owns five first-tier large construction design and research institutes in China, all being leading players in the survey, design and consultancy services market for railway infrastructure construction. The segment recorded revenue and profit before inter-segment elimination of RMB3,709.1 million and RMB299.6 million for 2007, representing a year-on-year increase of 10.8% and 271.3 % respectively as compared to 2006.

The Company is currently the largest large track maintenance machinery manufacturer in Asia and the second largest in the world, ranking the top in terms of output and sales in China with the largest capacities for the manufacturing, research and development of large-scale track maintenance machinery. Our principal products of large-scale track maintenance machinery accounted for approximately 80% of domestic market share, establishing the absolute predominance in the industry. The segment of manufacturing operations recorded revenue and profit before inter-segment elimination of RMB1,856.0 million and RMB124.8 million for 2007, representing a year-on-year increase of 36.9% and 649.7% respectively as compared to 2006.

On real estate development, capital investment and logistics operations, the Company is the largest railway construction logistic service provider in China and the second largest railway material supplier in the world, and has established its well-recognized brand name, "Zhong Tie Di Chan"(「中鐵地產」), in the market. The said operations in aggregation recorded revenue and profit before inter-segment elimination of RMB5,376.7 million and RMB320.4 million for 2007, representing a year-on-year increase of 51.3% and 29.4% respectively as compared to 2006.

By virtue of complete industry chain and scale merit, the Company is positioned to ward off operating risks for its sustainable development, with a cross-segment synergy to offer integrated and multifaceted services to its customers. This gives the Group significant advantages especially in undertaking super-large and technologically sophisticated projects.

## SOUND AND FORWARD-LOOKING MANAGEMENT BASED ON SOLID CORPORATE CULTURE

Our experienced senior management team, with an average industry experience of over 20 years, has profound knowledge and understanding of the construction industry. With industry-leading management concepts and ability to ride on the market, the management team focuses on team building under the new management mechanism to widen the strategic vision in a global context.

Pressing ahead its management system to meet international standards, the Company has established a corporate governance system featuring sound structure, rational operation and effective check-and-balance.

To highlight its solid background of corporate culture, the Company has been attaching importance to outstanding corporate culture and brand building, to forge the unique values of "Uncompromising integrity and innovation, top-tier works and ethics" and the enterprising spirit of "Knowing no bounds to outshine in the global arena".

## PROSPECT

Looking ahead, the Company is set to profit from the vast potential in 2008 arising from the favorable opportunities in China's fast growing economy and accelerating investment in transportation infrastructure construction.

Leveraging the significant opportunities, the Company will further optimise and expand its principal businesses to secure its dominance in domestic construction market, especially the railway and highway markets. Meanwhile, the Company will aggressively develop the profitable segments including overseas operation, real estate development, survey, design and consultancy services, manufacturing operations, capital investment operations and logistics so as to build up new growth bases and profit sources.

Efforts will be put in research and development to improve our technological expertise, with sustainable development capability for proprietary intellectual property to hone the core competitiveness. Internally, the Company will promote the lean production and management innovation to upgrade management level and efficiency.

The Company will also secure and uplift the recognition of "CRCC", sublime its enterprising spirit and consolidate the core corporate culture, aiming at a virtuous cycle for brand and business to support each other.

The Board and I believe that, with supports of shareholders and efforts of the staff, the Company is bound to capitalise on its heritage and forge ahead into the future. The Company is committed to speeding up the paces to build itself into one of the most competitive construction conglomerates globally, returning more value to shareholders and more contribution to the society.

**LI Guorui**
*Chairman*

Beijing, PRC
25 April 2008

## CORPORATE GOVERNANCE RULES

Sound corporate governance is a target which the Company has always been in pursuit of. After reviewing the corporate governance documents, the Board is of the opinion that the Company has complied with code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Listing Rules").

The Directors consider that, the Articles of Association, Rules of Procedures of shareholders meetings, Rules of Procedures of Board Meetings. Rules of Procedures of Supervisory Committee, Work Rules for President, Work Rules for Secretary to the Board, Work Manual for Independent Directors, Decision Manual on Connected Transactions, Management Method on Information Disclosure, Management Method on Raised Proceeds, Management Manual on External Guarantee, Management Manual on External Investment, Work Rules for Audit Committee of the Board, Work Rules for Remuneration and Evaluation Committee of the Board, Work Rules for Strategy and Investment Committee of the Board, Work Rules for Nomination Committee of the Board, Code of Conduct on Directors and Special Employees' Securities Transactions constitute the reference bases of the Company's codes on corporate governance practices, which have covered the principles and code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules. The standards of the Company's internal corporate governance documents are stricter than the Code on Corporate Governance Practices in the following scope:

Besides the Audit Committee and the Remuneration and Evaluation Committee, the Company has established the Investment and Strategy Committee and the Nomination Committee.

## DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Board has adopted the model code as set out in Appendix 10 to the Listing Rules as guidance for Directors, Supervisors and relevant employees' securities transactions. After individual inquiry by the Company, all Directors, Supervisors and relevant employees (as defined in Appendix 14 to the Listing Rules) have confirmed that they are in compliance with the model code.

## BOARD OF DIRECTORS

The first Board of Directors of the Company comprises nine Directors, including two executive Directors of Mr. Ding Yuanchen and Mr. Jin Puqing, three non-executive Directors of Mr. Li Guorui, Mr. Huo Jingui and Mr. Wu Xiaohua, and four independent non-executive Directors of Mr. Li Kecheng, Zhao Guangjie, Mr. Wu Taishi and Mr. Ngai Wai Fung. Mr. Li Guorui is the Chairman and Mr. Jin Puqing is the President of the Company. The Company has received the annual confirmation issued by each independent non-executive Director to acknowledge their respective independence. After prudent inquiry, the Board is of the view that each of Mr. Li Kecheng, Mr. Zhao Guangjie, Mr. Wu Taishi and Mr. Ngai Wai Fung maintains the independence as required by the Directions set out in Rule 3.13 of the Hong Kong Listing Rules. Pursuant to the Articles of Association of the Company, the first Board has a 3-year term of office, and the Directors are eligible for re-election or re-appointment upon expiry.

To prioritise shareholders' interest, each member of the Board uses his best endeavour to fulfil his duties in accordance with the responsibilities of Directors and the relevant laws and regulations. The Board's duties include: determining the Company's operation plan and investment plan; preparing the Company's profit distribution plan and loss recovery plan; formulating the Company's capital investment operation plan and implementing resolutions of the general meetings.

The Chairman ensures that the Directors have performed their duties and maintains the effective operation of the Board, and ensures that all major relevant events have been discussed with Directors in time. The Chairman has met the non-executive Directors individually and fully understood their opinions and advice on the operation of the Company and the function of the Board.

The Office of the Board is dedicated to serve the Directors in all aspects, and to provide adequate information to keep them informed of any corporate development. It effectively communicates with shareholders by appropriate means so as to ensure that shareholders' opinions are delivered to the Board.

The Company has appointed sufficient independent non-executive Directors and appointed those with relevant professional qualifications including expertise in accounting or financial management as required by the Hong Kong Listing Rules. Each of the Company's four independent non-executive Directors maintains full independence. They have educational background and abundant professional experience in accounting, finance and/or infrastructure construction, respectively. They sincerely provide professional advice for the Company's steady operation and growth; supervise and coordinate to safeguard the interests of the Company and shareholders.

## BOARD OF DIRECTORS *(CONTINUED)*

Save for their services to the Company, there is no financial, commercial and familial connection among the Directors, Supervisors or other senior management, nor any other material relation with each other.

Save for the service contracts entered into respectively, no Directors or Supervisors are materially interested, either directly or indirectly, in the major contracts entered into by the Company or any of its subsidiaries in 2007.

In 2007, the Company held two Board meetings; the attendance of the first meeting was 88.89% (all Directors attended other than Mr. Li Kecheng) and the attendance of the second meeting was 100%. Details of the meetings were recorded by a designated officer, and all matters approved at each meeting were passed as resolutions and archived in accordance with the relevant laws and regulations. The Board's work for 2007 mainly included:

- consideration and determination of the candidates to Directors, Supervisors, senior management and all the special committees of the Board, and consideration and approval of the Company's connected transaction agreements and non-competition agreement as well as relevant corporate governance manuals;

- consideration and approval of the resolution on the issue of A share by the Company;

- consideration and approval of the resolution on the issue of H share by the Company.

Time and main content of the regular meetings of the Board were all determined at the beginning of the year so as to ensure that all Directors have opportunities to put forward matters to be included in the agenda of the Board meeting and allow them to review the proposals with sufficient time.

The Directors' total emolument for 2007 totalled RMB3,163,000.

Each Director's emolument from the Company for this year is as follows:

Li Guorui: RMB872,000;

Ding Yuanchen: RMB654,000;

Jin Puqing: RMB665,000;

Huo Jingui: RMB752,000;

Wu Xiaohua: RMB70,000;

Li Kecheng: RMB70,000;

Zhao Guangjie: RMB80,000;

Wu Taishi: received no emolument for year 2007;

Ngai Wai Fung: received no emolument for year 2007.

As at 31 December 2007, the Company had not formulated or implemented any stock appreciation rights plan, nor granted any stock appreciation rights.

## CHAIRMAN AND PRESIDENT

Chairman and President perform their respective duties in accordance with corporate governance documents including the Articles of Association, the Rules of Procedures for the Board Meetings and the Work Rules for President.

Duties of Chairman of the Company: to preside over general meetings and to convene and preside over the Board meetings; to supervise and examine the implementation of resolutions of the Board; to sign corporate shares, corporate debentures and other securities; to sign important documents of the Board and, on behalf of the Company, the important legally binding documents.

## CHAIRMAN AND PRESIDENT *(CONTINUED)*

President shall report to the Board and perform the following duties: to lead the Company's production, operation and management, to organise resources to implement the Board's resolutions, and report to the Board; to implement the Company's annual business plans and investment schemes; to propose the establishment of the Company's internal management structure; to formulate the Company's basic management system; to formulate detailed rules and regulations for the Company; to propose to the Board the appointment or dismissal of the Company's vice president(s), chief accountant, chief engineer and chief economist; to appoint or dismiss the Company's officers other than those to be appointed or dismissed by the Board; to propose convening of extraordinary meetings of the Board.

## AUDIT COMMITTEE

An audit committee is established under the Board. The committee's duties mainly comprise review of the Company's financial report, consideration of appointment of independent auditors, approving audit and auditing relevant services and supervision on the Company's internal financial reporting procedures and management policies.

The audit committee consists of three Directors: Mr. Wu Taishi, Mr. Ding Yuanchen and Mr. Ngai Wai Fung. Mr. Wu Taishi currently serves as the chairman of the audit committee.

For each year at least two regular meetings of the audit committee shall be convened to review the accounting standards and internal control system adopted by the Company, the relevant financial issues and the connected transactions of the Group so as to ensure the integrity, fairness and accuracy of the Company's financial statements and the relevant information.

Since the establishment date of the Company was around the end of 2007, there were no committee meeting convened for the year ended 31 December 2007. Nevertheless, the committee is proactively preparing for the tasks.

On 25 March 2008, the audit committee of the first Board held the first meeting, where the reporting on the annual report and overall arrangement for financial statements auditing for 2007, and the specific plan and major accounting issues presented by the auditors for preparation and auditing of the financial statements for 2007 were heard. The meeting approved the auditing schedule co-developed by the Company and the auditors, and proposed the auditors to complete the auditing engagement in time and ensure the Group's implementation of the key rules of the new accounting policies.

On 23 April 2008, the audit committee of the first Board held the second meeting, where the audited annual financial statements were approved to be submitted to the Board for review. In addition, the audit committee reviewed and submitted to the Board the auditors' report on the Company's consolidated financial statements for the year ended 31 December 2007, and the resolution on retaining of auditors for 2008.

## REMUNERATION AND EVALUATION COMMITTEE

A remuneration and evaluation committee has been established under the Board. Duties of the remuneration and evaluation committee include: review of the Company's remuneration policy and assessment on performance of the Directors and senior management. Remuneration and evaluation committee regularly review the structure, staff number of the Board and the work of Directors.

Remuneration and evaluation committee consists of three Directors: Mr. Zhao Guangjie, Mr. Ding Yuanchen and Mr. Li Kecheng. Mr. Zhao Guangjie currently serves as the chairman of the remuneration and evaluation committee. The primary responsibilities of remuneration and evaluation committee are to formulate the training and remuneration policies and to determine and manage the remuneration of our senior management, which include, among other things:

- approving, overseeing and evaluating the performance of senior management of the Company and determining and approving their remuneration;
- reviewing and making recommendations to the Board with respect to the Directors' remuneration; and
- supervising the execution of remuneration system of the Company.

## REMUNERATION AND EVALUATION COMMITTEE *(CONTINUED)*

Remuneration of the executive Directors and non-executive Directors are still calculated at the remuneration management method promulgated by the SASAC for principals of central enterprise prior to the incorporation of the Company. Remuneration consist of basic salary and performance salary. The performance salaries of executive Directors and non-executive Directors are determined according to the results of operating performance. Executive Directors and non-executive Directors have no rights to approve their own remunerations which shall be approved by general meeting.

Since the establishment date of the Company was around the end of 2007, there were no committee meeting convened for the year ended 31 December 2007. On 20 April 2008, the remuneration and evaluation committee of the first Board held the first meeting, at which the Proposal for Performance Review and Remuneration of President for 2007 was considered and approved.

## STRATEGY AND INVESTMENT COMMITTEE

A strategy and investment committee is also established under the Board. Strategy and investment committee consists of three Directors: Mr. Jin Puqing, Mr. Wu Xiaohua and Mr. Wu Taishi. Mr. Jin Puqing currently serves as the chairman of the strategy and investment committee. The primary responsibilities of strategy and investment committee of the Company are to formulate our overall development plans and investment decision-making procedures, which include, among other things:

- reviewing long-term development strategies of the Company;
- reviewing major issues affecting development of the Company; and
- reviewing significant capital expenditure, investment and financing projects that require approval of the Board.

The above committees perform their duties in a proper order under their respective work rules.

## NOMINATION COMMITTEE

Nomination committee consists of three Directors: Mr. Li Kecheng, Mr. Huo Jingui and Mr. Zhao Guangjie. Mr. Li Kecheng currently serves as the chairman of the nomination committee. The primary responsibilities of the nomination committee are to formulate the nomination procedures and standards for candidates for Directors and senior management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and senior management, to formulate, review and supervise the implementation of the performance of the Directors and the senior management.

Since the establishment date of the Company was around the end of 2007, there were no committee meeting convened for the year ended 31 December 2007. Nevertheless, the committee is proactively preparing for the tasks and the first meeting of nomination committee shall be held as soon as possible after the listing of the Company.

## SUPERVISORY COMMITTEE

The supervisory committee of the Company consists of three members, of which one Supervisor is elected by the staff as a representative of the employees. The supervisory committee is responsible for supervision on the Board, its members and senior management, so as to prevent them from abusing authority and damaging the legal interests of shareholders, the Company and its staff members. In 2007, the supervisory committee convened one meeting at which Mr. Peng Shugui was elected as the chairman of supervisory committee and exercised review of the Company's financial position, operations under the laws and performance of duties by the senior management members. The committee complied with the principle of honesty and good faith to perform various tasks proactively.

## GENERAL MEETING AND INVESTOR RELATIONS

General meeting is the highest authority of the Company. It provides an opportunity for the direct communications between the Board and shareholders to establish a good relationship. Therefore, the Company pays much attention to those meetings. In 2007, the Company convened two general meetings at Beijing Jingxi Hotel on 5 November and the conference room of the Company at No.40 Fuxing Road, Beijing on 30 November. At those meetings, the following matters were considered and approved as resolutions:

- considering and passing connected transaction agreements and non-competition agreement of the Company and relevant corporate governance manuals;
- considering and passing relevant resolution on the issue of A share by the Company;
- considering and passing relevant resolution on the issue of H share by the Company;
- passing the Proposal for Revising Distribution Plan of Retained Profit before Issuance.

All the resolutions at those the meetings (at which CRCCG was the sole shareholder) were approved unanimously.

The general meetings were convened by the chairman who explained the relevant matters on voting procedures of the meeting, and proposals were considered and resolved on an itemised basis. Meanwhile, notices of those meetings were served to Directors, some of whom attended the general meetings as observers. Members of the audit committee and the remuneration and evaluation committee were also noticed to attend the meeting as observers.

After listing, the Company established a dedicated department to manage investor relations, which is responsible for matters concerning investor relations. The department proposes to formulate the Work Manual on Investor Relations to regulate its operation. The Company's management kept in close communications with investors, analysts and the media by various means including roadshows, individual interviews, conferences and invitations for visit to the Company, thereby increasing their recognition of the Company constantly. In 2008, the senior management of the Company held domestic and global roadshows for the issue of A shares and H shares and paid visits to investors. The investors were also invited to visit the Company, and the Company organized reception for investors' visits. Meanwhile, the Company endeavours to attend the investor meetings organized by the investment banks. In addition, the investor relations department is responsible for timely reply to enquiries and questions in e-mails from and raised by investors.

## QUALIFIED ACCOUNTANT

Mr. Law Chun Biu has become the qualified accountant of the Company since December 2007. Mr. Law is a full-time employee and a senior management member of the Company under Rule 3.24 of Hong Kong the Listing Rules. Mr. Law is a member of Hong Kong Institute of Certified Public Accountants and a member of The Association of Chartered Certified Accountants of the United Kingdom.

## CORPORATE MANAGEMENT, FINANCIAL REPORTING AND INTERNAL CONTROL

The Company convenes irregular president meetings, which are presided over by the President with presence of relevant department heads of the headquarters. The Company's operation, implementation of investment projects and financial issues are considered and decided at the meetings. The Company's management, including managers of subsidiaries and associates and department heads from the headquarters, convene annual work meeting to review the operational performance of the previous year and to make arrangements for the coming year. The meetings have facilitated coordination, communication and supervision of the development and implementation of the Company's various operation tasks.

Non-executive Directors have reviewed the compliance of non-competition agreement by CRCCG and confirmed that the Company has followed the relevant provisions in the non-competition agreement during the period from 5 November 2007 (date of the relevant non-competition agreement) to 31 December 2007.

## CORPORATE MANAGEMENT, FINANCIAL REPORTING AND INTERNAL CONTROL *(CONTINUED)*

The Directors confirmed that they were responsible for preparing the financial statements for each accounting year to give a true and fair view of business affairs, results and cash flow of the Company during the period. During preparing the accounts for the year ended 31 December 2007, the Directors:

— have chosen and implemented proper accounting policies;

— have adopted standards in accordance with IFRSs; and

— have given prudent and reasonable judgement and valuation and have prepared accounts on an ongoing concern basis.

The Board and senior management attach much importance to the establishment and improvement of the internal control system. Dedicated work team and project management committee have been established.

The management of the Company took a series of measures to enhance internal control and reduce risks, including: reviewing the control systems at the enterprise level, overall information system level and business flow level, and implemented a series of measures designed to establish and evaluate the effectiveness of internal control system including identifying risk points, revising and improving internal control and operation system during workflows, testing and verifying the effectiveness of implementation of internal control system. On market front, the management system for purchase and sales was improved to ward off market risks. Specialised managements were consolidated continuously. For risk management, the Company initially built a systematic framework for risk assessment and management to allow the Company to identify, assess and manage various internal and external risks and thus minimize the risks. As for financial control, the Company initially established overall budget management system to implement unified accounting system and centralized management and allocation of capital. Management reports were prepared and submitted to the Board to present the information on review of effectiveness of internal control system.

The Company attached much importance to establishment and improvement of information system to further enhance work efficiency.

## REMUNERATION TO AUDITORS

Ernst & Young and Ernst & Young Hua Ming have been respectively appointed as international and domestic auditors of the Company.

The Company incurred RMB113.0 million in total for professional services of H shares and A shares listing provided by Ernst & Young and Ernst & Young Hua Ming for the initial public offerings of the Company in Hong Kong and Shanghai. Except for the above services, Ernst & Young and Ernst & Young Hua Ming did not provide any significant non-auditing services in respect of the initial public offering of the Company in both Hong Kong and Shanghai.

The Company incurred RMB24.5 million in total for professional services of annual audit provided by Ernst & Young and Ernst & Young Hua Ming for auditing of financial statements for the year ended 31 December 2007. In 2007, the Group did not appoint Ernst & Young or Ernst & Young Hua Ming to provide any significant non-auditing services. An aggregate amount of RMB500,000 was incurred for certain agreed-upon procedure engagements performed by Ernst & Young.

# Management's Discussion and Analysis of Financial Conditions and Results of Operations

The content of this section should be read in conjunction with the audited consolidated financial statements of the Group which is set out in 2007 annual report (including relevant notes).

## 1. SUMMARY

For the year ended 31 December 2007, the Group's revenue amounted to RMB171,997.4 million, representing an increase of 12.0% over RMB153,609.0 million of last year. Profit attributable to equity holder of the Company amounted to RMB2,300.8 million, representing an increase of 89.7% over last year. Basic earnings per share of the Group was RMB0.2876.

The financial results for the years ended 31 December 2006 and 2007 are set out below.

### Results of operations

For the year ended 31 December 2007, the Group's profit-before-tax amounted to RMB3,787.7 million, representing an increase of 80.5% over RMB2,098.2 million of last year. Profit attributable to equity holder of the Company amounted to RMB2,300.8 million, representing an increase of 89.7% over last year. Basic earnings per share of the Group was RMB0.2876.

### Revenue

For the year ended 31 December 2007, the Group's revenue amounted to RMB171,997.4 million, representing an increase of 12.0% over RMB153,609.0 million of last year. The increase was mainly attributable to the increased revenue from construction operations.

For the year ended 31 December 2007, the Group's total revenue after elimination of inter-segment sales increased by 12.0% to RMB171,997.4 million from RMB153,609.0 million for the year ended 31 December 2006. The increase was mainly attributable to a RMB16,369.0 million increase in revenue from construction operations, a RMB185.9 million increase in revenue from survey, design and consultancy services, a RMB59.1 million increase in revenue from manufacturing operations and a RMB1,774.5 million increase in revenue from other operations.

### New and outstanding contracts

The Company's new contract value for 2007 aggregated to RMB286,999.0 million. As at 31 December 2007, the outstanding contract value amounted to RMB323,428.5 million.

Details of the undertaken contracts and outstanding contracts in 2006 and 2007 were set out as below:

**1. Undertaken contracts**

| | Year ended 31 December | |
|---|---|---|
| | 2006 | **2007** |
| | *(RMB million)* | |
| Construction operations* | 198,203.7 | **265,650.5** |
| Survey, design and consultancy operations | 3,073.3 | **3,657.8** |
| Manufacturing operations | 1,064.4 | **6,321.5** |
| Other operations | 9,856.1 | **11,369.2** |
| Total | 212,197.4 | **286,999.0** |

* Construction operations for 2007 included overseas contracts of RMB90,113.5 million and domestic contracts of RMB175,537.0 million.

## 1. SUMMARY *(CONTINUED)*

### 2. Outstanding contracts

| | Year ended 31 December 2006 | 2007 |
|---|---|---|
| | (RMB million) | |
| Construction operations* | 198,374.9 | **312,079.8** |
| Survey, design and consultancy operations | 2,476.8 | **2,523.9** |
| Manufacturing operations | 1,602.2 | **6,311.5** |
| Other operations | 2,168.3 | **2,513.4** |
| Total | 204,622.2 | **323,428.5** |

* Outstanding contracts on construction operations for 2007 included overseas outstanding contracts of RMB116,781.7 million and domestic outstanding contracts of RMB195,298.1 million.

### Cost of sales

For the year ended 31 December 2007, the Group's cost of sales after elimination of inter-segment sales increased by 11.5% to RMB160,598.3 million from RMB144,013.0 million for the year ended 31 December 2006. The increase almost matched with that of the Group's total revenue for the same period, which was mainly due to the increased material cost.

### Gross Profit

For the above reasons, for the year ended 31 December 2007, the Group's gross profit increased by 18.8% to RMB11,399.1 million from RMB9,596.0 million for the year ended 31 December 2006. For the year ended 31 December 2007, the Group's gross margin increased to 6.6% from 6.2% for the year ended 31 December 2006. The increase of gross margin was mainly attributable to scale merit as a result of business expansion and cost control of the Group.

### Finance revenue

The finance revenue of the Group mainly includes bank interest income. For the year ended 31 December 2007, the Group's finance revenue increased by 19.3% to RMB652.2 million from RMB546.6 million for the year ended 31 December 2006. This was mainly due to an increase in total bank balance of the Group and the interest rate rise for the year ended 31 December 2007.

### Finance costs

The finance costs of the Group mainly include interest expense of bank borrowings, other borrowings, finance lease and discounted notes, less capitalised interests of construction in progress and construction contract. For the year ended 31 December 2007, the Group's finance costs increased by 39.9% to RMB1,272.2 million from RMB909.3 million for the year ended 31 December 2006. The increase was mainly attributable to an increase of RMB453.0 million in interests of bank and other borrowings, partially offset by an increase of RMB105.4 million in capitalised interest expense as a result of real estate development operations.

### Share of profits of jointly-controlled entities and associates

For the year ended 31 December 2007, the Group's share of profits of jointly-controlled entities and associates increased by RMB16.0 million (or 70.8%) to RMB38.6 million from RMB22.6 million for the year ended 31 December 2006.

## 1. SUMMARY *(CONTINUED)*

### Income tax expense

For the year ended 31 December 2007, the Group's income tax expenses increased by 148.5% to RMB1,481.8 million from RMB596.3 million for the year ended 31 December 2006. The increase was mainly attributable to a write-off of RMB600.2 million of net deferred tax assets to income statement of the Group for the year ended 31 December 2007, as a result of a decrease in income tax rate from 33% to 25% from 1 January 2008 as stipulated in the new Enterprise Income Tax Law of the PRC. In addition, income tax expenses for the year ended 31 December 2007 recorded an increase, which was mainly due to the improved operating results of the Group during the year.

### Minority interests

In the years ended 31 December 2006 and 2007, our profit attributable to minority interests amounted to RMB289.0 million and RMB5.2 million respectively. The noticeable decrease is due to the fact that as part of the restructuring of the Group, the Group acquired the equity interest in some entities in 2007 which were previously held by the minority shareholders including the Employee Share Ownership Committees.

## 2. DISCUSSION OF OUR OPERATING RESULTS BY SEGMENT

The following table sets forth the Group's revenue, gross profit, gross margin, profit from operations and operating margin for the years of 2006 and 2007:

| | Revenue Year ended 31 December | | Gross profit Year ended 31 December | | Gross margin Year ended 31 December | | Profit from operations Year ended 31 December | | Operating margin Year ended 31 December | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| | *(RMB million)* | | *(RMB million)* | | *(%)* | | *(RMB million)* | | *(%)* | |
| Construction operations | 146,359.7 | 162,932.0 | 8,213.4 | 9,625.4 | 5.6 | 5.9 | 2,093.4 | 3,624.3 | 1.4 | 2.2 |
| Survey, design and consultancy operations | 3,348.5 | 3,709.1 | 634.9 | 803.7 | 19.0 | 21.7 | 80.7 | 299.6 | 2.4 | 8.1 |
| Manufacturing operations | 1,355.2 | 1,856.0 | 224.5 | 303.7 | 16.6 | 16.4 | 16.6 | 124.8 | 1.2 | 6.7 |
| Other operations | 3,553.9 | 5,376.7 | 523.2 | 666.3 | 14.7 | 12.4 | 247.6 | 320.4 | 7.0 | 6.0 |
| Subtotal | 154,617.3 | 173,873.7 | 9,596.0 | 11,399.1 | 6.2 | 6.6 | 2,438.3 | 4,369.1 | 1.6 | 2.5 |
| Inter-segment elimination | (1,008.3) | (1,876.3) | — | — | — | — | — | — | — | — |
| Total | 153,609.0 | 171,997.4 | 9,596.0 | 11,399.1 | 6.2 | 6.6 | 2,438.3 | 4,369.1 | 1.6 | 2.5 |

## 2. DISCUSSION OF OUR OPERATING RESULTS BY SEGMENT *(CONTINUED)*

### 1. Construction operations

The principal profit and loss information for our construction operations before elimination of inter-segment sales is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2006 | **2007** |
| | *(RMB million)* | |
| Segment revenue | 146,359.7 | **162,932.0** |
| Railway | 61,496.9 | **73,951.2** |
| Highway | 56,925.4 | **54,864.5** |
| Metropolitan railway | 4,823.8 | **5,179.2** |
| Water conservancy and hydropower facility | 4,958.2 | **6,004.9** |
| Others | 18,155.4 | **22,932.2** |
| Cost of sales | (138,146.2) | **(153,306.7)** |
| Railway | (57,626.5) | **(69,200.5)** |
| Highway | (54,384.2) | **(52,038.4)** |
| Metropolitan railway | (4,457.9) | **(4,825.6)** |
| Water conservancy and hydropower facility | (4,697.1) | **(5,574.5)** |
| Others | (16,980.5) | **(21,667.7)** |
| Gross profit | 8,213.4 | **9,625.4** |
| Selling and distribution costs | (709.1) | **(492.6)** |
| Administrative expenses and others | (5,410.9) | **(5,508.5)** |
| Segment results | 2,093.4 | **3,624.3** |
| Depreciation and amortization | 2,255.5 | **3,244.2** |

**Segment revenue**. For the year ended 31 December 2007, the Group's segment revenue before elimination of inter-segment sales from our construction operations increased by 11.3% to RMB162,932.0 million from RMB146,359.7 million for the year ended 31 December 2006. The increase was mainly due to the increases in the revenue generated from railway construction projects.

Inter-segment sales generated from our construction operations were RMB93.5 million and RMB296.9 million in the years ended 31 December 2006 and 2007, respectively, mainly from the provision of construction services to our real estate development operations.

As a result, total segment revenue generated from external sales after elimination of inter-segment sales from our construction operations was RMB146,266.2 million for the year ended 31 December 2006 and RMB162,635.1 million for the year ended 31 December 2007.

**Cost of sales**. Our cost of sales before elimination of inter-segment sales incurred from our construction operations increased by 11.0% to RMB153,306.7 million for the year ended 31 December 2007 from RMB138,146.2 million for the year ended 31 December 2006, mainly due to the increases in the cost of sales incurred from railway construction projects, partially offset by the decreases in the cost of sales incurred from the highway construction projects.

**Gross profit**. Gross profit from our construction operations for the year ended 31 December 2007 was RMB9,625.4 million, representing an increase of RMB1,411.9 million or 17.2% compared to RMB8,213.4 million for the year ended 31 December 2006. However, gross margin from our construction operations increased to 5.9% for the year ended 31 December 2007 from 5.6% for the year ended 31 December 2006, primarily due to our strengthened cost control and better project management. The increase was also partially due to the changes of our product mix, whereby we undertook more projects with higher profit margin, such as railway construction projects, for the year ended 31 December 2007 compared with year 2006.

**Selling and distribution costs**. Selling and distribution costs from our construction operations decreased by RMB216.5 million, or 30.5%, to RMB492.6 million for the year ended 31 December 2007 from RMB709.1 million for the year ended 31 December 2006, primarily due to our effective cost control.

## 2. DISCUSSION OF OUR OPERATING RESULTS BY SEGMENT *(CONTINUED)*

### 1. Construction operations *(continued)*

**Administrative expenses and other expenses**. Administrative expenses for our construction operations increased by 1.8% to RMB5,508.5 million for the year ended 31 December 2007 from RMB5,410.9 million for the year ended 31 December 2006. The increase was primarily due to the growth in our business and the corresponding increase in costs.

**Segment results**. Total profit from our construction operations increased by RMB1,530.9 million to RMB3,624.3 million for the year ended 31 December 2007 from RMB2,093.4 million for the year ended 31 December 2006.

The operating margin for our construction operations increased to 2.2% for the year ended 31 December 2007 from 1.4% for the year ended 31 December 2006, mainly due to scale merit as a result of our expanded business scale and successful cost control.

### 2. Survey, design and consultancy operations

The principal profit and loss information for our survey, design and consultancy operations before elimination of inter-segment sales is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2006 | 2007 |
| | *(RMB million)* | |
| Segment revenue | 3,348.5 | **3,709.1** |
| Cost of sales | (2,713.6) | **(2,905.3)** |
| Gross profit | 634.9 | **803.7** |
| Selling and distribution costs | (116.8) | **(84.0)** |
| Administrative expenses and others | (437.5) | **(420.2)** |
| Segment results | 80.7 | **299.6** |
| Depreciation and amortization | 70.1 | **130.2** |

**Segment revenue**. Our segment revenue before elimination of inter-segment sales from survey, design and consultancy operations increased by 10.8% to RMB3,709.1 million for the year ended 31 December 2007 from RMB3,348.5 million for the year ended 31 December 2006. The increase was primarily due to our expanded scale of survey, design and consultancy operations.

Inter-segment sales revenue generated from our survey, design and consultancy operations was RMB37.6 million and RMB212.2 million for the year ended 31 December 2006 and for the year ended 31 December 2007, respectively. The increase of inter-segment sales was mainly due to our efforts to integrate our operations of different segments. The inter-segment sales in our survey, design and consultancy operations comprised the infrastructure construction survey and design services provided to our construction operations projects.

As a result, total revenue generated from external sales after elimination of inter-segment sales of our survey, design and consultancy operations was RMB3,310.9 million for the year ended 31 December 2006 and RMB3,496.8 million for the year ended 31 December 2007, respectively.

**Cost of sales**. Our cost of sales before elimination of inter-segment sales from survey, design and consultancy operations increased by 7.1% to RMB2,905.3 million for the year ended 31 December 2007 from RMB2,713.6 million for the year ended 31 December 2006. The increase was primarily due to our expanded scale of survey and design operations.

**Gross profit**. Gross profit from our survey, design and consultancy operations for the year ended 31 December 2007 was RMB803.7 million, representing an increase of RMB168.8 million, or 26.6%, compared to RMB634.9 million for the year ended 31 December 2006. Gross margin from the survey, design and consultancy operations increased to 21.7% for the year ended 31 December 2007 from 19.0% for the year ended 31 December 2006. The increase was mainly due to the increase in the proportion of revenue generated from metropolitan railway operations for the year ended 31 December 2007, which have a relatively higher gross margin than those of our other projects.

## 2. DISCUSSION OF OUR OPERATING RESULTS BY SEGMENT *(CONTINUED)*

### 2. Survey, design and consultancy operations *(continued)*

**Selling and distribution costs**. Selling and distribution costs from our survey, design and consultancy operations decreased by 28.1%, or RMB32.8 million, to RMB84.0 million for the year ended 31 December 2007 from RMB116.8 million for the year ended 31 December 2006, primarily due to our effective cost control.

**Administrative expenses and other expenses**. Administrative expenses for our survey, design and consultancy operations decreased by 3.9% to RMB420.2 million for the year ended 31 December 2007 from RMB437.5 million for the year ended 31 December 2006. The decrease was primarily due to our effective cost control.

**Segment results**. Profit from our survey, design and consultancy operations increased to RMB299.6 million for the year ended 31 December 2007 from RMB80.7 million for the year ended 31 December 2006. The operating margin from the survey, design and consultancy operations increased to 8.1% for the year ended 31 December 2007 from 2.4% for the year ended 31 December 2006.

### 3. Manufacturing operations

The principal profit and loss information for our manufacturing operations before elimination of inter-segment sales is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2006 | **2007** |
| | *(RMB million)* | |
| Segment revenue | 1,355.2 | **1,856.0** |
| Cost of sales | (1,130.7) | **(1,552.2)** |
| Gross profit | 224.5 | **303.7** |
| Selling and distribution costs | (17.7) | **(17.1)** |
| Administrative expenses and others | (190.2) | **(161.8)** |
| Segment results | 16.6 | **124.8** |
| Depreciation and amortization | 16.2 | **85.1** |

**Segment revenue**. Segment revenue before elimination of inter-segment sales from manufacturing operations increased by 36.9% to RMB1,856.0 million for the year ended 31 December 2007 from RMB1,355.2 million for the year ended 31 December 2006. The substantial increase was mainly due to the increased sales of larger track maintenance machinery, equipment and railway track components.

**Cost of sales**. Our cost of sales before elimination of inter-segment sales incurred from our manufacturing operations increased by RMB421.5 million to RMB1,552.2 million from RMB1,130.7 million, primarily due to the expanded scale of our manufacturing business.

**Gross profit**. Gross profit from our manufacturing operations for the year ended 31 December 2007 was RMB303.7 million, an increase of RMB79.2 million, or 35.3%, compared to RMB224.5 million for the year ended 31 December 2006. Gross margin from the manufacturing operations decreased to 16.4% for the year ended 31 December 2007 from 16.6% for the year ended 31 December 2006 due to increase of cost of raw materials.

**Selling and distribution costs**. Selling and distribution costs from our manufacturing operation decreased by 3.4% to RMB17.1 million for the year ended 31 December 2007 from RMB17.7 million for the year ended 31 December 2006, primarily due to our effective cost control.

**Administrative expenses and other expenses**. Administrative expenses for our manufacturing operations decreased by 14.9% to RMB161.8 million for the year ended 31 December 2007 from RMB190.2 million for the year ended 31 December 2006. The decrease in administrative expenses and other expenses was primarily due to the cost reduction resulting from our implementation of flat management system.

**Segment results**. As a result of the foregoing reasons, profit from our manufacturing operations increased substantially to RMB124.8 million from RMB16.6 million. The operating margin for our manufacturing operations for the years ended 31 December 2006 and 2007 was 1.2% and 6.7%, respectively.

## 2. DISCUSSION OF OUR OPERATING RESULTS BY SEGMENT *(CONTINUED)*

### 4. Other businesses

Our other business operations mainly include sales of real estate and provision of service of logistics to customers. The principal profit and loss information for our other business operations before elimination of inter-segment sales are as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2006 | 2007 |
| | *(RMB million)* | |
| Segment revenue | 3,553.9 | 5,376.7 |
| Inter-segment sales | 843.8 | 892.1 |
| Sales revenue from independent third party | 2,710.1 | 4,484.6 |
| Real estate development | 570.0 | 680.5 |
| Logistics | 2,424.6 | 3,704.3 |
| Others | 559.3 | 991.9 |
| Cost of sales | (3,030.7) | (4,710.4) |
| Real estate development | (411.7) | (508.2) |
| Logistics | (2,217.2) | (3,455.8) |
| Others | (401.8) | (746.4) |
| Gross profit | 523.2 | 666.3 |
| Selling and distribution costs | (49.5) | (102.5) |
| Administrative expenses and others | (226.1) | (243.4) |
| Segment results | 247.6 | 320.4 |
| Real estate development | 75.0 | 15.9 |
| Logistics and others | 172.6 | 304.6 |

**Segment revenue**. Segment revenue derived from other operations mainly included income from the sales of real estate properties and provision of logistics services to external customers. Revenue before elimination of inter-segment sales of these businesses increased by 51.3% to RMB5,376.7 million for the year ended 31 December 2007 from RMB3,553.9 million for the year ended 31 December 2006.

As a result, total revenue generated from external sales after elimination of inter-segment sales of our other operations was RMB2,710.1 million for the year ended 31 December 2006 and RMB4,484.6 million for the year ended 31 December 2007.

**Cost of sales**. Our cost of sales before elimination of inter-segment sales incurred from our other operations increased by 55.4% to RMB4,710.4 million for the year ended 31 December 2007 from RMB3,030.7 million for the year ended 31 December 2006. The increase was primarily due to an increase of RMB96.5 million in the cost for real estate development and a RMB1,583.2 million increase in the cost for logistic and other services, both due to the expansion of our operational scales.

**Gross profit**. Gross profit from our operations other than construction, survey, design and consultancy and manufacturing operations for the year ended 31 December 2007 was RMB666.3 million, representing an increase of RMB143.1 million, or 27.4%, compared to RMB523.2 million for the year ended 31 December 2006. Gross margin from other businesses within our operations decreased to 12.4% for the year ended 31 December 2007 from 14.7% for the year ended 31 December 2006, mainly due to the decreases in our gross margin from the other businesses in our other operations.

**Selling and distribution costs**. Selling and distribution costs from our other operations increased to RMB102.5 million for year ended 31 December 2007 from RMB49.5 million for the year ended 31 December 2006.

**Administrative and other expenses**. Administrative expenses for our other operations increased to RMB243.4 million for the year ended 31 December 2007 from RMB226.1 million for the year ended 31 December 2006. The increase was due to the expanded scale of our business.

**Segment results**. As a result of the foregoing reasons, total profit from our operations other than construction, survey, design and consultancy and manufacturing operations for the year ended 31 December 2006 and 2007 was RMB247.6 million and RMB320.4 million, respectively. However, our segment operating margin for the year ended 31 December 2006 and 2007 was 7.0% and 6.0%, respectively.

## 2. DISCUSSION OF OUR OPERATING RESULTS BY SEGMENT *(CONTINUED)*

### 4. Other businesses *(continued)*

For the year ended 31 December 2007, the Group's revenue from real estate development operations amounted to RMB680.5 million, representing a 19.4% increase from RMB570.0 million for the year ended 31 December 2006. The substantial increase in revenue was mainly due to the increase of sales and deliveries of real estate development projects, as well as a general increase in housing price in the PRC.

For the year ended 31 December 2007, the Group's revenue from the provision of logistics and other services amounted to RMB4,696.2 million, representing a 57.4% increase from RMB2,983.8 million for the year ended 31 December 2006. The increase was mainly due to the expansion of the scale of the Group's logistic services operations.

## 3. LIQUIDITY AND CAPITAL RESOURCES

### 1. Cash Flow

| | For the year ended 31 December | |
|---|---|---|
| | 2006 | **2007** |
| | *(RMB million)* | |
| Cash/cash equivalents as at 1 January | 14,224.6 | **18,373.6** |
| Net cash inflow from operating activities | 6,336.9 | **9,420.8** |
| Net cash outflow from investing activities | (4,809.0) | **(12,182.6)** |
| Net cash inflow from financing activities | 2,672.0 | **7,631.0** |
| Net increase in cash/cash equivalents | 4,200.0 | **4,869.2** |
| Impact on cash and cash equivalents from the change in exchange rate | (50.9) | **(54.4)** |
| Cash/cash equivalents as at 31 December | 18,373.6 | **23,188.5** |

### 2. Cash flows from operating activities

For the year ended 31 December 2007, we had net cash inflow from operating activities of RMB9,420.8 million, mainly consists of profit-before-tax in the amount of RMB3,787.7 million generated in the year, as well as the following adjustments to cash flow statements: (i) depreciation in property, plant and equipment of RMB3,405.6 million; (ii) increase in trade and bills payables of RMB8,364.7 million due to our involvement in an increased number of construction projects which increased the purchases of raw materials and engagement of subcontractors; and (iii) increase in other payables and accruals of RMB13,770.0 million, mainly consisting of advances for customers, accrued salaries, wages and benefits and other tax payables; and partially offset by: (i) increase in trade receivables and bills receivable of RMB7,099.3 million due to the expanded scale of our business; (ii) increase in prepayments, deposits and other receivables of RMB3,308.7 million due to the increase in projects for which we were subject to performance bond and retention money; (iii) increase in inventories of RMB2,032.6 million; (iv) increase in completed properties held for sale and properties under development of RMB1,872.8 million; and (v) net increase in construction contracts of RMB4,992.5 million due to expansion of our construction operations.

For the year ended 31 December 2006, we had net cash inflow from operating activities of RMB6,336.9 million, mainly consists of profit-before-tax in the amount of RMB2,098.2 million generated in the year, as well as the following adjustments to cash flow statements: (i) depreciation in property, plant and equipment of RMB2,364.2 million; (ii) increase in trade and bills payables of RMB7,557.2 million due to our involvement in an increased number of construction projects which increased the purchases of raw materials and engagement of subcontractors; and (iii) increase in other payables and accruals of RMB5,243.9 million, mainly consisting of advances for customers, accrued salaries, wages and benefits and other tax payables; and partially offset by: (i) increase in trade and bills receivables of RMB6,616.2 million due to our involvement in an increased number of construction projects; (ii) increase in prepayments, deposits and other receivables of RMB2,820.2 million due to the increase in projects for which we were subject to performance bond and retention money; and (iii) increase in inventories of RMB1,451.4 million mainly due to an increase in purchases of raw materials.

## 3. LIQUIDITY AND CAPITAL RESOURCES *(CONTINUED)*

### 3. Cash flow from investing activities

For the year ended 31 December 2007, our net cash outflow from investing activities was RMB12,182.6 million. Our cash outflow for investing activities mainly consists of (i) purchase of property, plant and equipment of RMB8,832.0 million; (ii) purchase of minority interests of RMB2,425.1 million; (iii) the increase of RMB1,118.0 million in balances with the ultimate holding company. Our cash inflow for investing activities mainly consists of: (i) proceeds from disposal of property, plant and equipment of RMB1,114.5 million; (ii) dividend received of RMB171.7 million; and (iii) the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary, China Railway Energy Investment Co., Ltd., of RMB117.2 million.

For the year ended 31 December 2006, our net cash outflow from investing activities was RMB4,809.0 million. Our cash outflow for investing activities mainly consists of (i) purchase of property, plant and equipment of RMB5,260.3 million; (ii) increase of RMB209.0 million due to purchase of intangible assets. Our cash inflow from investing activities mainly consists of (i) proceeds from disposal of fairly-valued financial assets with price movement recorded through profit or loss of RMB106.0 million; (ii) proceeds from disposal of property, plant and equipment of RMB970.7 million; and (iii) cash received from disposal of available-for-sale and held-to-maturity investments of RMB67.0 million.

### 4. Net cash flow from financing activities

For the year ended 31 December 2007, our net cash inflow from financing activities was RMB7,631.0 million. Our cash inflow for financing activities mainly consists of newly borrowed bank loans and other borrowings of RMB27,017.3 million. Our cash outflow for financing activities mainly consists of: (i) cash used in repayment of bank loans and other borrowings of RMB17,920.2 million; and (ii) cash used in the payment of interests of RMB1,507.6 million.

For the year ended 31 December 2006, our net cash inflow from financing activities was RMB2,672.0 million. Our cash inflow for financing activities mainly consists of newly borrowed bank loans and other borrowings of RMB16,427.0 million in cash. Our cash outflow for financing activities mainly consists of: (i) cash used in repayment of bank and other borrowings of RMB12,206.9 million; and (ii) cash used in the payment of interests of RMB1,082.9 million.

### 5. Capital Expenditures

We incurred capital expenditures mainly for the construction, expansion and technology upgrade of our facilities and purchase of equipment used for construction projects. Besides, we incurred additional capital expenditures for the expansion of production capacity of large track maintenance machinery and railway track components. Our capital expenditures were RMB6,576.3 million and RMB12,397.0 million for the years ended 31 December 2006 and 2007, respectively. Increase in capital contribution was mainly attributable to the Company's business expansion.

The following table sets forth the capital expenditures for our business operations for the years ended 31 December 2006 and 2007:

| | Year ended 31 December | |
|---|---|---|
| | 2006 | **2007** |
| | *(RMB million)* | |
| Construction operations | 6,157.0 | **10,843.0** |
| Survey, design and consultancy operations | 210.9 | **525.0** |
| Manufacturing operations | 21.1 | **844.6** |
| Others | 187.2 | **184.4** |
| Total | 6,576.3 | **12,397.0** |

As at 31 December 2007, the Company had no material capital commitments for external investment.

## 3. LIQUIDITY AND CAPITAL RESOURCES *(CONTINUED)*

### 6. Working Capital

**(a) Construction contracts in progress**

The following table sets forth our construction contracts work-in-progress as of the balance sheet date indicated:

| | As of 31 December | |
|---|---|---|
| | 2006 | 2007 |
| | *(RMB million)* | |
| Contract cost incurred plus recognized profit less recognized losses | 356,352.7 | **522,645.7** |
| Less: progress billings received and receivable | (342,707.5) | **(504,109.2)** |
| Contract work-in-progress | 13,645.2 | **18,536.6** |
| Representing: | | |
| Amount due from customers for contract work | 28,054.1 | **35,928.3** |
| Amount due to customers for contract work | (14,408.9) | **(17,391.8)** |
| | 13,645.2 | **18,536.6** |

Our construction contracts in progress increased to RMB18,536.6 million as at 31 December 2007 from RMB13,645.2 million as at 31 December 2006, mainly due to the increase in our business scale.

**(b) Trade receivables and trade payables**

The following table sets forth the turnover days of our trade receivables and trade payables for the date indicated:

| | As of 31 December | |
|---|---|---|
| | 2006 | 2007 |
| Turnover days of trade receivables[(1)] | 49 | **59** |
| Turnover days of trade payables[(2)] | 86 | **95** |

(1) Turnover days of trade receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables (including non-current portion and portion classified as current assets) for the relevant year by revenue multiplying 365 days.

(2) Turnover days of trade payables is derived by dividing the arithmetic mean of opening and closing balances of trade payables (including non-current portion and portion classified as current liabilities) for the relevant year by cost of sales multiplying 365 days.

The following table sets forth an aging analysis of trade and bills receivable as of the balance sheet dates indicated:

| | As of 31 December | |
|---|---|---|
| | 2006 | 2007 |
| | *(RMB million)* | |
| Less than one year | 19,774.2 | **27,528.2** |
| One to two years | 2,767.7 | **2,376.2** |
| Two to three years | 928.4 | **909.6** |
| More than three years | 530.9 | **484.9** |
| Total | 24,001.1 | **31,298.8** |

## 3. LIQUIDITY AND CAPITAL RESOURCES *(CONTINUED)*

### 6. Working Capital *(continued)*

#### (b) Trade receivables and trade payables *(continued)*

As of 31 December 2007, we had a provision for impairment of RMB617.3 million. Our Directors believe that the provision for impairment of our Group is adequate.

The following table sets forth an aging analysis of trade and bills payable as of the balance sheet dates indicated:

| | As of 31 December | |
|---|---|---|
| | 2006 | 2007 |
| | (RMB million) | |
| Less than one year | 33,353.2 | 42,010.7 |
| One to two years | 3,026.3 | 1,893.7 |
| Two to three years | 1,362.8 | 933.8 |
| More than three years | 508.3 | 579.7 |
| Total | 38,250.7 | 45,418.0 |

As of 31 December 2007, our trade and bills payable increased to RMB45,418.0 million from RMB38,250.7 million as of 31 December 2006. The increase was primarily because we were granted a longer credit period by our supplier due to the increase of our business scale and our outstanding credit standard.

### 7. Retentions

Our trade and bills receivables, including retention money receivables, as of 31 December 2006 and 31 December 2007 amounted to RMB4,810.0 million and RMB5,232.4 million, respectively. Our trade and bills payables, including retention money payables, as of 31 December 2006 and 31 December 2007 amounted to RMB737.8 million and RMB657.8 million, respectively.

### 8. Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables increased to RMB23,625.2 million as of 31 December 2007 from RMB21,585.4 million as of 31 December 2006, primarily because of the increase in prepayments to our suppliers and the increase in bid deposits to customers, in response to the enlarged operation scale.

### 9. Provision for supplementary pension subsidies and early retirement benefits

We provided and paid supplementary pension subsidies to employees who retired prior to 1 January 2007. Pursuant to the agreement entered into between CRCCG and the Company on 5 November 2007 in relation to the restructuring of the Group, CRCCG has agreed to assume the liabilities of the supplementary pension subsidies of the above retired employees from 1 January 2007. We terminated the supplementary pension subsidies plan for our employees who retired after 1 January 2007.

In the attempt to streamline our workforce and improve efficiency, we implemented an early retirement plan, under which we compensate certain early-retired employees till they formally retire. Upon retirement, they will be covered by government-sponsored retirement plans. The Group's early retirement scheme will not continue after the listing of the Company's H Shares on the Hong Kong Stock Exchange and as such, no further new early retirement application will be accepted by the Group after the listing of the Company's H Shares on the Hong Kong Stock Exchange.

Our obligations in respect of the supplementary pension subsidies and early retirement benefits at the balance sheet dates were computed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method. As of 31 December 2006 and 31 December 2007, our provision for those obligations were RMB11,250.3 million and RMB7,745.6 million, respectively.

## 3. LIQUIDITY AND CAPITAL RESOURCES *(CONTINUED)*

### 10. Other payables and accruals

Other payables and accruals included advances from customers, accrued salaries, wages and benefits, other taxes payable and others. Advances from customers mainly represented advances received from customers for the construction contracts. Accrued salaries, wages and benefits mainly represented accruals of salaries, bonuses, allowances, housing fund, social insurance and union and education funds. Other taxes payable mainly represented business taxes and value-added taxes payable. Others mainly represented payables to sub-contractors for payments made by the Group, deposits and performance bonds received from sub-contractors, payables for the purchases of machinery and equipment and payables for repair and maintenance expenses. As of 31 December 2006 and 31 December 2007, we had other payables and accruals of RMB38,323.8 million and RMB53,582.3 million, respectively. The increase in other payables and accruals was primarily because of the increase in customer advances resulting from our enlarged operating scale. Our advances from customers increased from RMB22,023.2 million as of 31 December 2006 to RMB32,624.9 million as of 31 December 2007.

### 11. Indebtedness

**(a) Borrowings**

The maturity profile of interest-bearing borrowings of our Group as of 31 December 2006 and 31 December 2007 is as follows:

| | As of 31 December | |
|---|---|---|
| | 2006 | 2007 |
| | *(RMB million)* | |
| Within one year | 12,514.7 | 20,766.4 |
| In the second year | 1,595.0 | 1,451.0 |
| In the third to fifth years (inclusive) | 1,852.5 | 2,250.8 |
| Beyond five years | 1,278.2 | 1,495.0 |
| Total | 17,240.4 | 25,963.1 |

Our gearing ratio was 82.4% and 83.1% as of 31 December 2006 and 31 December 2007, respectively. Gearing ratio is derived by dividing total interest-bearing bank loans and other borrowings by total interest-bearing bank loans, other borrowings and shareholder's equity. Before 13 March 2008, being the date on which the Company's H Shares were listed on the Hong Kong Stock Exchange, guarantees previously provided by CRCCG to the Group have been fully released or withdrawn. As at 31 December 2006 and 31 December 2007, certain of the Group's interest-bearing bank loans and other borrowings were secured by certain of the Group's assets, details of which are set out in note 33 to consolidated financial statements.

**(b) Capital commitments**

In addition to the operating lease commitments, we had the following commitments as of the dates indicated:

| | As of 31 December | |
|---|---|---|
| | 2006 | 2007 |
| | *(RMB million)* | |
| Contracted, but not provided for: | | |
| Property, plant and equipment | 824.5 | 2,254.2 |
| Intangible assets | 1,784.1 | 1,107.7 |
| Available-for-sale investment | 117.4 | 35.0 |
| | 2,726.0 | 3,397.0 |
| Authorized, but not contracted for: | | |
| Intangible assets | 2.8 | — |
| Property, plant and equipment | 319.7 | 17.7 |
| Capital contributions to an associate | 70.0 | — |
| | 392.5 | 17.7 |

## 3. LIQUIDITY AND CAPITAL RESOURCES *(CONTINUED)*

### 12. Lawsuits and other proceedings

We were involved in a number of legal proceedings and claims against either the Group or its subsidiaries in the ordinary course of business. The provisions regarding these proceedings and claims were approximately RMB7.6 million as of 31 December 2007, based on the estimates of our management.

### 13. Risk of foreign exchange

A significant portion of our operating revenue is denominated in Renminbi, but some of our construction operations are conducted overseas. Our foreign exchange assets may increase following the development of our overseas operations. In addition, some of our machinery and equipment are imported from overseas. Accordingly, we are required from time to time to make payments in Euro or in other foreign currencies. Loans borrowed in foreign countries and the interests on these loans may need to be repaid in U.S. dollars or in other foreign currencies. The conversion of Renminbi to repay foreign loans via foreign currency remittances and to pay dividends are subject to the relevant PRC foreign exchange regulations. As a result, we are exposed to foreign exchange fluctuations and movements in the exchange rate of Renminbi, which may have a direct impact on our profit.

On 21 July 2005, the PRC Government reformed the Renminbi exchange rate mechanism so that the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies. A revaluation of Renminbi resulted in the appreciation of Renminbi against the U.S. dollar and Hong Kong dollar by approximately 7%. The relaxation of the Renminbi-U.S. dollar peg may contribute to volatility or increased fluctuations in the value of Renminbi. Further appreciation of Renminbi could cause our costs to increase or our operating revenues to decrease. In addition, we plan to deposit the unused proceeds from the global offering (the "Global Offering") in bank accounts outside of China without remitting those funds into China and converting them into Renminbi assets. In the event that the appreciation of Renminbi against the U.S. dollar and Hong Kong dollar continues, we may incur foreign exchange loss. Conversely, depreciation of Renminbi could adversely affect the value of dividends, if any, payable on the H Shares by the Company in foreign currency terms, and could increase the cost of importing equipment and facilities that are quoted in foreign currencies.

### 14. Financial risks

We are exposed to various types of financial risks in the ordinary course of business, including fair value risk, cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk, details of which are set out in note 45 to the consolidated financial statements.

### 15. Property valuation

In accordance with the property valuation report prepared by Sallmanns (Far East) Limited for the Global Offering, the Company's properties were valued at RMB14,482.4 million as at 31 December 2007. Inclusion of such properties will result in an additional depreciation of RMB105.2 million to be charged to the consolidated income statement.

## 4. OVERSEAS OPERATIONS

The combination of enriched heritage, years' endeavour and integrated mode of design and construction has established our privileged advantages in overseas market. With the fast growing new overseas contract value, we boast the highest growth rate among all China's overseas construction contractors. Overseas constructions that we have engaged are impressive with their quantity and scale as well. The Company undertook 76 overseas contracts in 2007, with an aggregate value of RMB90,113.5 million which set a new record and granted us the leading position, especially in Africa. The Algerian Expressway Project for which the Company is responsible is proceeding smoothly. Beside that, new breakthrough has been made in Algerian Railway, Israel Red Line Subway and Abuja Metropolitan Railway projects. Also our existing projects in Nigeria such as office building for Ministry of Finance, Dama Highway and Lagos Bridge are making progress.

The Board hereby presents the Report of Directors and the audited financial statements for the year ended 31 December 2007.

## PRINCIPAL OPERATIONS

The Company and the Group are principally engaged in construction operations, survey, design and consultancy operations, manufacturing operations, real estate development, capital investment operations, provision of logistics services, etc.

## FINANCIAL HIGHLIGHTS

Annual results for the year ended 31 December 2007 of the Group are set out in Consolidated Income Statement on page 51. The financial highlights of the Group for most recent four financial years on pages 134 to 136 are extracted from their corresponding annual report and the prospectus of the Company published for the purpose of issue of H Shares dated 29 February 2008 (the "Prospectus").

## DIVIDENDS

Pursuant to the relevant PRC regulations and the Restructuring Agreement between CRCCG and the Company, the Company shall distribute to CRCCG the net profit attributable to the equity holder of the Company for the period from 1 January 2007 to 5 November 2007 (the incorporation date of the Company) ("Pre-establishement Distribution"). In addition, pursuant to the resolution of a general meeting dated 30 November 2007, the sole shareholder of the Company, CRCCG, resolved to make a special distribution to itself, as the sole shareholder of the Company, in an amount equal to the net profit of the Company for the period from 6 November 2007, the date immediately after the date on which the Company is incorporated, to 30 November 2007 ("Special Dividend"). The total net profit of the Company for calculation of the Pre-establishment Distribution and the Special Dividend is determined based on the audited accounts prepared in accordance with PRC GAAP for the eleven months ended 30 November 2007, after giving effect to relevant necessary adjustments. The aggregate amount of the Pre-establishment Distribution and the Special Dividend is RMB2,423.9 million and has been paid to CRCCG prior to the completion of the Company's A share listing. The Company has paid the Pre-establishment Distribution and the Special Dividend out of our internal financial resources.

Pursuant to the undertakings in the Prospectus, all the existing shareholders of the Company after issue of A and H shares are entitled to the profit for the period from 1 December 2007 to 31 December 2007. Given there was only one month for such profit distribution and that the A shares and H shares of the Company were issued in March 2008, the Company recommends no profit distribution separately for the month from 1 December 2007 to 31 December 2007 in the year. The profit for the month will be shared among all shareholders of the Company and distributed together with the profit for the year 2008 according to the Company's relevant dividend policies and relevant regulations.

## SHARE CAPITAL

Details of share capital of the Company are set out in Note 38 to the consolidated financial statements.

In 2007, none of the Company or its subsidiaries had issued any convertible or redeemable securities, options, warrants or any other similar rights.

## RESERVES

Changes to reserves of the Group and the Company in 2007 are set out in Statement of Changes in Equity and Note 39 to the consolidated financial statements on pages 54 to 55.

## PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in Note 15 to the consolidated financial statements.

## RESERVE AVAILABLE FOR DISTRIBUTION

Pursuant to Article 184 of the Articles of Association of the Company, the reserve available for distribution during the relevant period is the lower of the amounts as shown in financial statements prepared in accordance with PRC GAAP and IFRSs. As at 31 December 2007, there was no reserve available for distribution by the Company.

## DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December 2007, the Group had no designated deposits placed with any financial institution in China, nor any time deposit which could not be recovered upon maturity.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the PRC laws which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## LITIGATIONS OR CONTINGENT LIABILITIES

### (a) Pending litigations

As at 31 December 2007, the Group had three pending litigations involving an amount exceeding RMB50 million, including:

(1) China Railway Construction Group Ltd. commenced a litigation against Beijing Tongcheng Jinhai Real Estate Company Limited（北京通程金海置業發展有限公司）for construction contractual dispute;

(2) China Railway 14th Bureau Group Co., Ltd. commenced a litigation against Jinan Junan Construction Company Limited（濟南軍安工程有限公司）of China National Real Estate Development Group Corporation for construction contractual dispute; and

(3) China Railway Construction Group Ltd. commenced a litigation against Beijing Zhongguancun Software Education Investment Company Limited（北京中關村軟件教育投資有限公司）for construction contractual dispute.

There are disputation, litigation and claim with customers, sub-contractors and suppliers in the Group's daily business. With relevant consultancy from legal advisors and reasonable estimation by the management on the consequence, the Group had made provisions for such disputes, litigations and claims which may incur potential losses to the Group. No provision was made for those pending disputes, litigations and claims the consequences of which cannot be reasonably estimated or as considered by the management will not pose material adverse impact on our operation results or financial standing.

### (b) Contingent liabilities

The details of the contingent liabilities of the Company are set forth in Note 41 of the consolidated financial statements.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 15 to 20.

Pursuant to Articles 104 and 145 of the Company's Articles of Association, the term of office for the Directors and the Supervisors is three years, being eligible for re-election upon expiry.

## SERVICE CONTRACTS AND REMUNERATION OF DIRECTORS AND SUPERVISORS

Directors and Supervisors have service contracts with the Company for a term of three years. None of the Directors and Supervisors had entered into service contract with the Company which could not be terminated by the employer without compensation (other than statutory compensation) within one year. Remuneration of Directors and Supervisors and details of the five persons with the highest remuneration are set out in Note 10 to consolidated financial statements of this annual report. For the year ended 31 December 2007, none of the Directors and Supervisors of the Company had waived or agreed to waive any remuneration.

## INTERESTS IN THE COMPANY HELD BY DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

For the year ended 31 December 2007, since the shares of the Company were not listed on the Hong Kong Stock Exchange, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the “SFO”), Section 352 of the SFO, and the Model Code for Securities Transactions by Directors of Listed Companies were not applicable to the Company, its Directors, chief executives and Supervisors.

## DIRECTORS’ AND SUPERVISORS’ INTEREST IN CONTRACTS

For the year ended 31 December 2007, neither the Company nor its subsidiaries had entered into any contracts in which any Director or Supervisor had a material interest, whether directly or indirectly. None of the Company or its subsidiaries had provided any loan or quasi-loan to any Director or other members of senior management of the Company.

## EMPLOYEES AND RETIREMENT PLAN

As at 31 December 2007, the Group had 180,986 employees. Employee’s emolument includes salary, performance bonus and allowance. Employees of the Company also receive welfare benefits including pension insurance, medical insurance, unemployment insurance, workplace injury insurance, maternity insurance, employee’s housing fund and other benefits.

According to applicable PRC laws and regulations, the premiums for pension insurance and unemployment insurance are contributed strictly pursuant to PRC national, provincial and municipal regulation, among which basic pension insurance is contributed according to the national standard of 8% by the employee and 20% to 23% by the employer. Employees contribute 1% and employer must pay a corresponding rate of 2% of their wages to unemployment insurance. Workplace injury insurance rates vary with different industries, ranging from 0.5% to 1.5% of employees’ wages. The contribution rate for medical insurance and maternity insurance are subject to local regulations.

## SHARE CAPITAL STRUCTURE

The Company was established on 5 November 2007 with CRCCG as the sole promoter. Upon the completion of the establishment, CRCCG was the company’s sole shareholder and held 8 billion issued domestic shares of the Company. On 10 and 13 March 2008, the Company’s A shares and H shares were respectively listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange. On 31 March 2008, an over-allotment option (“Over-allotment Option”) was partially exercised by the joint global coordinators of the Global Offering of the H shares of the Company.

Set out below is the Company’s share capital immediately after completion of the issue of A shares, H shares of the Company and partial exercise of the Over-allotment Option:

| **Shareholders** | **Nature** | **Number of shares** | **Approximate percentage of share capital in issue (2)** % |
|---|---|---|---|
| CRCCG | A share* | 7,811,245,500 | 63.31 |
| Public holders of A shares | A share | 2,450,000,000 | 19.86 |
| Public holders of H shares | H share** | 2,076,296,000 | 16.83 |
| Total | | 12,337,541,500 | 100.00 |

* Lock-up period is 36 months

** Including H shares held by the National Council for Social Security Fund of the People’s Republic of China

## PARTICULARS OF THE TOP 10 SHAREHOLDERS AND THE TOP 10 HOLDERS OF TRADABLE SHARES

As at 31 December 2007, the initial public offering of the Company had not been completed. Therefore, CRCCG was the sole shareholder of the Company.

## PARTICULARS OF LEGAL PERSON SHAREHOLDER HOLDING 10% OR MORE OF THE TOTAL ISSUED SHARES

As at 31 December 2007, the initial public offering the Company had not been completed. Therefore, CRCCG was the sole shareholder of the Company.

## PUBLIC FLOAT

As at the date of this annual report, a total of 4,526,296,000 shares were held by the public, representing 36.69% of the total issued share capital of the Company; of which, 2,076,296,000 H shares were held by the public, representing 16.83% of the total issued share capital of the Company, and 2,450,000,000 A shares were held by the public, representing 19.86% of the total issued share capital of the Company.

The Company maintained sufficient public float as required by the Hong Kong Listing Rules.

## SUBSTANTIAL SHAREHOLDER

As at 31 December 2007, the initial public offering of the Company had not been completed. Therefore, CRCCG was the sole shareholder of the Company, the holding 8 billion domestic shares of the Company in issue. CRCCG is a State-owned enterprise, which is wholly-owned by the SASAC.

## REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

In 2007, the Company had not redeemed any of its shares. In 2007, none of the Company or its subsidiaries had purchased or disposed of any shares in the Company.

## MANAGEMENT CONTRACT

In 2007, there was no management or administration contract in respect of all of, or substantial part of, the Company's business.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the purchase from the largest supplier accounted for 0.3% of the cost of sales of the Group's construction operations, and the purchase from the top five suppliers accounted for 1.3% of the total cost of sales for construction operations of the Group.

For the year ended 31 December 2007, the sales to the largest customer of construction operations accounted for 5.9% of the segment's revenue of the Group, and the sales to the top five customers of construction operations accounted for 15.2% of the segment's revenue of the Group.

At any time of 2007, none of Directors or their respective associates (as defined in the Listing Rules) or the existing shareholders of the Company who held, as to the knowledge of Directors, 5% or more of the Company's issued share capital held any interest in the five largest suppliers or customers of the Group.

## CONNECTED TRANSACTIONS

Transactions between the Company and its connected persons or their respective connected persons (as defined in the Hong Kong Listing Rules) shall be in compliance with disclosure requirements of the Hong Kong Listing Rules. The resolution on the amounts of connected transactions occurred in 2007 was considered and approved by the 4th meeting of the First Session of the Board on 25 April 2008. The annual caps of connected transactions granted by the Hong Kong Stock Exchange under the waiver and the value of connected transactions of the Group in 2007 are set out below, which are aggregated for the year ended 31 December 2007:

| Nature of transaction | Annual caps of connected transactions as set out in the Prospectus *RMB'000* | Accumulated value of transactions in 2007 *RMB'000* | Whether the accumulated value of transactions in 2007 is no more than annual caps of Connected Transactions |
|---|---|---|---|
| **Revenue** | | | |
| 1 Revenue recognized by the Company for provision of construction services in respect of the CRCCG office building | 110,000 | 99,510 | Yes |
| 2 Revenue recognized by the Company for construction and related services in respect of retained BOT projects provided by CRCCG | 900,000 | 850,348 | Yes |
| **Expenditure** | | | |
| 3 Expenditure incurred by the Company for provision of services for CRCCG (or its associates) | 250,000 | 248,686 | Yes |

Independent non-executive Directors had reviewed such transactions, and confirmed that:

1. the transactions have been entered into by the Company in the ordinary and usual course of the Company's business;
2. the terms of transactions are fair and reasonable so far as the interest of the Company's shareholders as a whole are concerned;
3. the transactions have been entered into on normal commercial terms or, where there is no available comparison, on terms no less favourable than those available to or from independent third parties; and
4. in accordance with the terms of the agreement governing such transactions.

The Company's auditors had provided a report to the Directors on the execution of agreed-upon procedures of the above transactions that:

1. the transactions have been approved by the Board;
2. the sample transactions have been entered into in accordance with the pricing policies of the Company and its subsidiaries;
3. the sample transactions have been entered into in accordance with the respective terms of the agreements governing such transactions; and
4. the accumulated value of transactions in 2007 had not exceeded the annual caps for the year ended 31 December 2007 as set out in the Prospectus.

## COMPLIANCE WITH NON-COMPETITION AGREEMENT

CRCCG confirmed that during 2007, it had not breached its undertakings under the non-competition agreement entered into with the Company on 5 November 2007.

## SUBSEQUENT EVENTS

1. In February 2008, the Company won contracts to participate in the construction of the Libya Seaside Railway Line and the Libya North-South Railway Line. The total contract value is approximately US$2.6 billion. The Khoms-Sirt section of the Libya Seaside Railway Line will be the main west-east railway line of Libya which will mainly serve cargo and passenger transportation. The Alhishe-Sabha section of the Libya North-South Railway will mainly serve the transportation of iron ores from Sabha area to the northern shore city, Misratah, as well as to facilitate north-south passenger transportation. Both projects are anticipated to commence in June 2008 and are expected to be completed within four years from the date of commencement.

2. In order to motivate and incentivize our employees (including the Directors and senior management of the Company), the Company intends to implement a share appreciation rights plan (the "SAR Plan"). The proposed adoption of the SAR Plan has been approved by the SASAC in principle on 3 February 2008. Before the implementation of the SAR Plan, the proposed SAR Plan is required to be approved by the SASAC and the general meeting of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2007, the Company had fully complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules.

The Articles of Association, terms of reference of the audit committee, terms of reference of the supervisory committee and the Code of Conduct on Directors and Special Employees' Securities Transactions constitute the reference basis of the Company's codes on corporate governance practices. The Board has reviewed the relevant corporate governance documents adopted by the Company, and is of the opinion that those documents have covered most of the principles and code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules.

The Board believed that the Company had fully complied with the code provisions in the Code on Corporate Governance Practices.

## AUDIT COMMITTEE

Terms of reference of the audit committee were prepared and adopted in accordance with the Guide for the Formation of an Audit Committee issued by the Hong Kong Institute of Certified Public Accountants.

The Company's financial statements for the year ended 31 December 2007 were reviewed by the audit committee of the Company.

## AUDITORS

The Company has appointed Ernst & Young and Ernst & Young Hua Ming respectively as international and domestic auditors for the year ended 31 December 2007. Ernst & Young has performed auditing on the accompanying financial statements which were prepared in accordance with IFRSs. The Company has employed Ernst & Young and Ernst & Young Hua Ming since the date of its incorporation. The proposal for retaining Ernst & Young and Ernst & Young Hua Ming respectively as international and domestic auditors for the year ending 31 December 2008 will be put forward for approval at the forthcoming annual general meeting of the Company.

By order of the Board of Directors
**LI Guorui**
*Chairman*

Beijing, PRC
25 April 2008

# Report of Supervisory Committee

**Dear Shareholders,**

On behalf of the First Session of the Supervisory Committee of CRCC, I would like to submit to the annual general meeting a report on the work of the Supervisory Committee in the reporting period.

The Supervisory Committee was established upon the approval of the general meeting on 5 November 2007. The First Session of the Supervisory Committee comprises three Supervisors, namely, Mr. Peng Shugui, Mr. Huang Shaojun and Ms. Yu Fengli.

## I. MEETINGS CONVENED DURING THE REPORTING PERIOD

On 5 November 2007, the first meeting of the First Session of the Supervisory Committee was convened at Beijing Jingxi Hotel, at which the proposal for electing Mr. Peng Shugui as chairman of the Supervisory Committee was considered and approved.

## II. PRINCIPAL DUTY OF THE SUPERVISORY COMMITTEE

The Supervisory Committee advances its work and performs its duty focusing on a number of issues, such as how to adapt to the Company's development, how to improve the transparency and standard, how to establish the Company's image of creditability in capital market, in particular, how to effectively protect interests of investors, especially the medium and minority investors through adoption of effective measures, and how to further improve the Company's corporate governance structure, etc.

The Supervisory Committee is responsible for supervision on the Board, its members and senior management, so as to prevent them from misusing authority and infringing the legal interests of the shareholders, the Company and its staff members. The Supervisory Committee conducted the following activities during the reporting period:

### 1. Review of implementation of resolutions of the general meetings

The Supervisory Committee staff attended each of the general meetings and Board Meetings as observers. No objection has been made to the Board's reports and proposal submitted to the general meetings for consideration. The Supervisory Committee exercised supervision and inspection on implementation of the Board, the Directors and members of senior management in respect of resolutions of the general meetings. The Supervisory Committee is of the opinion that Directors and members of senior management had committed to responsibility for shareholders pursuant to the resolutions of the general meetings, and faithfully performed their duties with due diligence, and accomplished the mission entrusted by shareholders as a whole.

### 2. Inspection of legal compliance of the Company's operations

During the reporting period, the Supervisory Committee has exercised supervision over the legal compliance and validity of the Company's operation and management. It has also exercised supervision over work performance of the Directors and members of senior management of the Company. The Supervisory Committee is of opinion that the Company's operation is sound and rational, and is in accordance with all applicable laws, regulations and rules. No violation of any laws or regulations or Articles of Association nor any act which jeopardizes the interests of the Company's shareholders has been identified in the office of the Directors and management staff.

## II. PRINCIPAL DUTY OF THE SUPERVISORY COMMITTEE *(CONTINUED)*

### 3. Inspection of the Company's daily operating activities

During the reporting period, the Company implemented scientific development concept, transformed growth pattern and reorganised structure, taking advantage of thriving market demand to achieve a stable growth in production and profitability. The Supervisory Committee exercised effective supervision over the Company's operating activities. The Supervisory Committee is of the opinion that the Company has established an improved internal control system, and has made great progress in formulation and implementation of its internal work procedures; all functions were performed in accordance to the PRC laws and regulations, the Articles of Association and workflows, thus effectively controlling its exposure to various operating risks.

### 4. Inspection of the Company's financial status

The Supervisory Committee verified cautiously the Company's 2007 final financial statements, and supervised and inspected the Company's implementation of relevant financial policies and legislation as well as details on the Company's assets, financial income and expenditure and connected transactions. The Supervisory Committee was of the opinion that the operating results achieved by the Company were true and the expenses were reasonable. The Supervisory Committee reviewed the auditor's report provided by the international auditors Ernst & Young, indicating no objection.

### 5. Connected transactions

As for the four framework agreements relating to the connected transactions between the Company and CRCCG, the Supervisory Committee is of opinion that all connected transactions during the reporting period were fair and reasonable. No act which may harm the interest of the Company or its shareholders through connected transaction was identified.

### 6. Disclosure of information

During the reporting period, the Supervisory Committee is of the opinion that material events and relevant information of the Company had been disclosed timely, fully and truthfully in accordance with relevant regulations.

### 7. Inspection of assets purchased and disposed by the Company

During the reporting period, the Supervisory Committee did not identify any damage to the shareholders' interests or dissipation of the Company's assets in the purchase or disposal of assets of the Company.

By order of the Supervisory Committee
**PENG Shugui**
*Chairman of the Supervisory Committee*

Beijing, PRC
25 April 2008

# Independent Auditors' Report

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com/china

ERNST & YOUNG

**To the shareholders of China Railway Construction Corporation Limited**
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying financial statements set out on pages 51 to 133 of China Railway Construction Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which comprise the consolidated and the Company's balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with IFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
25 April 2008

# Consolidated Income Statement

*Year ended 31 December 2007*

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | 171,997,410 | 153,608,974 |
| Cost of sales | | (160,598,330) | (144,012,964) |
| Gross profit | | 11,399,080 | 9,596,010 |
| Other income and gains, net | 6 | 612,945 | 185,868 |
| Selling and distribution costs | | (696,113) | (893,106) |
| Administrative expenses | | (6,736,186) | (6,002,090) |
| Other expenses | | (210,599) | (448,343) |
| **PROFIT FROM OPERATIONS** | 7 | 4,369,127 | 2,438,339 |
| Finance revenue | 8 | 652,160 | 546,587 |
| Finance costs | 8 | (1,272,223) | (909,326) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | 14,624 | 25,535 |
| Associates | | 24,010 | (2,888) |
| **PROFIT BEFORE TAX** | | 3,787,698 | 2,098,247 |
| Tax | 11 | (1,481,766) | (596,289) |
| **PROFIT FOR THE YEAR** | | 2,305,932 | 1,501,958 |
| Attributable to: | | | |
| Equity holder of the Company | 12 | 2,300,770 | 1,212,950 |
| Minority interests | | 5,162 | 289,008 |
| | | 2,305,932 | 1,501,958 |
| Distributions | 13 | 4,684,989 | 305,142 |
| Earnings per share attributable to equity holder of the Company: | | | |
| Basic | 14 | 28.76 cents | 15.16 cents |
| Diluted | 14 | N/A | N/A |

# Consolidated Balance Sheet

*As at 31 December 2007*

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | **15,997,957** | 14,166,142 |
| Prepaid land lease payments | 16 | **4,695,513** | 1,441,246 |
| Intangible assets | 17 | **1,132,542** | 338,850 |
| Interests in jointly-controlled entities | 19 | **71,814** | 68,381 |
| Interests in associates | 20 | **256,971** | 365,735 |
| Held-to-maturity investments | 21 | **18,358** | 19,133 |
| Available-for-sale investments | 22 | **872,418** | 537,811 |
| Deferred tax assets | 23 | **3,140,236** | 3,928,131 |
| Trade and bills receivables | 27 | **1,033,832** | 1,570,812 |
| Prepayments, deposits and other receivables | 28 | **81,750** | 60,785 |
| **Total non-current assets** | | **27,301,391** | 22,497,026 |
| **CURRENT ASSETS** | | | |
| Prepaid land lease payments | 16 | **101,901** | 28,823 |
| Inventories | 24 | **8,026,889** | 5,994,469 |
| Properties under development | | **3,510,042** | 1,584,627 |
| Completed properties held for sale | 25 | **352,398** | 296,404 |
| Construction contracts | 26 | **35,928,314** | 28,054,058 |
| Trade and bills receivables | 27 | **30,265,003** | 22,430,313 |
| Prepayments, deposits and other receivables | 28 | **23,543,418** | 21,524,630 |
| Held-to-maturity investments | 21 | **25,000** | 305,038 |
| Financial assets at fair value through profit or loss | 29 | **125,131** | 65,227 |
| Pledged deposits | 30 | **1,298,142** | 808,265 |
| Cash and cash equivalents | 30 | **26,190,152** | 20,960,846 |
| | | **129,366,390** | 102,052,700 |
| Non-current asset held for sale | 44 | **210,000** | — |
| **Total current assets** | | **129,576,390** | 102,052,700 |
| **TOTAL ASSETS** | | **156,877,781** | 124,549,726 |

*As at 31 December 2007*

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 31 | 44,676,793 | 37,512,875 |
| Construction contracts | 26 | 17,391,764 | 14,408,867 |
| Other payables and accruals | 32 | 53,199,850 | 38,048,543 |
| Interest-bearing bank and other borrowings | 33 | 20,766,407 | 12,514,681 |
| Provisions for supplementary pension subsidies and early retirement benefits | 35 | 1,077,140 | 1,080,490 |
| Tax payable | | 1,021,936 | 374,979 |
| Provision | 37 | 7,610 | — |
| **Total current liabilities** | | 138,141,500 | 103,940,435 |
| **NET CURRENT LIABILITIES** | | (8,565,110) | (1,887,735) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 18,736,281 | 20,609,291 |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and bills payables | 31 | 741,228 | 737,824 |
| Other payables and accruals | 32 | 382,401 | 275,230 |
| Interest-bearing bank and other borrowings | 33 | 5,196,736 | 4,725,715 |
| Provisions for supplementary pension subsidies and early retirement benefits | 35 | 6,668,470 | 10,169,760 |
| Deferred tax liabilities | 23 | 194,994 | 636,080 |
| Other long term liabilities | | 100,922 | 168,843 |
| Deferred revenue | 36 | 177,692 | 196,071 |
| Provision | 37 | — | 11,999 |
| **Total non-current liabilities** | | 13,462,443 | 16,921,522 |
| **NET ASSETS** | | 5,273,838 | 3,687,769 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY** | | | |
| Owner's equity | | — | 2,637,393 |
| Issued share capital | 38 | 8,000,000 | — |
| Reserves | 39(a) | (2,942,040) | — |
| | | 5,057,960 | 2,637,393 |
| **MINORITY INTERESTS** | | 215,878 | 1,050,376 |
| **TOTAL EQUITY** | | 5,273,838 | 3,687,769 |

**LI Guorui**
*Director*

**DING Yuanchen**
*Director*

# Consolidated Statement of Changes in Equity

*Year ended 31 December 2007*

| | Attributable to equity holder of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Owner's equity *RMB'000* | Issued share capital *RMB'000* | Capital reserve *RMB'000* | Available-for-sale investment revaluation reserve *RMB'000* | Retained earnings *RMB'000* | Exchange fluctuation reserve *RMB'000* | Total *RMB'000* | Minority interests *RMB'000* | Total equity *RMB'000* |
| As at 1 January 2006 | 1,774,339 | — | — | — | — | — | 1,774,339 | 828,213 | 2,602,552 |
| Capital contributions | — | — | — | — | — | — | — | 48,560 | 48,560 |
| Distributions *(note 13)* | (305,142) | — | — | — | — | — | (305,142) | — | (305,142) |
| Dividends paid to minority shareholders of subsidiaries | — | — | — | — | — | — | — | (160,159) | (160,159) |
| Transactions between equity holder of the Company and the minority shareholders of certain subsidiaries *(note (a))* | (44,754) | — | — | — | — | — | (44,754) | 44,754 | — |
| Profit for the year | 1,212,950 | — | — | — | — | — | 1,212,950 | 289,008 | 1,501,958 |
| As at 31 December 2006 and 1 January 2007 | 2,637,393 | — | — | — | — | — | 2,637,393 | 1,050,376 | 3,687,769 |
| Capital contributions | — | — | — | — | — | — | — | 86,198 | 86,198 |
| Distributions *(note 13)* | (701,455) | — | — | — | — | — | (701,455) | — | (701,455) |
| Other distribution *(note 13)* | (2,252,651) | — | — | — | — | — | (2,252,651) | — | (2,252,651) |
| Dividends paid to minority shareholders of subsidiaries | — | — | — | — | — | — | — | (257,085) | (257,085) |
| Changes in fair values of available-for-sale investments *(note 22)* | — | — | — | 269,628 | — | — | 269,628 | — | 269,628 |
| Deferred tax liabilities arising from changes in fair values of available-for-sale investments *(note 23)* | — | — | — | (31,688) | — | — | (31,688) | — | (31,688) |
| Acquisition of minority interests *(note (b))* | (1,937,993) | — | — | — | — | — | (1,937,993) | (717,672) | (2,655,665) |
| Distributions pursuant to the Restructuring *(note 13)*: | | | | | | | | | |
| (i) Property, plant and equipment *(note 15)* | (1,111,263) | — | — | — | — | — | (1,111,263) | — | (1,111,263) |
| (ii) Prepaid land lease payments *(note 16)* | (229,087) | — | — | — | — | — | (229,087) | — | (229,087) |
| (iii) Provision for supplementary pension subsidies *(note 35)* | 2,880,020 | — | — | — | — | — | 2,880,020 | — | 2,880,020 |
| (iv) Deferred tax assets arising from provision for supplementary pension subsidies *(note 23)* | (846,670) | — | — | — | — | — | (846,670) | — | (846,670) |
| (v) Special distribution *(note (d))* | (2,423,883) | — | — | — | — | — | (2,423,883) | — | (2,423,883) |
| Capital contribution of prepaid land lease payments *(note (e))* | 3,074,967 | — | — | — | — | — | 3,074,967 | — | 3,074,967 |
| Capital contribution of cash | 2,400,000 | — | — | — | — | — | 2,400,000 | — | 2,400,000 |
| Deferred tax assets on revaluation surplus arising from the Restructuring *(note 23)* | 1,002,420 | — | — | — | — | — | 1,002,420 | 48,883 | 1,051,303 |
| Profit for the year | 2,008,655 | — | — | — | 292,115 | — | 2,300,770 | 5,162 | 2,305,932 |
| Capitalisation upon the Restructuring *(note (c))* | (4,500,453) | 8,000,000 | (3,499,547) | — | — | — | — | — | — |
| Exchange realignment | — | — | — | — | — | 27,452 | 27,452 | 16 | 27,468 |
| As at 31 December 2007 | — | 8,000,000 | (3,499,547) | 237,940 | 292,115 | 27,452 | 5,057,960 | 215,878 | 5,273,838 |

*Notes:*

(a) According to the financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB"), certain subsidiaries of the Company had deficiency in net asset positions as at 1 January 2006 and as such, the equity of these subsidiaries attributable to minority interests was reduced to zero. However, according to their statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the People's Republic of China (the "PRC" or "Mainland China", which excludes for the purpose of these financial statements, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan) (the "Previous PRC GAAP"), the aforesaid subsidiaries had positive net asset positions as at 1 January 2006 and based on their statutory financial statements, they had paid dividends to their respective shareholders, including minority shareholders, in early 2006. For the presentation of the financial statements, the aforesaid dividends paid to minority shareholders in early 2006 have been accounted for as transactions between the equity holder of the Company and the minority shareholders of the aforesaid subsidiaries.

(b) The minority interests in certain subsidiaries were held by employees through Employees Share Ownership Committees. During the year ended 31 December 2007, the Group entered into purchase agreements and supplementary purchase agreements with the respective Employees Share Ownership Committees to acquire the minority interests. Based on the purchase agreements and supplementary purchase agreements, it was agreed that the minority interests and the associated risks and rewards, including the profits/(losses) generated by the related subsidiaries, would be transferred to the Group with effect from 31 December 2006. The acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration paid and the book value of the share of the net assets acquired is recorded in equity. The acquisition was completed during the year ended 31 December 2007.

(c) As further described in note 2 to the financial statements, the consolidated financial statements have been prepared as if the Company and its current corporate structure had been in existence at all dates and during the years presented. Upon the incorporation of the Company on 5 November 2007, together with certain prepaid land lease payments described in note (e) below, the historical net carrying amount of the assets and liabilities of the Core Operations (as defined in note 1 to the financial statements) transferred to the Company was converted into the Company's share capital of RMB8,000 million, equivalent to 8,000 million shares of RMB1.00 each, with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve. Different classes of reserves, including retained earnings prior to the incorporation of the Company, were not separately disclosed as all of these reserves (save for the amount of profit attributable to the equity holder of the Company for the period from 1 January 2007 to 5 November 2007) had been capitalised and incorporated in the capital reserve of the Group pursuant to a group restructuring (the "Restructuring") of China Railway Construction Corporation ("CRCCG", the ultimate holding company of the Company), a state-owned enterprise in the PRC. Pursuant to the Restructuring, the Company became the holding company of the Group. Details of the Restructuring are set out in note 1 to the financial statements.

(d) In accordance with the notice(財政部關於印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知)"Provisional Regulation Relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the Ministry of Finance (the "MOF") of the PRC (the English name of the notice is a direct translation of the Chinese name), which became effective on 27 August 2002, and pursuant to the Restructuring, the Company is required to make a distribution to CRCCG after its incorporation, which represents an amount equal to the profit attributable to the equity holder of the Company, as determined based on the audited consolidated financial statements prepared in accordance with the Accounting Standards for Business Enterprises issued by the MOF in 2006 and other related regulations issued by the MOF (collectively, the "New PRC GAAP"), generated during the period from 31 December 2006 (date of the Restructuring) to 30 November 2007 by the Core Operations contributed to the Group by CRCCG, after effecting the relevant necessary adjustments (note 13).

(e) Upon incorporation of the Company on 5 November 2007, 8,000 million shares were issued to CRCCG at RMB1.00 per share, in return for the net value of the Core Operations and certain prepaid land lease payments in an aggregate amount of approximately RMB3,075 million (note 16).

(f) Subsequent to the public listing of the Company's H Shares, in accordance with the relevant PRC regulations and the Articles of Association of the Company, retained earnings available for distribution by the Company will be the lower of the amount determined in accordance with the New PRC GAAP and the amount determined in accordance with IFRSs.

# Consolidated Cash Flow Statement

*Year ended 31 December 2007*

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 3,787,698 | 2,098,247 |
| Adjustments for: | | | |
| Finance costs | 8 | 1,272,223 | 909,326 |
| Foreign exchange differences, net | 7 | 91,957 | 58,491 |
| Finance revenue | 8 | (652,160) | (546,587) |
| Share of profits and losses of jointly-controlled entities | | (14,624) | (25,535) |
| Share of profits and losses of associates | | (24,010) | 2,888 |
| Depreciation | 15 | 3,405,608 | 2,364,172 |
| Amortisation of prepaid land lease payments | 16 | 45,041 | 25,857 |
| Amortisation of intangible assets | 17 | 23,190 | 16,461 |
| Impairment of property, plant and equipment | 15 | 4,785 | 91,265 |
| Impairment of prepaid land lease payments | 16 | — | 15,294 |
| Impairment of intangible assets | 17 | 508 | — |
| Impairment of available-for-sale investments | 22 | 4,035 | 951 |
| Impairment/(reversal of impairment) of trade and bills receivables | 27 | (24,067) | 79,016 |
| Impairment/(reversal of impairment) of other receivables | 28 | (20,944) | 42,614 |
| Write-down of inventories to net realisable value | 7 | 202 | 22,834 |
| Provision for completed properties held for sale | 7 | — | 4,716 |
| Provision for foreseeable losses on construction contracts | 7 | 154,123 | 133,162 |
| Loss on disposal of property, plant and equipment, net | 7 | 697 | 28,307 |
| Fair value gains, net, on financial assets at fair value through profit or loss | 7 | (99,458) | (51,384) |
| Gain on disposal of available-for-sale investments | 7 | (17,513) | (6,127) |
| Gain on disposal of a subsidiary | 6 | (315,791) | — |
| Recognition of deferred revenue | 6 | (17,379) | (7,078) |
| | | 3,816,423 | 3,158,643 |
| Increase in inventories | | (2,032,622) | (1,451,400) |
| Increase in completed properties held for sale and properties under development | | (1,872,783) | (766,280) |
| Decrease/(increase) in construction contracts | | (4,992,496) | 551,242 |
| Increase in trade and bills receivables | | (7,099,287) | (6,616,183) |
| Increase in prepayments, deposits and other receivables | | (3,308,747) | (2,820,184) |
| Increase in trade and bills payables | | 8,364,666 | 7,557,207 |
| Increase in other payables and accruals | | 13,769,968 | 5,243,864 |
| Increase/(decrease) in provision | | (4,389) | 3,971 |
| Decrease in provisions for supplementary pension subsidies and early retirement benefits | | (624,620) | (364,470) |
| Decrease in other long term liabilities | | (67,921) | (34,349) |
| Cash generated from operations | | 9,735,890 | 6,560,308 |
| Income taxes paid | | (315,055) | (223,359) |
| Net cash inflow from operating activities | | 9,420,835 | 6,336,949 |

*Year ended 31 December 2007*

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment | | (8,831,969) | (5,260,338) |
| Additions to prepaid land lease payments | | (590,433) | (112,238) |
| Additions to intangible assets | | (767,957) | (209,005) |
| Proceeds from disposal of property, plant and equipment | | 1,114,529 | 970,699 |
| Proceeds from disposal of prepaid land lease payments | | 69,629 | 27,635 |
| Proceeds from disposal of intangible assets | | 10,719 | 1,405 |
| Capital contributions to jointly-controlled entities | | (4,000) | (4,900) |
| Capital contributions to associates | | (89,781) | (29,298) |
| Purchases of held-to-maturity investments | | — | (14,214) |
| Purchases of available-for-sale investments | | (90,175) | (85,272) |
| Purchases of financial assets at fair value through profit or loss | | (9,372) | (20,857) |
| Purchases of minority interests | | (2,425,092) | — |
| Proceeds from disposal of a subsidiary | 40(a) | 117,228 | — |
| Proceeds from disposal of associates | | 11,536 | 1,268 |
| Proceeds from disposal of held-to-maturity investments | | 157,310 | 54,555 |
| Proceeds from disposal of available-for-sale investments | | 33,058 | 12,400 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 48,925 | 105,991 |
| Advance proceeds from disposal of an associate | | 300,000 | — |
| Dividends received | | 171,695 | 26,552 |
| Increase in balances with the ultimate holding company, net | | (1,118,023) | (346,285) |
| Increase in pledged deposits | | (489,877) | (336,766) |
| Increase in non-pledged time deposits with original maturity of three months or more when acquired | | (414,450) | (112,376) |
| Interest received | | 613,887 | 522,046 |
| Net cash outflow from investing activities | | (12,182,613) | (4,808,998) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Capital contributions from the ultimate holding company | | 2,400,000 | — |
| New bank and other borrowings | | 27,017,301 | 16,427,031 |
| Repayment of bank and other borrowings | | (17,920,171) | (12,206,865) |
| Distributions to the equity holder of the Company | | (701,455) | (305,142) |
| Special distribution to the equity holder of the Company | | (1,400,000) | — |
| Dividends paid to minority shareholders | | (257,085) | (160,159) |
| Interest paid | | (1,507,588) | (1,082,857) |
| Net cash inflow from financing activities | | 7,631,002 | 2,672,008 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 4,869,224 | 4,199,959 |
| Cash and cash equivalents at beginning of the year | | 18,373,635 | 14,224,588 |
| Effect of foreign exchange rate changes, net | | (54,368) | (50,912) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 30 | 23,188,491 | 18,373,635 |

# Balance Sheet

*As at 31 December 2007*

| | Note | 2007 RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 15 | 40,327 |
| Investments in subsidiaries | 18 | 11,938,895 |
| Interests in jointly-controlled entities | 19 | 62,580 |
| Available-for-sale investments | 22 | 246,967 |
| Deferred tax assets | 23 | 10,827 |
| **Total non-current assets** | | 12,299,596 |
| **CURRENT ASSETS** | | |
| Inventories | 24 | 3,778 |
| Construction contracts | 26 | 1,138,383 |
| Trade receivables | 27 | 11,743 |
| Prepayments, deposits and other receivables | 28 | 6,316,351 |
| Financial assets at fair value through profit or loss | 29 | 123,798 |
| Cash and cash equivalents | 30 | 2,055,928 |
| **Total current assets** | | 9,649,981 |
| **CURRENT LIABILITIES** | | |
| Trade payables | 31 | 241,102 |
| Other payables and accruals | 32 | 3,506,927 |
| Interest-bearing bank and other borrowings | 33 | 6,188,631 |
| Provision for early retirement benefits | 35 | 6,180 |
| **Total current liabilities** | | 9,942,840 |
| **NET CURRENT LIABILITIES** | | (292,859) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 12,006,737 |
| **NON-CURRENT LIABILITIES** | | |
| Other payables and accruals | 32 | 458,278 |
| Interest-bearing bank and other borrowings | 33 | 2,043,865 |
| Provision for early retirement benefits | 35 | 36,880 |
| Deferred tax liabilities | 23 | 11,845 |
| **Total non-current liabilities** | | 2,550,868 |
| **NET ASSETS** | | 9,455,869 |
| **EQUITY** | | |
| Issued share capital | 38 | 8,000,000 |
| Reserves | 39(b) | 1,455,869 |
| **TOTAL EQUITY** | | 9,455,869 |

**LI Guorui**
*Director*

**DING Yuanchen**
*Director*

## 1. GROUP RESTRUCTURING AND CORPORATE INFORMATION

China Railway Construction Corporation Limited (the "Company") was incorporated in the PRC on 5 November 2007 as a joint stock company with limited liability pursuant to the Restructuring of CRCCG in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange") and The Shanghai Stock Exchange.

In consideration for CRCCG transferring the Core Operations (as defined below) to the Company and the injection of certain prepaid land lease payments in an aggregate amount of approximately RMB3,075 million (note 16) upon its incorporation on 5 November 2007, the Company issued 8,000 million ordinary shares to CRCCG. The ordinary shares issued to CRCCG have a par value of RMB1.00 each and represented the entire registered and issued share capital of the Company upon its incorporation. CRCCG is the ultimate holding company of the Company.

The registered office of the Company is located at East, No. 40 Fuxing Road, Haidian District, Beijing, the PRC.

Prior to the incorporation of the Company, the construction operations, survey, design and consultancy operations, manufacturing operations and other business operations (collectively, the "Predecessor Operations") were carried out by various companies owned or controlled by CRCCG. Pursuant to the Restructuring, the Core Operations were transferred to the Company upon its incorporation.

### Core Operations

In connection with the Restructuring, the principal operations and businesses of CRCCG (the "Core Operations") were transferred to the Company which includes:

(a) all of the core assets and liabilities relating to the construction operations;

(b) all of the core assets and liabilities relating to the survey, design and consultancy operations;

(c) all of the core assets and liabilities relating to the large track maintenance machinery and railway track components manufacturing;

(d) other businesses, including certain real estate development and logistics operations;

(e) contractual rights and obligations relating to the businesses, assets and liabilities transferred to the Company;

(f) employees associated with the businesses transferred to the Company;

(g) qualifications, licenses and approvals related to the businesses transferred to the Company; and

(h) business and financial records, books and data and technological data and know-how related to the businesses transferred to the Company.

### Retained Operations

In connection with the Restructuring, the following assets and liabilities (the "Retained Operations") were not transferred to the Company upon its incorporation and were retained by CRCCG:

(a) certain operating assets and liabilities historically associated with the Predecessor Operations, which include certain buildings and prepaid land lease payments that do not have perfected titles and ownership certificates, and the supplementary defined benefits of retirees which were integral to the Predecessor Operations;

(b) equity interests in certain companies not strategically complementary to the Group's businesses;

(c) equity interests in certain companies engaging in Build-Operate-Transfer ("BOT") projects (the "Retained BOT Projects"); and

(d) ancillary facilities including hospitals, nurseries, and etc.

## 2. BASIS OF PRESENTATION OF AND PREPARATION

(a) As discussed in note 1 to the financial statements, prior to the incorporation of the Company, all the Core Operations were controlled and owned by CRCCG. Upon the incorporation of the Company on 5 November 2007, all the Core Operations were transferred to the Company. As there is no change in the ultimate controlling shareholder of the Core Operations, the Restructuring has been accounted for as a reorganisation of business under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the Core Operations transferred to the Company have been stated at CRCCG's historical carrying amounts in the preparation of the consolidated financial statements of the Group, which have been prepared as if the Company and its current corporate structure had been in existence at all dates and during the years presented.

These financial statements include the operating results and financial position of the Retained Operations that were historically associated with the Predecessor Operations (see note 2 (b) below) but exclude those that were not strategically complementary to the Group's businesses (see note 2 (c) below) and the companies engaging in the Retained BOT Projects (see note 2 (d) below). Although the Retained Operations were not transferred to the Company, those associated with the Predecessor Operations have been included in these financial statements according to the details set out in the agreement for the Restructuring entered into by the Company with CRCCG (the "Restructuring Agreement") because the directors of the Company (the "Directors") considered that the historical financial information of the Group should reflect all of the Group's costs of doing businesses, and include all relevant activities that have been part of the history of the Group's businesses and operations.

In evaluating whether these financial statements prior to the Restructuring fairly present the history of the Group's businesses, the Directors considered, among others, the following:

(i) whether the Retained Operations were in dissimilar businesses;

(ii) whether the Retained Operations were and would be operated autonomously both before and after the Restructuring; and

(iii) whether the Retained Operations had no more than incidental common facilities and costs.

As the Company was only incorporated on 5 November 2007, there are no comparative figures in the Company's balance sheet as at 31 December 2006.

(b) Certain operating assets and liabilities historically associated with the Predecessor Operations include certain buildings and prepaid land lease payments that do not have perfected titles and ownership certificates, and the supplementary defined benefits of retirees together with the related deferred tax assets which were integral to the Predecessor Operations before the Restructuring. The tables below reflect the impact on the consolidated financial position and consolidated results of operations of these operating assets and liabilities that have been included in the consolidated financial statements:

(i) Impact on consolidated financial position

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Buildings | — | 1,147,610 |
| Prepaid land lease payments | — | 232,787 |
| Provision for supplementary pension subsidies | — | (2,880,020) |
| Deferred tax assets arising from provision for supplementary pension subsidies | — | 846,670 |
| Decrease in net assets | — | (652,953) |

## 2. BASIS OF PRESENTATION OF AND PREPARATION *(CONTINUED)*

(b) *(continued)*

(ii) Impact on consolidated results of operations

| | Group 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Depreciation of buildings | **36,347** | 48,462 |
| Amortisation of prepaid land lease payments | **3,700** | 4,934 |
| Employee compensation costs | **—** | 101,520 |
| Deferred tax arising from provision for supplementary pension subsidies | **—** | 28,298 |
| Decrease in net profit for the year | **40,047** | 183,214 |

Pursuant to the Restructuring, these operating assets and liabilities historically associated with the Predecessor Operations as mentioned above were retained by CRCCG by way of distributions to CRCCG (note 13). Accordingly, these operating assets and liabilities were not injected into the Company upon its incorporation on 5 November 2007.

(c) The financial information of equity interests in certain companies not strategically complementary to the Group's businesses and those of the ancillary facilities, including hospitals and nurseries, has not been included in these financial statements as they had distinct and separate management personnel, maintained separate accounting records as if they were autonomous and they were in dissimilar businesses and operations as compared with the Core Operations.

(d) The financial information of equity interests in certain companies engaging in the Retained BOT Projects has not been included in these financial statements as the Retained BOT Projects were considered to be inappropriate to be included in the Group by the Directors for reasons of the transfer of CRCCG's equity interests therein requiring approval of the contracted government authorities and subjecting to the pre-emptive rights of the joint venture partners to the respective concession agreements.

(e) These financial statements have been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB, and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee and have been prepared under the historical cost convention, except for certain financial assets, which have been measured at fair value. In addition, these financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise indicated.

(f) The Group's net current liabilities amounted to RMB8,565 million (2006: RMB1,888 million) as at 31 December 2007. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. The Directors have carried out a detailed review of the cash flow forecast of the Group for the period from 1 January 2008 to 31 March 2009. Details of the cash flow forecast and the Group's banking facilities are disclosed in note 45 (d) to the financial statements. In addition, details of the proceeds from the listing of the Company's H and A Shares are disclosed in notes 46 (c), 46 (d) and 46 (e) to the financial statements. Based on the current available information, the Directors are of the opinion that the Group is able to meet its debt obligations as they fall due and to meet its financial requirements as a going concern.

## 3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective in these financial statements:

| | |
|---|---|
| IFRS 2 | Share-based Payments — Vesting Conditions and Cancellations |
| IFRS 3 (Revised) | Business Combinations |
| IAS 1 (Revised) | Presentation of Financial Statements |
| IAS 23 (Revised) | Borrowing Costs |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements |
| IAS 32 and IAS 1 (Amendments) | Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation |
| IFRS 8 | Operating Segments |
| IFRIC 11 | IFRS 2 — Group and Treasury Share Transactions |
| IFRIC 13 | Customer Loyalty Programmes |
| IFRIC 14 | IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

Amendment to IFRS 2 shall be applied for annual periods beginning on or after 1 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect the amendment to impact the financial statements of the Group.

IFRS 3 (Revised) and IAS 27 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 1 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income which presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. As the Group has capitalised borrowing costs attributable to qualifying assets, the adoption of IAS 23 (Revised) is not expected to have any impact on the Group's consolidated financial statements.

Amendments to IAS 32 and IAS 1 shall be applied for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group.

## 3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs *(CONTINUED)*

IFRIC 11 shall be applied for annual periods beginning on or after 1 March 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

IFRIC 13 shall be applied for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 shall be applied for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*. The Group expects that this interpretation will have no impact on the Group's financial statements as all defined benefit schemes are currently in deficit.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. Up to the date of these financial statements, it has concluded that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. Except for the Restructuring which has been accounted for as a reorganisation of business under common control in a manner similar to a pooling-of-interests as described in note 2 to the financial statements, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The pooling-of-interests method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or any excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The purchase method of accounting involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Under the purchase method of accounting, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All significant intra-group balances and transactions within the Group are eliminated on consolidation.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Basis of consolidation *(continued)*

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries, and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the equity attributable to equity holder of the Company. The Group applies the policy of treating transactions with minority interests as transactions with equity participants of the Group. The acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties under development, completed properties held for sale, construction contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value of 5% over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 2.71% |
| Machinery | 9.50% |
| Vehicles | 19.00% |
| Production equipment | 9.50% |
| Measurement and experimental equipment | 19.00% |
| Other equipment | 19.00% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

#### Concession assets

The Group engages in certain service concession arrangements in which the Group carries out construction work for the granting authority and receives in exchange a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority. In accordance with IFRIC 12, the assets under the concession arrangements may be classified as intangible assets or financial assets. The assets are classified as intangible assets if the operator receives a right (a licence) to charge users of the public service, or as financial assets if paid by the granting authority. The Group classifies the non-current assets linked to the long term investment in these concession arrangements as "concession assets" within the intangible assets classification on the balance sheet if the intangible asset model is adopted. Once the underlying infrastructure of the concession arrangements has been completed, the concession assets will be amortised over the term of the concession on the straight-line basis under the intangible asset model.

#### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the straight-line basis over their estimated useful lives of two to ten years.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Intangible assets *(continued)*

**Others**

Others included purchased patents and licenses which are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of fifteen years.

### Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, and are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms ranging from thirty to fifty years. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire prepaid land lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Investments and other financial assets *(continued)*

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity and debt securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment of available-for-sale investments" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity and debt securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment; or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

**Fair value**

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

**Assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

**Assets carried at cost**

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

**Available-for-sale financial assets**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities including trade and bills payables, other payables, interest-bearing bank and other borrowings and other long term liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue.*

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work-in-progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Properties under development

Properties under development which are intended for sale are stated at the lower of cost and net realisable value, which is estimated by the Directors based on the prevailing market condition. Cost comprises all development expenditure, applicable borrowing costs and other direct costs attributable to such properties.

### Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis.

### Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of fixed and variable construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total costs of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the income statement.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred revenue account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) from the provision of logistics services, when the services are rendered;

(d) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(e) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the balance sheet under current liabilities;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(g) dividend income, when the shareholders' right to receive payment has been established; and

(h) toll revenue, net of any applicable revenue taxes when received.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

### Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's Articles of Association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

### Employee benefits

#### Retirement benefits

The full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these retirement plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or jurisdictions outside Mainland China. Employees' and employers' contributions are calculated based on various percentages of employees' gross salaries or fixed sums and length of service.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Employee benefits *(continued)*

**Retirement benefits** *(continued)*

The Group also provided supplementary pension subsidies to retired employees in Mainland China prior to 1 January 2007. Such supplementary pension subsidies are considered as defined benefit plans. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities which have maturities approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives. Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the "vesting period"). In this case, the past-service costs are amortised on the straight-line basis over the vesting period. Employees who retire after 1 January 2007 are no longer entitled to such supplementary pension subsidies.

**Other post-employment obligations**

Some companies within the Group in Mainland China provide post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for the Group's defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to the income statement over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

**Termination and early retirement benefits**

Employee termination and early retirement benefits are recognised in the period in which the Group has entered into an agreement with the employee specifying the terms of redundancy, or after the individual employee has been advised of the specific terms. The specific terms vary among the terminated and early retired employees depending on various factors including their position, length of service, salary level at the time of application, minimum compensation levels set by the local regulatory authorities, and the district of the employee concerned.

**Housing funds**

All full-time employees of the Group in Mainland China are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

**Bonus entitlements**

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonuses are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

## 4. SUMMARY OF SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

**Impairment of available-for-sale investments**

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the fair value of an investment is less than its cost. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

**Contingent liabilities arising from litigations and claims**

The Group is involved in a number of litigations and claims in respect of certain construction work performed in the present and the past. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligations have been made based on management's best estimates and judgements.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Useful lives and residual values of items of property, plant and equipment**

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each balance sheet date, based on changes in circumstances.

The carrying amount of property, plant and equipment as at 31 December 2007 was RMB15,997,957,000 (2006: RMB14,166,142,000).

**Current income tax and deferred income tax**

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which the differences arise.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the income statement in the period in which such a reversal takes place.

The carrying amounts of tax payable, deferred tax assets and deferred tax liabilities as at 31 December 2007 were RMB1,021,936,000 (2006: RMB374,979,000), RMB3,140,236,000 (2006: RMB3,928,131,000) and RMB194,994,000 (2006: RMB636,080,000) respectively.

## 4. SUMMARY OF SIGNIFICANT JUDGEMENTS AND ESTIMATES *(CONTINUED)*

### Estimation uncertainty *(continued)*

**Percentage of completion of construction work**

The Group recognises revenue according to the percentage of completion of individual contract of construction work, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue are less than expected or actual contract costs are more than expected, an impairment loss may arise.

The carrying amount of construction contracts as at 31 December 2007 was RMB18,536,550,000 (2006: RMB13,645,191,000).

**Impairment of trade receivables**

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

The carrying amount of trade receivables including retention money receivables as at 31 December 2007 was RMB31,136,727,000 (2006: RMB23,851,054,000).

**Retirement benefits**

The Group establishes liabilities in connection with benefits paid to certain retired and early retired employees. The amounts of employee benefit expenses and liabilities are determined using actuarial valuations, which are calculated by independent valuation professionals who will conduct annual assessment of the actuarial position of the Group's retirement plans. These actuarial valuations involve making assumptions on discount rates, expected rates of return on assets, pension benefit inflation rates, medical benefit inflation rates, and other factors. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Actual results that differ from the assumptions are recognised immediately and therefore, affect recognised expenses in the period in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the expenses related to the employee retirement benefit obligations.

The provisions for supplementary pension subsidies and early retirement benefits as at 31 December 2007 were RMB7,745,610,000 (2006: RMB11,250,250,000).

## 5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations, and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers different services and products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(i) the construction operations segment engages in the construction of infrastructures such as railways, highways, bridges, tunnels, metropolitan railways, airports and ports, water conservancy and hydropower facilities, real estate and municipal projects;

(ii) the survey, design and consultancy operations segment engages in the provision of survey, design and consultancy services, as well as technology and equipment research and development services, for the construction of railways, highways, metropolitan railways, bridges, tunnels, municipal and power projects, high-rise buildings, airports and ports;

(iii) the manufacturing operations segment engages in the design, research and development, production and sale of large track maintenance machinery as well as the manufacturing of components for railway construction; and

(iv) the other business operations segment mainly comprises real estate development and logistics businesses.

The profit before tax of a segment represents revenue less expenses directly attributable to a segment and the relevant portion of enterprise revenue less expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group.

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 5. SEGMENT INFORMATION *(CONTINUED)*

### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006:

**Year ended 31 December 2007**

| | Construction operations *RMB'000* | Survey, design and consultancy operations *RMB'000* | Manufacturing operations *RMB'000* | Other business operations *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Sales to external customers | 162,635,137 | 3,496,833 | 1,380,832 | 4,484,608 | — | 171,997,410 |
| Intersegment sales | 296,904 | 212,221 | 475,119 | 892,095 | (1,876,339) | — |
| Total | 162,932,041 | 3,709,054 | 1,855,951 | 5,376,703 | (1,876,339) | 171,997,410 |
| **Segment results** | 3,624,330 | 299,586 | 124,773 | 320,438 | — | 4,369,127 |
| Finance revenue | 467,429 | 110,678 | 3,067 | 70,986 | — | 652,160 |
| Finance costs | (1,189,742) | (19,887) | (22,425) | (40,169) | — | (1,272,223) |
| Share of profits and losses of: | | | | | | |
| Jointly-controlled entities | 14,624 | — | — | — | — | 14,624 |
| Associates | 23,354 | 656 | — | — | — | 24,010 |
| Profit before tax | | | | | | 3,787,698 |
| Tax | | | | | | (1,481,766) |
| Profit for the year | | | | | | 2,305,932 |

## 5. SEGMENT INFORMATION *(CONTINUED)*

### (a) Business segments *(continued)*

**Year ended 31 December 2007** *(continued)*

| | Construction operations *RMB'000* | Survey, design and consultancy operations *RMB'000* | Manufacturing operations *RMB'000* | Other business operations *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | | |
| Segment assets | 140,140,366 | 5,075,559 | 3,111,765 | 8,781,551 | (3,910,481) | 153,198,760 |
| Interests in jointly-controlled entities | 71,814 | — | — | — | — | 71,814 |
| Interests in associates | 252,126 | 4,845 | — | — | — | 256,971 |
| Non-current asset held for sale | 210,000 | — | — | — | — | 210,000 |
| Unallocated assets | | | | | | 3,140,236 |
| Total assets | | | | | | 156,877,781 |
| Segment liabilities | 140,064,942 | 4,382,448 | 2,325,131 | 7,524,973 | (3,910,481) | 150,387,013 |
| Unallocated liabilities | | | | | | 1,216,930 |
| Total liabilities | | | | | | 151,603,943 |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | 3,244,212 | 130,242 | 85,092 | 14,293 | — | 3,473,839 |
| Capital expenditure | 10,842,997 | 525,017 | 844,576 | 184,409 | — | 12,396,999 |
| Write-down of inventories to net realisable value | 202 | — | — | — | — | 202 |
| Provision for foreseeable losses on construction contracts | 154,123 | — | — | — | — | 154,123 |
| Impairment losses recognised/(reversed) in the consolidated income statement | (58,103) | 1,101 | (1,273) | 22,592 | — | (35,683) |

## 5. SEGMENT INFORMATION *(CONTINUED)*

### (a) Business segments *(continued)*

Year ended 31 December 2006

| | Construction operations *RMB'000* | Survey, design and consultancy operations *RMB'000* | Manufacturing operations *RMB'000* | Other business operations *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Sales to external customers | 146,266,180 | 3,310,938 | 1,321,748 | 2,710,108 | — | 153,608,974 |
| Intersegment sales | 93,471 | 37,584 | 33,487 | 843,770 | (1,008,312) | — |
| Total | 146,359,651 | 3,348,522 | 1,355,235 | 3,553,878 | (1,008,312) | 153,608,974 |
| Segment results | 2,093,430 | 80,690 | 16,642 | 247,577 | — | 2,438,339 |
| Finance revenue | 489,982 | 48,996 | 1,701 | 5,908 | — | 546,587 |
| Finance costs | (877,631) | (3,882) | (10,521) | (17,292) | — | (909,326) |
| Share of profits and losses of: | | | | | | |
| Jointly-controlled entities | 25,535 | — | — | — | — | 25,535 |
| Associates | (3,172) | 284 | — | — | — | (2,888) |
| Profit before tax | | | | | | 2,098,247 |
| Tax | | | | | | (596,289) |
| Profit for the year | | | | | | 1,501,958 |

## 5. SEGMENT INFORMATION *(CONTINUED)*

### (a) Business segments *(continued)*

Year ended 31 December 2006 *(continued)*

| | Construction operations *RMB'000* | Survey, design and consultancy operations *RMB'000* | Manufacturing operations *RMB'000* | Other business operations *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | | |
| Segment assets | 111,349,488 | 4,648,315 | 1,607,408 | 3,422,391 | (840,123) | 120,187,479 |
| Interests in jointly-controlled entities | 68,381 | — | — | — | — | 68,381 |
| Interests in associates | 360,999 | 4,736 | — | — | — | 365,735 |
| Unallocated assets | | | | | | 3,928,131 |
| Total assets | | | | | | 124,549,726 |
| Segment liabilities | 111,265,105 | 4,865,853 | 1,347,416 | 3,212,647 | (840,123) | 119,850,898 |
| Unallocated liabilities | | | | | | 1,011,059 |
| Total liabilities | | | | | | 120,861,957 |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | 2,255,513 | 70,128 | 16,245 | 64,604 | — | 2,406,490 |
| Capital expenditure | 6,157,022 | 210,907 | 21,142 | 187,222 | — | 6,576,293 |
| Write-down of inventories to net realisable value | 18,494 | — | — | 4,340 | — | 22,834 |
| Provision for foreseeable losses on construction contracts | 133,162 | — | — | — | — | 133,162 |
| Provision for completed properties held for sale | — | — | — | 4,716 | — | 4,716 |
| Impairment losses recognised in the consolidated income statement | 212,151 | 10,489 | 4,099 | 2,401 | — | 229,140 |

## 5. SEGMENT INFORMATION *(CONTINUED)*

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006:

**Year ended 31 December 2007**

| | Mainland China *RMB'000* | Outside Mainland China *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 165,638,236 | 6,359,174 | — | 171,997,410 |
| **Other segment information** | | | | |
| Segment assets | 141,078,835 | 12,658,710 | — | 153,737,545 |
| Unallocated assets | | | | 3,140,236 |
| **Total assets** | | | | 156,877,781 |
| **Capital expenditure** | 11,685,632 | 711,367 | — | 12,396,999 |

Year ended 31 December 2006

| | Mainland China *RMB'000* | Outside Mainland China *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 150,092,402 | 3,516,572 | — | 153,608,974 |
| **Other segment information** | | | | |
| Segment assets | 115,623,195 | 4,998,400 | — | 120,621,595 |
| Unallocated assets | | | | 3,928,131 |
| **Total assets** | | | | 124,549,726 |
| **Capital expenditure** | 6,221,278 | 355,015 | — | 6,576,293 |

## 6. REVENUE AND OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts, net of business tax and government surcharges; (2) the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts; and (3) the value of other services rendered.

An analysis of the Group's revenue and other income and gains, net, is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue:** | | |
| Construction contracts | **162,635,137** | 146,266,180 |
| Provision of survey, design and consultancy services | **3,496,833** | 3,310,938 |
| Manufacture, sale, repair and maintenance of large track maintenance machinery | **1,380,832** | 1,321,748 |
| Others *(note (a))* | **4,484,608** | 2,710,108 |
| | **171,997,410** | 153,608,974 |
| **Other income and gains, net:** | | |
| Government grants: | | |
| — Recognition of deferred revenue *(note 36)* | **17,379** | 7,078 |
| — Others *(note (b))* | **27,901** | 5,550 |
| Gain on disposal of a subsidiary *(note 40 (a))* | **315,791** | — |
| Fair value gains, net, on financial assets at fair value through profit or loss | **99,458** | 51,384 |
| Gain on disposal of available-for-sale investments | **17,513** | 6,127 |
| Others *(note (c))* | **134,903** | 115,729 |
| | **612,945** | 185,868 |

*Notes:*

(a) Other revenue mainly represents revenue from the sale of properties and provision of logistics services.

(b) Other government grants mainly represent value-added tax refunds which, in the opinion of the Directors, are available to other eligible entities that are able to fulfill certain requirements.

(c) Others mainly represent gains on stocktaking, penalty income and other miscellaneous gains.

## 7. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

| | Note | Group 2007 RMB'000 | Group 2006 RMB'000 |
|---|---|---|---|
| Cost of services rendered | | **155,685,619** | 140,715,514 |
| Cost of goods sold | | **4,912,711** | 3,297,450 |
| Total cost of sales | | **160,598,330** | 144,012,964 |
| Depreciation of property, plant and equipment *(note (a))* | 15 | **3,405,608** | 2,364,172 |
| Amortisation of prepaid land lease payments | 16 | **45,041** | 25,857 |
| Amortisation of intangible assets | 17 | **23,190** | 16,461 |
| Total depreciation and amortisation | | **3,473,839** | 2,406,490 |
| Impairment of property, plant and equipment | 15 | **4,785** | 91,265 |
| Impairment of prepaid land lease payments | 16 | **—** | 15,294 |
| Impairment of intangible assets | 17 | **508** | — |
| Impairment of available-for-sale investments | 22 | **4,035** | 951 |
| Impairment/(reversal of impairment) of trade and bills receivables | 27 | **(24,067)** | 79,016 |
| Impairment/(reversal of impairment) of other receivables | 28 | **(20,944)** | 42,614 |
| Total impairment/(reversal of impairment), net | | **(35,683)** | 229,140 |
| Employee compensation costs (including Directors' and Supervisors' remuneration *(note 10)*) | 9 | **11,056,661** | 9,672,939 |
| Research and development expenditure | | **284,862** | 148,331 |
| Write-down of inventories to net realisable value | | **202** | 22,834 |
| Provision for completed properties held for sale | | **—** | 4,716 |
| Provision for foreseeable losses on construction contracts | | **154,123** | 133,162 |
| Auditors' remuneration | | **31,536** | 3,067 |
| Minimum lease payments under operating leases | | **30,315** | 21,351 |
| Fair value gains, net, on financial assets at fair value through profit or loss | | **(99,458)** | (51,384) |
| Gain on disposal of available-for-sale investments | | **(17,513)** | (6,127) |
| Loss on disposal of property, plant and equipment, net | | **697** | 28,307 |
| Foreign exchange differences, net | | **91,957** | 58,491 |

*Note:*

(a) Depreciation of approximately RMB2,896,142,000 (2006: RMB1,854,436,000) is included in the cost of sales on the face of the consolidated income statement for the year.

## 8. FINANCE REVENUE AND FINANCE COSTS

The Group's finance revenue totaling RMB652,160,000 (2006: RMB546,587,000) for the year mainly represented bank interest income.

The Group's finance costs are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans and other loans wholly repayable within five years | **1,281,968** | 1,030,558 |
| Interest on bank loans repayable beyond five years | **143,748** | 32,501 |
| Interest on finance leases | **6,047** | 657 |
| Interest on discounted bills | **20,779** | 551 |
| Interest on corporate bonds | **64,762** | — |
| Total interest | **1,517,304** | 1,064,267 |
| Less: Interest capitalised in: | | |
| — Construction in progress | **(23,317)** | (11,420) |
| — Construction contracts | **(42,986)** | (134,675) |
| — Properties under development | **(108,626)** | (3,234) |
| — Intangible assets | **(70,152)** | (5,612) |
| | **1,272,223** | 909,326 |

Borrowing costs capitalised for the year are calculated by applying the following capitalisation rates per annum to expenditure on qualifying assets:

| | **2007** | 2006 |
|---|---|---|
| Capitalisation rates | **4.9% - 8.9%** | 3.6% - 8.1% |

## 9. EMPLOYEE COMPENSATION COSTS

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Employee compensation costs (including Directors' and Supervisors' remuneration *(note 10)*): | | |
| — Wages, salaries and allowances | **7,666,670** | 6,764,426 |
| — Housing benefits, medical and other expenses | **2,151,466** | 1,696,775 |
| — Retirement benefit costs: | | |
| (i) Contributions to defined contribution retirement plans *(note (a))* | **974,045** | 816,518 |
| (ii) Contributions to defined benefit retirement plans *(note (b)) (note 35 (b))* | **264,480** | 395,220 |
| Total retirement benefit costs | **1,238,525** | 1,211,738 |
| | **11,056,661** | 9,672,939 |

## 9. EMPLOYEE COMPENSATION COSTS *(CONTINUED)*

*Notes:*

(a) All of the Group's full-time employees in Mainland China are covered by various government-sponsored retirement plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group is required to make monthly contributions to these plans at rates ranging from 20% to 23% of the employees' basic salaries. Contributions to these plans are expensed as incurred.

In addition, the Group participates in various defined contribution retirement plans for its qualified employees in certain countries or jurisdictions outside Mainland China. Employees' and employers' contributions are calculated based on various percentages of employees' gross salaries or fixed sums and length of service.

As at 31 December 2007, the Group's forfeited contributions available to reduce its contributions to the defined contribution retirement plans in future years were not material (2006: Nil).

(b) In addition, the Group provided supplementary pension subsidies to its retired employees in Mainland China who retired prior to 1 January 2007. Details of the supplementary pension subsidies, which are considered of defined benefit nature, are set out in note 35 to the financial statements. Employees who retire after 1 January 2007 are no longer entitled to such supplementary pension subsidies.

The Group also implemented an early retirement plan for certain employees in addition to the benefits under the government-sponsored retirement plans and the supplementary pension subsidies described above (note 35). Employee termination and early retirement benefits are recognised in the period in which the Group has entered into an agreement with the employee specifying the terms of redundancy, or after the individual employee has been advised of the specific terms. The specific terms determining the amount of compensation payments made to early retired employees vary among the terminated and early retired employees depending on various factors including their position, length of service, salary level at the time of application, minimum compensation levels set by the local regulatory authorities, and district of the employee concerned. These compensation payments to existing early retired employees will continue after the listing of the Company's H Shares on The Hong Kong Stock Exchange. However, the Group's early retirement plan will not continue after the listing of the Company's H Shares on The Hong Kong Stock Exchange and as such, no further new early retirement application will be accepted by the Group after the listing of the Company's H Shares on The Hong Kong Stock Exchange.

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

### (a) Directors' and Supervisors' remuneration

Directors' and Supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Fees | **—** | — |
| Other emoluments: | | |
| — Salaries, housing benefits, other allowances and benefits in kind | **1,698** | 1,303 |
| — Performance related bonuses | **2,309** | 1,444 |
| — Pension scheme contributions | **491** | 561 |
| | **4,498** | 3,308 |

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

### (a) Directors' and Supervisors' remuneration *(continued)*

The names of the Directors and Supervisors and their respective remuneration for the year are as follows:

#### (i) Independent non-executive directors

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Salaries, housing benefits, other allowances and benefits in kind: | | |
| Mr. LI Kecheng | **70** | 15 |
| Mr. ZHAO Guangjie | **80** | 16 |
| Mr. WU Taishi | **—** | — |
| Mr. NGAI Wai Fung | **—** | — |
| | **150** | 31 |

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

#### (ii) Executive directors, non-executive directors and supervisors

**Group**

| | Fees | Salaries, housing benefits, other allowances and benefits in kind | Performance related bonuses | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2007** | | | | | |
| Executive directors: | | | | | |
| Mr. DING Yuanchen | — | 212 | 371 | 71 | 654 |
| Mr. JIN Puqing | — | 250 | 344 | 71 | 665 |
| | — | 462 | 715 | 142 | 1,319 |
| Non-executive directors: | | | | | |
| Mr. LI Guorui | — | 250 | 551 | 71 | 872 |
| Mr. HUO Jingui | — | 212 | 469 | 71 | 752 |
| Mr. WU Xiaohua | — | 70 | — | — | 70 |
| | — | 532 | 1,020 | 142 | 1,694 |
| Supervisors: | | | | | |
| Mr. PENG Shugui | — | 212 | 469 | 69 | 750 |
| Mr. HUANG Shaojun | — | 169 | 52 | 69 | 290 |
| Ms. YU Fengli | — | 173 | 53 | 69 | 295 |
| | — | 554 | 574 | 207 | 1,335 |
| | — | 1,548 | 2,309 | 491 | 4,348 |

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

### (a) Directors' and Supervisors' remuneration *(continued)*

**(ii) Executive directors, non-executive directors and supervisors** *(continued)*

**Group** *(continued)*

| | Fees *RMB'000* | Salaries, housing benefits, other allowances and benefits in kind *RMB'000* | Performance related bonuses *RMB'000* | Pension scheme contributions *RMB'000* | Total remuneration *RMB'000* |
|---|---|---|---|---|---|
| Year ended 31 December 2006 | | | | | |
| Executive directors: | | | | | |
| Mr. DING Yuanchen | — | 171 | 254 | 84 | 509 |
| Mr. JIN Puqing | — | 201 | 298 | 83 | 582 |
| | — | 372 | 552 | 167 | 1,091 |
| Non-executive directors: | | | | | |
| Mr. LI Guorui | — | 201 | 298 | 88 | 587 |
| Mr. HUO Jingui | — | 171 | 254 | 84 | 509 |
| Mr. WU Xiaohua | — | 15 | — | — | 15 |
| | — | 387 | 552 | 172 | 1,111 |
| Supervisors: | | | | | |
| Mr. PENG Shugui | — | 171 | 254 | 82 | 507 |
| Mr. HUANG Shaojun | — | 169 | 45 | 70 | 284 |
| Ms. YU Fengli | — | 173 | 41 | 70 | 284 |
| | — | 513 | 340 | 222 | 1,075 |
| | — | 1,272 | 1,444 | 561 | 3,277 |

There was no arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the year.

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

### (b) Five highest paid employees

An analysis of the five highest paid employees within the Group for the year is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| Non-director and non-supervisor employees | **5** | 5 |

Details of the remuneration of the above non-director and non-supervisor highest paid employees are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Salaries, housing benefits, other allowances and benefits in kind | **263** | 144 |
| Performance related bonuses | **6,543** | 5,833 |
| Pension scheme contributions | **81** | 44 |
| | **6,887** | 6,021 |

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| Nil to HK$1,000,000 | **1** | 3 |
| HK$1,000,001 — HK$1,500,000 | **2** | 1 |
| HK$1,500,001 — HK$2,000,000 | **2** | — |
| HK$2,000,001 — HK$2,500,000 | **—** | — |
| HK$2,500,001 — HK$3,000,000 | **—** | 1 |
| | **5** | 5 |

## 11. TAX

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for certain preferential treatment available to the Company's subsidiaries, jointly-controlled entities and associates, which were exempted or taxed at preferential rates ranging from 15% to 16.5% primarily due to their status as entities engaging in technology development or their involvement in projects that were supported by the government, such as the Qinghai-Tibet Railway, and development projects in the western part of China, the entities within the Group are subject to corporate income tax at a rate of 33% (2006: 33%) during the year.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested enterprises and foreign-invested enterprises, which results in a reduction of income tax rate from 33% to 25%. The effect of this change has been reflected in the calculation of deferred income tax as at 31 December 2007.

## 11. TAX *(CONTINUED)*

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere, including Macau and Nigeria, have been calculated at the rates of tax prevailing in the territories/countries in which the relevant companies within the Group operate, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| — Mainland China | **923,270** | 286,022 |
| — Hong Kong | **2,027** | 746 |
| — Others | **36,715** | 18,102 |
| Deferred income tax *(note 23)* | **519,754** | 291,419 |
| Income tax charge for the year | **1,481,766** | 596,289 |

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rate in Mainland China to the income tax expense at the Group's effective income tax rate for the year is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **3,787,698** | 2,098,247 |
| At statutory income tax rate of 33% | **1,249,940** | 692,422 |
| Lower income tax rates for specific provinces or locations | **(224,038)** | (58,334) |
| Tax effect of share of profits and losses of jointly-controlled entities and associates | **739** | (8,497) |
| Income not subject to tax | **(121,164)** | (234,909) |
| Expenses not deductible for tax purposes | **54,501** | 137,372 |
| Tax losses utilised | **(16,778)** | (10,863) |
| Income tax benefits on locally purchased machinery | **(94,345)** | (13,455) |
| Tax losses not recognised | **78,324** | 92,553 |
| Adjustments in respect of current income tax of previous years | **(45,602)** | — |
| Effect on opening deferred income tax due to a decrease in income tax rate | **600,189** | — |
| Income tax charge for the year | **1,481,766** | 596,289 |

The share of tax attributable to jointly-controlled entities amounting to RMB531,000 (2006: RMB6,597,000) is included in the "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement for the year.

The share of tax attributable to associates amounting to RMB464,000 (2006: RMB593,000) is included in the "Share of profits and losses of associates" on the face of the consolidated income statement for the year.

## 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

The consolidated profit attributable to equity holder of the Company for the year ended 31 December 2007 includes a loss of RMB61,990,000 which has been dealt with in the financial statements of the Company (note 39(b)).

## 13. DISTRIBUTIONS

The distributions for the year are set out below:

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Distributions relating to the Retained BOT Projects *(note (a))* | | **701,455** | 305,142 |
| Distributions pursuant to the Restructuring: | | | |
| (i) Property, plant and equipment *(note (b))* | 15 | **1,111,263** | — |
| (ii) Prepaid land lease payments *(note (b))* | 16 | **229,087** | — |
| (iii) Provision for supplementary pension subsidies *(note (b))* | 35 | **(2,880,020)** | — |
| (iv) Deferred tax assets arising from provision for supplementary pension subsidies *(note (b))* | 23 | **846,670** | — |
| (v) Special distribution *(note (c))* | | **2,423,883** | — |
| Other distribution *(note (d))* | | **2,252,651** | — |
| | | **4,684,989** | 305,142 |

*Notes:*

(a) The distributions mainly represents payments made by the Group on behalf of certain companies engaging in the Retained BOT Projects which had been carved-out and treated as deemed distributions pursuant to the Restructuring as set out in note 1 to the financial statements.

(b) Certain operating assets and liabilities historically associated with the Predecessor Operations include certain buildings and prepaid land lease payments that do not have perfected titles and ownership certificates, and the supplementary defined benefits of retirees together with the related deferred tax assets which were integral to the Predecessor Operations before the Restructuring. These operating assets and liabilities historically associated with the Predecessor Operations were retained by CRCCG by way of distributions to CRCCG and were not injected into the Company upon its incorporation on 5 November 2007.

(c) In accordance with the notice (財政部關於印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知) "Provisional Regulation Relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the MOF (the English name of the notice is a direct translation of the Chinese name), which became effective on 27 August 2002, and pursuant to the Restructuring, the Company is required to make a distribution to CRCCG after its incorporation, which represents an amount equal to the profit attributable to the equity holder of the Company, as determined based on the audited consolidated financial statements prepared in accordance with the New PRC GAAP, generated during the period from 31 December 2006 (date of the Restructuring) to 30 November 2007 by the Core Operations contributed to the Group by CRCCG, after effecting the relevant necessary adjustments.

(d) The other distribution represents an amount due from the ultimate holding company included in prepayments, deposits and other receivables which had been carved-out and treated as a deemed distribution during the year (2006: Nil) (note 28).

## 13. DISTRIBUTIONS *(CONTINUED)*

The rates of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of these financial statements.

Following the Restructuring, the payment of future dividends will be determined by the Company's Board of Directors. The payment of the dividends will depend upon, inter alia, the future earnings, capital requirements and financial conditions and general business conditions of the Company. As the controlling shareholder, CRCCG will be able to influence the Company's dividend policy.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

Following the incorporation of the Company, under the Company Law of the PRC and the Company's Articles of Association, net profit after tax as reported in the statutory financial statements prepared in accordance with the New PRC GAAP can only be distributed as dividends after allowances have been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocation to the statutory common reserve fund of at least 10% of net profit after tax, until the fund aggregates 50% of the Company's registered share capital. For the purpose of calculating the transfer to reserve, the profit after tax shall be the amount determined under the New PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to the shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of the reserve remaining after the capitalisation shall not be less than 25% of the registered share capital of the Company.

(iii) Allocation to the discretionary common reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

After the listing of the Company's H Shares, in accordance with the Articles of Association of the Company, the net profit after tax of the Company for the purpose of dividends payment will be the lesser of (i) the net profit determined in accordance with the New PRC GAAP; and (ii) the net profit determined in accordance with IFRSs.

Prior to the incorporation of the Company on 5 November 2007, no profit appropriations to the aforesaid reserve funds were required.

## 14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

The calculation of basic earnings per share amount for the year is based on the profit attributable to equity holder of the Company amounting to RMB2,300,770,000 (2006: RMB1,212,950,000) and the number of ordinary shares in issue on the assumption that the 8,000 million ordinary shares in issue upon the incorporation of the Company on 5 November 2007 had been in issue throughout the years ended 31 December 2007 and 2006.

No diluted earnings per share amount has been presented as the Company did not have any dilutive potential ordinary shares during the year (2006: Nil).

## 15. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings | Machinery | Vehicles | Production equipment | Measurement and experimental equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **31 December 2007** | | | | | | | | |
| Cost: | | | | | | | | |
| At 1 January 2007 | 6,696,193 | 8,687,845 | 3,680,105 | 1,650,312 | 798,594 | 2,628,902 | 564,844 | 24,706,795 |
| Additions | 441,200 | 2,321,727 | 1,202,342 | 1,061,806 | 270,712 | 840,518 | 1,765,185 | 7,903,490 |
| Transfer from construction in progress | 136,732 | 418,180 | 5,276 | 8,232 | 4,174 | 15,977 | (588,571) | — |
| Transfer to prepaid land lease payments *(note 16)* | — | — | — | — | — | — | (5,702) | (5,702) |
| Disposals | (185,531) | (955,154) | (414,631) | (272,426) | (169,051) | (547,532) | — | (2,544,325) |
| Distributions to CRCCG pursuant to the Restructuring *(note 13)* | (1,785,456) | — | — | — | — | — | (23,667) | (1,809,123) |
| Disposal of a subsidiary *(note 40 (a))* | (53,616) | — | (1,442) | — | — | (571) | (375,219) | (430,848) |
| At 31 December 2007 | 5,249,522 | 10,472,598 | 4,471,650 | 2,447,924 | 904,429 | 2,937,294 | 1,336,870 | 27,820,287 |
| Accumulated depreciation and impairment: | | | | | | | | |
| At 1 January 2007 | (2,152,277) | (3,757,019) | (2,101,116) | (744,884) | (412,872) | (1,371,935) | (550) | (10,540,653) |
| Impairment for the year # *(note 7)* | — | (4,739) | — | — | — | (46) | — | (4,785) |
| Depreciation charge for the year *(note 7)* | (295,876) | (1,186,361) | (779,820) | (326,123) | (153,039) | (664,389) | — | (3,405,608) |
| Disposals | 113,064 | 572,835 | 240,862 | 105,704 | 57,291 | 339,343 | — | 1,429,099 |
| Distributions to CRCCG pursuant to the Restructuring *(note 13)* | 697,860 | — | — | — | — | — | — | 697,860 |
| Disposal of a subsidiary *(note 40 (a))* | 1,050 | — | 386 | — | — | 321 | — | 1,757 |
| At 31 December 2007 | (1,636,179) | (4,375,284) | (2,639,688) | (965,303) | (508,620) | (1,696,706) | (550) | (11,822,330) |
| Net carrying amount: | | | | | | | | |
| At 31 December 2007 | 3,613,343 | 6,097,314 | 1,831,962 | 1,482,621 | 395,809 | 1,240,588 | 1,336,320 | 15,997,957 |
| At 31 December 2006 | 4,543,916 | 4,930,826 | 1,578,989 | 905,428 | 385,722 | 1,256,967 | 564,294 | 14,166,142 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

**Group** *(continued)*

| | Buildings | Machinery | Vehicles | Production equipment | Measurement and experimental equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 31 December 2006 | | | | | | | | |
| Cost: | | | | | | | | |
| At 1 January 2006 | 6,290,578 | 6,751,278 | 3,192,912 | 1,446,541 | 664,117 | 1,908,738 | 641,937 | 20,896,101 |
| Additions | 627,970 | 2,579,797 | 806,739 | 322,419 | 197,948 | 984,836 | 626,596 | 6,146,305 |
| Transfer from construction in progress | 572,212 | 90,633 | 385 | 18,791 | 3,018 | 18,650 | (703,689) | — |
| Disposals | (794,567) | (733,863) | (319,931) | (137,439) | (66,489) | (283,322) | — | (2,335,611) |
| At 31 December 2006 | 6,696,193 | 8,687,845 | 3,680,105 | 1,650,312 | 798,594 | 2,628,902 | 564,844 | 24,706,795 |
| Accumulated depreciation and impairment: | | | | | | | | |
| At 1 January 2006 | (2,198,705) | (3,287,494) | (1,835,795) | (674,015) | (372,468) | (1,053,344) | — | (9,421,821) |
| Impairment for the year # *(note 7)* | (16,238) | (69,869) | (465) | — | (1,887) | (2,256) | (550) | (91,265) |
| Depreciation charge for the year *(note 7)* | (208,686) | (861,273) | (552,946) | (149,432) | (94,959) | (496,876) | — | (2,364,172) |
| Disposals | 271,352 | 461,617 | 288,090 | 78,563 | 56,442 | 180,541 | — | 1,336,605 |
| At 31 December 2006 | (2,152,277) | (3,757,019) | (2,101,116) | (744,884) | (412,872) | (1,371,935) | (550) | (10,540,653) |
| Net carrying amount: | | | | | | | | |
| At 31 December 2006 | 4,543,916 | 4,930,826 | 1,578,989 | 905,428 | 385,722 | 1,256,967 | 564,294 | 14,166,142 |
| At 31 December 2005 | 4,091,873 | 3,463,784 | 1,357,117 | 772,526 | 291,649 | 855,394 | 641,937 | 11,474,280 |

# Impairment losses of approximately RMB4,785,000 (2006: RMB91,265,000) were recognised in the consolidated income statement for the year, which mainly represented the write-down of certain items of machinery in the construction operations segment to their recoverable amounts.

## 15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

**Company**

| | Buildings<br>*RMB'000* | Vehicles<br>*RMB'000* | Production equipment<br>*RMB'000* | Other equipment<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Injection to the Company upon its incorporation | 2,389 | 16,969 | 2,026 | 14,360 | 35,744 |
| Additions | — | 450 | — | 5,599 | 6,049 |
| Disposals | — | (264) | — | (14) | (278) |
| At 31 December 2007 | 2,389 | 17,155 | 2,026 | 19,945 | 41,515 |
| Accumulated depreciation: | | | | | |
| Depreciation charge for the period | (10) | (823) | (79) | (288) | (1,200) |
| Disposals | — | — | — | 12 | 12 |
| At 31 December 2007 | (10) | (823) | (79) | (276) | (1,188) |
| Net carrying amount: | | | | | |
| At 31 December 2007 | 2,379 | 16,332 | 1,947 | 19,669 | 40,327 |

Certain of the Group's interest-bearing bank and other borrowings were secured by certain of the Group's buildings and machinery, which had an aggregate net carrying amount of approximately RMB203,714,000 (2006: RMB459,487,000) as at 31 December 2007 (note 33).

The net carrying amount of the Group's property, plant and equipment held under finance leases included in the total amount of machinery amounted to RMB171,113,000 (2006: RMB145,852,000) as at 31 December 2007 (note 34).

As at 31 December 2007, the Group was in the process of applying for the title certificates of certain of its buildings with an aggregate net carrying amount of approximately RMB53,718,000. After consulting the legal advisor of the Company, the Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2007.

## 16. PREPAID LAND LEASE PAYMENTS

| | Group 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Carrying amount at beginning of the year | 1,470,069 | 1,323,484 |
| Additions | 590,433 | 215,371 |
| Injection by CRCCG pursuant to the Restructuring *(note 40 (b))* | 3,074,967 | — |
| Transfer from construction in progress *(note 15)* | 5,702 | — |
| Disposals | (69,629) | (27,635) |
| Amortisation for the year *(note 7)* | (45,041) | (25,857) |
| Impairment for the year *(note 7)* | — | (15,294) |
| Distributions to CRCCG pursuant to the Restructuring *(note 13)* | (229,087) | — |
| Carrying amount at end of the year | 4,797,414 | 1,470,069 |
| Portion classified as current assets | (101,901) | (28,823) |
| Non-current portion | 4,695,513 | 1,441,246 |

The carrying amount of the Group's prepaid land lease payments represents land use rights in the PRC which are held under the following lease terms:

| | Group 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Lease term, at carrying amount: | | |
| Long term leases of not less than 50 years | 61,596 | 43,038 |
| Medium term leases of less than 50 years but not less than 10 years | 4,718,828 | 1,417,428 |
| Short term leases of less than 10 years | 16,990 | 9,603 |
| | 4,797,414 | 1,470,069 |

Certain of the Group's interest-bearing bank and other borrowings were secured by the Group's prepaid land lease payments, which had an aggregate carrying amount of approximately RMB48,753,000 (2006: RMB30,120,000) as at 31 December 2007 (note 33).

As at 31 December 2007, the Group was in the process of applying for the title certificates of certain of its land use rights in the PRC with an aggregate carrying amount of approximately RMB153,449,000. After consulting the legal advisor of the Company, the Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land use rights. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2007.

## 17. INTANGIBLE ASSETS

**Group**

| | Concession assets *RMB'000* | Computer software *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **31 December 2007** | | | | |
| Cost: | | | | |
| At 1 January 2007 | 321,292 | 37,506 | 17,961 | 376,759 |
| Additions | 815,289 | 5,727 | 7,093 | 828,109 |
| Disposals | — | (9,938) | (4,630) | (14,568) |
| At 31 December 2007 | 1,136,581 | 33,295 | 20,424 | 1,190,300 |
| Accumulated amortisation and impairment: | | | | |
| At 1 January 2007 | (11,885) | (13,639) | (12,385) | (37,909) |
| Impairment for the year *(note 7)* | — | (508) | — | (508) |
| Amortisation for the year *(note 7)* | (7,130) | (8,510) | (7,550) | (23,190) |
| Disposals | — | 2,880 | 969 | 3,849 |
| At 31 December 2007 | (19,015) | (19,777) | (18,966) | (57,758) |
| Net carrying amount: | | | | |
| At 31 December 2007 | 1,117,566 | 13,518 | 1,458 | 1,132,542 |
| At 31 December 2006 | 309,407 | 23,867 | 5,576 | 338,850 |
| 31 December 2006 | | | | |
| Cost: | | | | |
| At 1 January 2006 | 121,222 | 24,754 | 17,622 | 163,598 |
| Additions | 200,070 | 13,579 | 968 | 214,617 |
| Disposals | — | (827) | (629) | (1,456) |
| At 31 December 2006 | 321,292 | 37,506 | 17,961 | 376,759 |
| Accumulated amortisation and impairment: | | | | |
| At 1 January 2006 | (4,898) | (5,334) | (11,267) | (21,499) |
| Amortisation for the year *(note 7)* | (6,987) | (8,356) | (1,118) | (16,461) |
| Disposals | — | 51 | — | 51 |
| At 31 December 2006 | (11,885) | (13,639) | (12,385) | (37,909) |
| Net carrying amount: | | | | |
| At 31 December 2006 | 309,407 | 23,867 | 5,576 | 338,850 |
| At 31 December 2005 | 116,324 | 19,420 | 6,355 | 142,099 |

Certain of the Group's interest-bearing bank and other borrowings were secured by certain of the Group's intangible assets, which had an aggregate carrying amount of approximately RMB198,412,000 (2006: Nil) as at 31 December 2007 (note 33).

## 18. INVESTMENTS IN SUBSIDIARIES

| | Company 2007 *RMB'000* |
|---|---|
| Unlisted investments, at cost | 11,938,895 |

Particulars of the principal subsidiaries of the Company are as follows:

| Company name | Place and date of incorporation/ registration and operations | Issued and fully paid-up/ registered capital *'000* | Percentage of equity interest attributable to the Company *Direct* | *Indirect* | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries** | | | | | |
| 中國土木工程集團有限公司 China Civil Engineering Construction Ltd. | The PRC 1 June 1979 | RMB610,000 | 100 | — | Construction |
| 中鐵十一局集團有限公司 China Railway 11th Bureau Group Co., Ltd. | The PRC 1 August 2001 | RMB500,000 | 100 | — | Construction |
| 中鐵十二局集團有限公司 China Railway 12th Bureau Group Co., Ltd. | The PRC 12 May 1986 | RMB460,680 | 100 | — | Construction |
| 中鐵十三局集團有限公司 China Railway 13th Bureau Group Co., Ltd. | The PRC 6 June 2001 | RMB444,810 | 100 | — | Construction |
| 中鐵十四局集團有限公司 China Railway 14th Bureau Group Co., Ltd. | The PRC 12 October 1986 | RMB510,000 | 100 | — | Construction |
| 中鐵十五局集團有限公司 China Railway 15th Bureau Group Co., Ltd. | The PRC 2 April 2001 | RMB517,210 | 100 | — | Construction |
| 中鐵十六局集團有限公司 China Railway 16th Bureau Group Co., Ltd. | The PRC 1 August 1995 | RMB468,300 | 100 | — | Construction |
| 中鐵十七局集團有限公司 China Railway 17th Bureau Group Co., Ltd. | The PRC 2 February 1985 | RMB444,210 | 100 | — | Construction |
| 中鐵十八局集團有限公司 China Railway 18th Bureau Group Co., Ltd. | The PRC 18 April 2001 | RMB530,000 | 100 | — | Construction |
| 中鐵十九局集團有限公司 China Railway 19th Bureau Group Co., Ltd. | The PRC 26 December 2001 | RMB495,460 | 100 | — | Construction |
| 中鐵二十局集團有限公司 China Railway 20th Bureau Group Co., Ltd. | The PRC 1 December 1993 | RMB510,000 | 100 | — | Construction |

## 18. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

| Company name | Place and date of incorporation/ registration and operations | Issued and fully paid-up/ registered capital *'000* | Percentage of equity interest attributable to the Company *Direct* | *Indirect* | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries** *(continued)* | | | | | |
| 中鐵二十一局集團有限公司 China Railway 21st Bureau Group Co., Ltd. | The PRC 16 March 2004 | RMB350,000 | 100 | — | Construction |
| 中鐵二十二局集團有限公司 China Railway 22nd Bureau Group Co., Ltd. | The PRC 3 March 2004 | RMB326,000 | 100 | — | Construction |
| 中鐵二十三局集團有限公司 China Railway 23rd Bureau Group Co., Ltd. | The PRC 11 June 2002 | RMB300,000 | 100 | — | Construction |
| 中鐵二十四局集團有限公司 China Railway 24th Bureau Group Co., Ltd. | The PRC 4 March 2004 | RMB353,244 | 100 | — | Construction |
| 中鐵二十五局集團有限公司 China Railway 25th Bureau Group Co., Ltd. | The PRC 14 March 2004 | RMB310,720 | 100 | — | Construction |
| 中鐵建設集團有限公司 China Railway Construction Group Ltd. | The PRC 1 August 1979 | RMB300,000 | 100 | — | Construction |
| 中鐵建電氣化局集團有限公司 China Railway Electrification Bureau (Group) Co., Ltd. | The PRC 1 December 2005 | RMB110,000 | 100 | — | Construction |
| 中鐵房地產集團有限公司 China Railway Real Estate Group Co., Ltd. | The PRC 20 April 2007 | RMB500,000 | 40 | 60 | Real estate development |
| 中鐵第一勘察設計院集團有限公司 China Railway First Survey and Design Institute Group Co., Ltd. | The PRC 31 December 1992 | RMB150,000 | 100 | — | Survey, design and consultancy |
| 中鐵第四勘察設計院集團有限公司 China Railway Fourth Survey and Design Institute Group Co., Ltd. | The PRC 28 May 2001 | RMB150,000 | 100 | — | Survey, design and consultancy |

## 18. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

| Company name | Place and date of incorporation/ registration and operations | Issued and fully paid-up/ registered capital *'000* | Percentage of equity interest attributable to the Company *Direct* | *Indirect* | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries** *(continued)* | | | | | |
| 中鐵第五勘察設計院集團有限公司 China Railway Fifth Survey and Design Institute Group Co., Ltd. | The PRC 28 December 2001 | RMB105,000 | 100 | — | Survey, design and consultancy |
| 中鐵上海設計院集團有限公司 China Railway Shanghai Design Institute Group Co., Ltd. | The PRC 10 December 1992 | RMB80,000 | 100 | — | Survey, design and consultancy |
| 中鐵物資集團有限公司 China Railway Goods and Materials Co., Ltd. | The PRC 4 June 1992 | RMB81,296 | 100 | — | Trading of construction materials |
| 昆明中鐵大型養路機械集團有限公司 Kunming China Railway Large Road Maintenance Machinery Co., Ltd. | The PRC 29 August 1992 | RMB187,984 | 100 | — | Manufacturing of large track maintenance machinery |
| 中鐵軌道系統集團有限公司 China Railway Rail System Group Co., Ltd. | The PRC 23 November 2006 | RMB300,000 | 51 | 49 | Manufacturing of railway track systems |
| 北京鐵城建設監理有限責任公司 Beijing Tiecheng Construction Supervision Co., Ltd. | The PRC 11 November 1998 | RMB1,001 | 80.02 | 19.98 | Construction management and supervision |
| 中國鐵道建設(香港)有限公司 China Railway Construction (HK) Limited | Hong Kong 19 November 2005 | HK$6,000 | 100 | — | Construction management |

The English names of certain companies above represent the best efforts of the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

All the above subsidiaries are limited liability companies.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2007. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

## 19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

| | Group 2007 RMB'000 | Group 2006 RMB'000 | Company 2007 RMB'000 |
|---|---|---|---|
| Unlisted investments, at cost | — | — | 62,580 |
| Share of net assets | 71,814 | 68,381 | — |
| | 71,814 | 68,381 | 62,580 |

Particulars of the principal jointly-controlled entities of the Group are as follows:

| Company name | Place and date of incorporation/ registration and operations | Issued and fully paid-up/ registered capital '000 | Percentage of equity interest attributable to the Company Direct | Percentage of equity interest attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| HK ACE Joint Venture | Hong Kong 2 June 1999 | — | 25 | — | Construction |
| 新華錦集團青島錦源房地產開發有限公司 Xinhuajin Group Qingdao Jinyuan Real Estate Development Limited | The PRC 27 February 2003 | RMB10,000 | — | 49 | Real estate development |
| 湖北萬佳房地產開發有限公司 Hubei Wanjia Real Estate Development Limited | The PRC 31 October 2002 | RMB10,000 | — | 40 | Real estate development |
| Chun Wo — Henryvicy — CRCC — Queensland Rail Joint Venture | Hong Kong 11 March 1999 | — | 20 | — | Construction |
| Chun Wo — Henryvicy — CRCC Joint Venture | Hong Kong 7 September 2000 | — | 25 | — | Construction |

The English names of certain companies above represent the best efforts of the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2007. To give details of other jointly-controlled entities would, in the opinion of the Directors, result in particulars of excessive length.

## 19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

The following tables illustrate the summarised financial information of the Group's jointly-controlled entities:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Share of the jointly-controlled entities' assets and liabilities: | | |
| Current assets | **282,658** | 220,470 |
| Non-current assets | **1,363** | 3,371 |
| Current liabilities | **(163,138)** | (155,182) |
| Non-current liabilities | **(49,069)** | (278) |
| Net assets | **71,814** | 68,381 |
| Share of the jointly-controlled entities' results: | | |
| Revenue | **51,705** | 41,242 |
| Other income | **11,293** | 11,598 |
| | **62,998** | 52,840 |
| Total expenses | **(47,843)** | (20,708) |
| Tax | **(531)** | (6,597) |
| Profit after tax | **14,624** | 25,535 |

## 20. INTERESTS IN ASSOCIATES

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Share of net assets | **258,822** | 371,545 |
| Provision for impairment | **(1,851)** | (5,810) |
| | **256,971** | 365,735 |

## 20. INTERESTS IN ASSOCIATES *(CONTINUED)*

Particulars of the principal associates of the Group are as follows:

| Company name | Place and date of incorporation/ registration and operations | Issued and fully paid-up/ registered capital '000 | Percentage of equity interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 蛇口興華實業股份有限公司<br>Shekou Xinghua Enterprise Co., Ltd. | The PRC<br>19 November 1983 | RMB46,377 | — | 33 | Real estate development |
| 北京中鐵建協工程技術諮詢有限公司<br>Beijing China Railway Jianxie Engineering & Technology Consultation Co., Ltd. | The PRC<br>15 April 2001 | RMB5,000 | — | 49 | Technology consultancy |
| 上海先科橋樑隧道檢測加固工程技術有限公司<br>Shanghai Xianke Bridge and Tunnel Inspection Engineering Technology Co., Ltd. | The PRC<br>1 November 2005 | RMB4,000 | — | 48 | Bridge inspection |
| 中鐵交通國際工程技術有限公司<br>China Railway Communications International Engineering and Technology Group Corporation | The PRC<br>11 March 2007 | RMB200,000 | — | 35 | Survey, design and consultancy |
| 武漢貝通科技有限公司<br>Wuhan Bell Telecom Hi-tech Co., Ltd. | The PRC<br>25 July 2000 | RMB500 | — | 34 | Manufacture and sale of microelectronics products and equipment |
| 北京中鐵詳能公司<br>Beijing China Railway Power Saving Co., Ltd. | The PRC<br>10 September 2002 | RMB8,050 | — | 23 | Technology development and consultancy |

The English names of certain companies above represent the best efforts of the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2007. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

The following tables illustrate the summarised financial information of the Group's associates extracted from their audited financial statements or management accounts:

| | Group 2007 RMB'000 | Group 2006 RMB'000 |
|---|---|---|
| Aggregate of associates' financial position: | | |
| Assets | **1,915,087** | 2,284,456 |
| Liabilities | **1,292,976** | 1,346,608 |
| Aggregate of associates' results: | | |
| Revenue | **1,040,576** | 902,048 |
| Profit | **46,888** | 962 |

## 21. HELD-TO-MATURITY INVESTMENTS

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Debt investments: | | |
| — Listed in Mainland China | **6,858** | 7,447 |
| — Unlisted | **36,500** | 316,724 |
| | **43,358** | 324,171 |
| Portion classified as current assets | **(25,000)** | (305,038) |
| Non-current portion | **18,358** | 19,133 |
| Held-to-maturity investments are analysed, by issuer, as follows: | | |
| — Central government and central bank | **2,059** | 2,167 |
| — Corporate entities | **41,299** | 322,004 |
| | **43,358** | 324,171 |

Movements in the provision for impairment of held-to-maturity investments are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **—** | 500 |
| Written off | **—** | (500) |
| At end of the year | **—** | — |

During the year, the effective interest rates of the held-to-maturity investments ranged from 4.0% to 5.3% (2006: 4.0% to 5.3%) per annum. The carrying amounts of the held-to-maturity investments approximate their fair values.

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Listed equity investments in Mainland China, at fair value | **330,684** | 6,654 | **155,788** |
| Unlisted equity investments, at cost | **551,931** | 547,159 | **91,179** |
| Provision for impairment | **(12,461)** | (18,432) | **—** |
| | **539,470** | 528,727 | **91,179** |
| Listed bond investments in Mainland China, at fair value | **2,264** | 2,430 | **—** |
| | **872,418** | 537,811 | **246,967** |

## 22. AVAILABLE-FOR-SALE INVESTMENTS *(CONTINUED)*

The unlisted equity investments are equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Available-for-sale investments are analysed, by issuer, as follows: | | | |
| — Central government and central bank | **2,062** | 2,430 | **—** |
| — Banks and other financial institutions | **263,118** | 50,442 | **155,788** |
| — Corporate entities | **607,238** | 484,939 | **91,179** |
| | **872,418** | 537,811 | **246,967** |

Movements in the provision for impairment of available-for-sale investments are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **18,432** | 18,572 |
| Impairment for the year *(note 7)* | **4,035** | 951 |
| Written off | **(10,006)** | (1,091) |
| At end of the year | **12,461** | 18,432 |

The gross gain of the Group's available-for-sale investments recognised directly in its equity amounted to RMB269,628,000 (2006: Nil) for the year.

The gross gain of the Company's available-for-sale investments recognised in its equity amounted to RMB47,380,000 for the period from 5 November 2007 (date of incorporation of the Company) to 31 December 2007 (note 39 (b)).

The fair values of the listed equity and bond investments are based on quoted market prices.

## 23. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| At beginning of the year/period, net | **3,292,051** | 3,583,470 | **—** |
| Injection to the Company upon its incorporation | **—** | — | **12,448** |
| Deferred tax charged to the income statements during the year/period *(note 11)* | **(519,754)** | (291,419) | **(1,621)** |
| Deferred tax charged to equity during the year/period: | | | |
| (i) Deferred tax assets on revaluation surplus arising from the Restructuring | **1,051,303** | — | **—** |
| (ii) Distribution of deferred tax assets arising from provision for supplementary pension subsidies to CRCCG pursuant to the Restructuring *(note 13)* | **(846,670)** | — | **—** |
| (iii) Deferred tax liabilities arising from changes in fair values of available-for-sale investments | **(31,688)** | — | **(11,845)** |
| At end of the year/period, net | **2,945,242** | 3,292,051 | **(1,018)** |

The Group's and the Company's deferred tax assets and deferred tax liabilities are attributed to the following items, which are reflected in the balance sheets:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Deferred tax assets: | | | |
| Provisions for supplementary pension subsidies and early retirement benefits | **1,842,552** | 3,395,518 | **10,827** |
| Provision for impairment of assets | **142,718** | 264,173 | **—** |
| Provision for foreseeable losses on construction contracts | **50,761** | 188,653 | **—** |
| Tax losses available for offset against future taxable income | **42,655** | 245 | **—** |
| Accruals and provisions | **35,916** | 69,894 | **—** |
| Additional tax deduction on revaluation surplus arising from the Restructuring | **1,018,657** | — | **—** |
| Others | **6,977** | 9,648 | **—** |
| | **3,140,236** | 3,928,131 | **10,827** |
| Deferred tax liabilities: | | | |
| Recognition of revenue on construction contracts | **(163,306)** | (221,082) | **—** |
| Provision for staff welfare fund | **—** | (414,998) | **—** |
| Available-for-sale investments | **(31,688)** | — | **(11,845)** |
| | **(194,994)** | (636,080) | **(11,845)** |
| | **2,945,242** | 3,292,051 | **(1,018)** |

## 23. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES *(CONTINUED)*

As at 31 December 2007, deferred tax assets that had not been recognised in respect of tax losses of the Group arising in the PRC were RMB69,929,000 (2006: RMB56,535,000), which were available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2007, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates as the Group has no liability to additional tax should such amounts be remitted (2006: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 24. INVENTORIES

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Raw materials | **4,493,410** | 3,479,774 | **3,778** |
| Work-in-progress | **706,233** | 847,270 | **—** |
| Finished goods | **787,859** | 581,212 | **—** |
| Spare parts | **2,039,387** | 1,086,213 | **—** |
| | **8,026,889** | 5,994,469 | **3,778** |

As at 31 December 2007, certain of the Group's interest-bearing bank and other borrowings were secured by certain of the Group's inventories, which had an aggregate carrying amount of approximately RMB188,469,000 (2006: Nil) (note 33).

## 25. COMPLETED PROPERTIES HELD FOR SALE

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Cost | **429,807** | 387,912 |
| Provision for impairment | **(77,409)** | (91,508) |
| | **352,398** | 296,404 |

## 26. CONSTRUCTION CONTRACTS

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Gross amount due from contract customers for contract work | **35,928,314** | 28,054,058 | **1,138,383** |
| Gross amount due to contract customers for contract work | **(17,391,764)** | (14,408,867) | **—** |
| | **18,536,550** | 13,645,191 | **1,138,383** |
| Contract costs incurred plus recognised profits less recognised losses to date | **522,645,730** | 356,352,731 | **1,988,231** |
| Less: Progress billings received and receivable | **(504,109,180)** | (342,707,540) | **(849,848)** |
| | **18,536,550** | 13,645,191 | **1,138,383** |

## 26. CONSTRUCTION CONTRACTS *(CONTINUED)*

The amounts due from the ultimate holding company, fellow subsidiaries and associate included in the gross amount due from contract customers for contract work are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Ultimate holding company | — | 4,261 |
| Fellow subsidiaries | **61,072** | 56,063 |
| Associate | — | 4,923 |
| | **61,072** | 65,247 |

The amounts due to fellow subsidiaries included in the gross amount due to contract customers for contract work are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Fellow subsidiaries | **249,123** | 11,021 |

The above amounts are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

## 27. TRADE AND BILLS RECEIVABLES

The Group's major customers are the PRC government agencies and other state-owned enterprises. The majority of the Group's revenues are generated through construction projects and settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. The Group does not have a standardised and universal credit period granted to the construction service customers. The credit period of individual construction service customers is considered on a case-by-case basis and set out in the construction contracts, as appropriate. For the sale of products, a credit period ranging from 30 to 90 days may be granted to large or long-established customers with good repayment history. Revenues from small, new or short term customers are normally expected to be settled shortly after the provision of services or delivery of goods. No credit period is set by the Group for small, new or short term customers. For retention money receivables in respect of construction work carried out by the Group, the due dates usually range from one to six years after the completion of the construction work. Trade and bills receivables are non-interest-bearing.

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Bills receivables | **162,108** | 150,071 | — |
| Trade receivables | **26,521,634** | 19,752,297 | **4,247** |
| Retention money receivables | **5,232,386** | 4,810,010 | **7,496** |
| Provision for impairment | **(617,293)** | (711,253) | — |
| | **31,298,835** | 24,001,125 | **11,743** |
| Portion classified as current assets | **(30,265,003)** | (22,430,313) | **(11,743)** |
| Non-current portion | **1,033,832** | 1,570,812 | — |

## 27. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

An aged analysis of the Group's and the Company's trade and bills receivables, based on the invoice date and net of provision for impairment of trade receivables, as at the balance sheet date is as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Within 6 months | **22,850,161** | 14,056,279 | **3,518** |
| 6 months to 1 year | **4,678,012** | 5,717,934 | **—** |
| 1 to 2 years | **2,376,177** | 2,767,670 | **—** |
| 2 to 3 years | **909,552** | 928,383 | **8,225** |
| More than 3 years | **484,933** | 530,859 | **—** |
| | **31,298,835** | 24,001,125 | **11,743** |

An aged analysis of the trade and bills receivables, that are neither individually nor collectively considered to be impaired, is as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Neither past due nor impaired | **25,840,190** | 17,681,936 | **10,783** |
| Past due but not impaired: | | | |
| Less than 3 months past due | **552,478** | 797,805 | **—** |
| 3 to 6 months past due | **253,318** | 662,707 | **—** |
| Over 6 months past due | **459,040** | 819,734 | **960** |
| | **27,105,026** | 19,962,182 | **11,743** |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Movements in the provision for impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **711,253** | 668,569 |
| Impairment/(reversal of impairment) for the year *(note 7)* | **(24,067)** | 79,016 |
| Written off | **(69,893)** | (36,332) |
| At end of the year | **617,293** | 711,253 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB617,293,000 (2006: RMB711,253,000) with a carrying amount of RMB4,811,102,000 (2006: RMB4,750,196,000). The individually impaired trade receivables relate to customers that were in financial difficulties or customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

## 27. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

The amounts due from the ultimate holding company, fellow subsidiaries, jointly-controlled entities and associates included in the trade and bills receivables are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Ultimate holding company | **—** | 4,496 |
| Fellow subsidiaries | **107,084** | 78,421 |
| Jointly-controlled entities | **4,321** | 14,328 |
| Associates | **46,709** | 87,709 |
| | **158,114** | 184,954 |

The above amounts are unsecured and repayable on similar credit terms to those offered to the major customers of the Group. Except for an amount of RMB4,650,000 as at 31 December 2006 which is interest-bearing at a rate of 8.0% per annum, the above amounts are non-interest-bearing.

The weighted average effective interest rates on non-current trade and bills receivables are as follows:

| | **2007** | 2006 |
|---|---|---|
| Effective interest rates | **6.9%** | 6.0% |

The weighted average effective interest rates are determined by reference to the prevailing commercial bank borrowing interest rates for unsecured bank loans with similar maturities.

The carrying amounts of the current trade and bills receivables approximate their fair values. In addition, as the non-current trade and bills receivables have been discounted based on the effective interest rates, the carrying amounts of the non-current trade and bills receivables approximate their fair values.

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Advances to suppliers | **13,375,754** | 10,694,037 | **2,163,802** |
| Prepayments | **98,902** | 156,695 | **—** |
| Deposits and other receivables* | **10,150,512** | 10,734,683 | **4,152,549** |
| | **23,625,168** | 21,585,415 | **6,316,351** |
| Portion classified as current assets | **(23,543,418)** | (21,524,630) | **(6,316,351)** |
| Non-current portion | **81,750** | 60,785 | **—** |

* Deposits and other receivables mainly represent bidding bonds, performance bonds and various deposits required for the Group's business operations.

An aged analysis of the deposits and other receivables, that are neither individually nor collectively considered to be impaired, is as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Neither past due nor impaired | **9,517,890** | 10,015,018 | **4,152,549** |

Deposits and other receivables that were neither past due nor impaired relate to balances for which there was no recent history of default.

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

Movements in the provision for impairment of deposits and other receivables are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **298,726** | 277,022 |
| Impairment/(reversal of impairment) for the year *(note 7)* | **(20,944)** | 42,614 |
| Written off | **(68,119)** | (20,910) |
| At end of the year | **209,663** | 298,726 |

Included in the above provision for impairment of deposits and other receivables is a provision for individually impaired deposits and other receivables of RMB209,663,000 (2006: RMB298,726,000) with a carrying amount of RMB842,285,000 (2006: RMB1,018,391,000). The individually impaired deposits and other receivables relate to debtors that were in financial difficulties or debtors that were in default or delinquency in payments and only a portion of the balances is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The amounts due from the ultimate holding company, fellow subsidiaries, jointly-controlled entities, associates and subsidiaries included in the above are as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Ultimate holding company | **—** | 1,434,405 | **351,136** |
| Fellow subsidiaries | **—** | 106,688 | **—** |
| Jointly-controlled entities | **387,925** | 126,136 | **—** |
| Associates | **415,221** | 11,580 | **—** |
| Subsidiaries | **—** | — | **4,801,939** |
| | **803,146** | 1,678,809 | **5,153,075** |

The above amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

During the year, an amount due from the ultimate holding company included in prepayments, deposits and other receivables of RMB2,252,651,000 (2006: Nil) had been carved-out and treated as deemed distribution (note 13).

The weighted average effective interest rates on non-current deposits and other receivables are as follows:

| | **2007** | 2006 |
|---|---|---|
| Effective interest rates | **6.9%** | 6.0% |

The weighted average effective interest rates are determined by reference to the prevailing commercial bank borrowing interest rates for unsecured bank loans with similar maturities.

The carrying amounts of the current deposits and other receivables approximate their fair values. In addition, as the non-current deposits and other receivables have been discounted based on the effective interest rates, the carrying amounts of the non-current deposits and other receivables approximate their fair values.

## 29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group 2007 RMB'000 | Group 2006 RMB'000 | Company 2007 RMB'000 |
|---|---|---|---|
| Bond investments: | | | |
| — Listed in Mainland China, at market value | 800 | 800 | — |
| Equity investments: | | | |
| — Listed in Mainland China, at market value | 124,331 | 64,427 | 123,798 |
| | 125,131 | 65,227 | 123,798 |
| Financial assets at fair value through profit or loss are analysed, by issuer, as follows: | | | |
| — Central government and central bank | 800 | 800 | — |
| — Banks and other financial institutions | 5,207 | — | 5,207 |
| — Corporate entities | 119,124 | 64,427 | 118,591 |
| | 125,131 | 65,227 | 123,798 |

## 30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group 2007 RMB'000 | Group 2006 RMB'000 | Company 2007 RMB'000 |
|---|---|---|---|
| Cash and bank balances | 23,971,215 | 18,537,051 | 2,015,928 |
| Time deposits | 3,517,079 | 3,232,060 | 40,000 |
| | 27,488,294 | 21,769,111 | 2,055,928 |
| Less: Pledged bank balances for | | | |
| — Bills payable *(note 31)* | (597,111) | (336,234) | — |
| — Projects bidding | (681,031) | (452,031) | — |
| Less: Pledged time deposits for | | | |
| — Bank loans *(note 33)* | (20,000) | — | — |
| — Bank loan of an associate *(note 43)* | — | (20,000) | — |
| | (1,298,142) | (808,265) | — |
| Cash and cash equivalents in the balance sheets | 26,190,152 | 20,960,846 | 2,055,928 |
| Less: Non-pledged time deposits with original maturity of three months or more when acquired | (3,001,661) | (2,587,211) | |
| Cash and cash equivalents in the consolidated cash flow statement | 23,188,491 | 18,373,635 | |
| Cash and bank balances and time deposits denominated in: | | | |
| — RMB | 24,781,758 | 20,288,033 | 1,889,019 |
| — United States dollars | 1,187,778 | 852,257 | 134,432 |
| — Other currencies | 1,518,758 | 628,821 | 32,477 |
| | 27,488,294 | 21,769,111 | 2,055,928 |

## 30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(CONTINUED)*

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between three months to one year, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents and pledged deposits in the balance sheets approximate their fair values.

## 31. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing and are normally settled between 60 and 180 days. For retention money payables in respect of construction work carried out by the Group, the due dates usually range from one to six years after the completion of the construction work.

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Trade and bills payables | **45,418,021** | 38,250,699 | **241,102** |
| Portion classified as current liabilities | **(44,676,793)** | (37,512,875) | **(241,102)** |
| Non-current portion | **741,228** | 737,824 | **—** |

An aged analysis of the Group's and the Company's trade and bills payables, based on the invoice date, as at the balance sheet date is as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Within 6 months | **34,658,770** | 24,344,581 | **199,889** |
| 6 months to 1 year | **7,351,934** | 9,008,652 | **31,709** |
| 1 to 2 years | **1,893,723** | 3,026,302 | **9,504** |
| 2 to 3 years | **933,849** | 1,362,828 | **—** |
| More than 3 years | **579,745** | 508,336 | **—** |
| | **45,418,021** | 38,250,699 | **241,102** |

The amounts due to fellow subsidiaries, associates and subsidiaries included in trade and bills payables are as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Fellow subsidiaries | **14,846** | — | **—** |
| Associates | **100,401** | 5,907 | **—** |
| Subsidiaries | **—** | — | **29,678** |
| | **115,247** | 5,907 | **29,678** |

The above amounts are unsecured, non-interest-bearing and repayable on similar credit terms to those offered by the fellow subsidiaries, associates and subsidiaries to their major customers.

## 31. TRADE AND BILLS PAYABLES *(CONTINUED)*

The weighted average effective interest rates on non-current trade and bills payables are as follows:

| | 2007 | 2006 |
|---|---|---|
| Effective interest rates | 6.9% | 6.0% |

The weighted average effective interest rates are determined by reference to the prevailing commercial bank borrowing interest rates for unsecured bank loans with similar maturities.

The carrying amounts of the current trade and bills payables approximate their fair values. In addition, as the non-current trade and bills payables have been discounted based on the effective interest rates, the carrying amounts of the non-current trade and bills payables approximate their fair values.

The Group's bills payable were secured by pledged bank balances of approximately RMB597,111,000 (2006: RMB336,234,000) as at 31 December 2007 (note 30).

## 32. OTHER PAYABLES AND ACCRUALS

| | Group | | Company |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Advances from customers | 32,624,866 | 22,023,154 | 1,720,748 |
| Accrued salaries, wages and benefits | 4,735,751 | 4,167,963 | 32,998 |
| Other taxes payable | 1,725,087 | 1,785,944 | — |
| Current portion of deferred revenue *(note 36)* | 18,079 | 14,079 | — |
| Others* | 14,478,468 | 10,332,633 | 2,211,459 |
| | 53,582,251 | 38,323,773 | 3,965,205 |
| Portion classified as current liabilities | (53,199,850) | (38,048,543) | (3,506,927) |
| Non-current portion | 382,401 | 275,230 | 458,278 |

* Others mainly represent payables to sub-contractors for payments made on behalf of the Group, deposits and performance bonds received from sub-contractors, payables for the purchase of machinery and equipment and payables for repair and maintenance expenses.

The amounts due to the ultimate holding company, fellow subsidiaries, jointly-controlled entities, associates and subsidiaries included in other payables and accruals are as follows:

| | Group | | Company |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Ultimate holding company | 1,042,537 | 179,841 | — |
| Fellow subsidiaries | 370,598 | 352,929 | — |
| Jointly-controlled entities | 152,227 | 59,750 | 58,055 |
| Associates | 80,535 | 237 | — |
| Subsidiaries | — | — | 1,388,010 |
| | 1,645,897 | 592,757 | 1,446,065 |

The above amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

Subsequent to 31 December 2007, the balances with the ultimate holding company and fellow subsidiaries which are non-trade in nature as at 31 December 2007 have been settled.

## 32. OTHER PAYABLES AND ACCRUALS *(CONTINUED)*

The weighted average effective interest rates on non-current other payables are as follows:

| | 2007 | 2006 |
|---|---|---|
| Effective interest rates | 6.9% | 6.0% |

The weighted average effective interest rates are determined by reference to the prevailing commercial bank borrowing interest rates for unsecured bank loans with similar maturities.

The carrying amounts of the current other payables approximate their fair values. In addition, as the non-current other payables have been discounted based on the effective interest rates, the carrying amounts of the non-current other payables approximate their fair values.

## 33. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Effective interest rate (%) | Maturity | Group 2007 RMB'000 | Group 2006 RMB'000 | Company 2007 RMB'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Finance lease payables *(note 34)* | 7.7-12.9 | 2008 | 79,431 | 48,532 | — |
| Short term bank loans: | | | | | |
| — unsecured | 4.0-9.8 | 2008 | 16,434,823 | 11,245,274 | 4,115,574 |
| — secured | 4.8-9.3 | 2008 | 386,880 | 173,550 | — |
| Short term other loans: | | | | | |
| — unsecured | 3.8-7.3 | 2008 | 749,956 | 238,903 | — |
| Short term corporate bonds: | | | | | |
| — unsecured | 3.8-4.0 | 2008 | 2,013,057 | — | 2,013,057 |
| Current portion of long term bank loans: | | | | | |
| — unsecured | 0.8-7.6 | 2008 | 797,484 | 738,990 | 60,000 |
| — secured | 6.1-7.8 | 2008 | 301,500 | — | — |
| Current portion of long term other loans: | | | | | |
| — unsecured | 13.3 | 2008 | 3,276 | 69,432 | — |
| | | | 20,766,407 | 12,514,681 | 6,188,631 |
| **Non-current** | | | | | |
| Finance lease payables *(note 34)* | 7.7-12.9 | 2009-2010 | 87,989 | 93,271 | — |
| Long term bank loans: | | | | | |
| — unsecured | 0.8-10.8 | 2009-2024 | 4,747,173 | 4,537,134 | 2,043,865 |
| — secured | 6.1-11.7 | 2009-2017 | 293,944 | 92,034 | — |
| Long term other loans: | | | | | |
| — unsecured | 7.0 | 2009 | 67,630 | 3,276 | — |
| | | | 5,196,736 | 4,725,715 | 2,043,865 |
| | | | 25,963,143 | 17,240,396 | 8,232,496 |

## 33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Interest-bearing bank and other borrowings denominated in: | | | |
| — RMB | **25,106,536** | 16,923,461 | **7,488,144** |
| — Euros | **741,010** | 316,935 | **628,778** |
| — United States dollars | **115,597** | — | **115,574** |
| | **25,963,143** | 17,240,396 | **8,232,496** |

The maturity profile of the interest-bearing bank and other borrowings as at the balance sheet date is as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Analysed into: | | | |
| Bank loans repayable: | | | |
| Within one year | **17,920,687** | 12,157,814 | **4,175,574** |
| In the second year | **1,308,019** | 1,541,102 | **80,751** |
| In the third to fifth years, inclusive | **2,238,141** | 1,809,844 | **1,291,561** |
| Beyond five years | **1,494,957** | 1,278,222 | **671,553** |
| | **22,961,804** | 16,786,982 | **6,219,439** |
| Other borrowings (including finance lease payables) repayable: | | | |
| Within one year | **832,663** | 356,867 | **—** |
| In the second year | **142,942** | 53,904 | **—** |
| In the third to fifth years, inclusive | **12,677** | 42,643 | **—** |
| | **988,282** | 453,414 | **—** |
| Corporate bonds repayable: | | | |
| Within one year | **2,013,057** | — | **2,013,057** |
| | **25,963,143** | 17,240,396 | **8,232,496** |

The above secured bank loans were secured by certain assets and their carrying values are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment *(note 15)* | **203,714** | 459,487 |
| Prepaid land lease payments *(note 16)* | **48,753** | 30,120 |
| Intangible assets *(note 17)* | **198,412** | — |
| Properties under development | **700,894** | — |
| Inventories *(note 24)* | **188,469** | — |
| Time deposits *(note 30)* | **20,000** | — |

Certain interest-bearing bank and other borrowings of the subsidiaries in the aggregate amount of approximately RMB3,561 million, which were guaranteed by the ultimate holding company as at 31 December 2006 (note 43(a)(iv)), were released and replaced by corporate guarantees executed by the Company after its incorporation.

## 33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

Certain interest-bearing bank and other borrowings of the Company of RMB215 million were guaranteed by the subsidiaries of the Company as at 31 December 2007 (note 41 (d)).

Other interest rate information:

### Group

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Fixed rate** | **Floating rate** | Fixed rate | Floating rate |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Bank loans — unsecured | **16,403,001** | **5,576,479** | 11,120,110 | 5,401,288 |
| Bank loans — secured | **164,880** | **817,444** | 140,550 | 125,034 |
| Other borrowings — unsecured | **759,128** | **61,734** | 259,498 | 52,113 |
| Other borrowings — secured | **167,420** | **—** | 141,803 | — |
| Corporate bonds — unsecured | **2,013,057** | **—** | — | — |

### Company

| | 2007 | |
|---|---|---|
| | **Fixed rate** | **Floating rate** |
| | ***RMB'000*** | ***RMB'000*** |
| Bank loans - unsecured | **5,366,993** | **852,446** |
| Corporate bonds - unsecured | **2,013,057** | **—** |

The carrying amounts of the current bank and other borrowings and the non-current floating rate bank and other borrowings approximate their fair values.

The carrying amounts and fair values of the Group's non-current fixed rate bank and other borrowings are as follows:

### Group

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Carrying amounts** | **Fair values** | Carrying amounts | Fair values |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Bank loans — unsecured | **2,080,260** | **1,911,515** | 2,200,378 | 2,109,380 |
| Bank loans — secured | **7,800** | **7,833** | 28,200 | 29,427 |
| Other borrowings — unsecured | **67,630** | **64,300** | 3,276 | 3,297 |
| Other borrowings — secured | **87,989** | **95,667** | 93,271 | 93,877 |
| | **2,243,679** | **2,079,315** | 2,325,125 | 2,235,981 |

The fair value of the Company's non-current unsecured bank loans at fixed rates with a carrying amount of RMB1,564,938,000 was RMB1,435,096,000 as at 31 December 2007.

The fair values of the Group's and the Company's non-current fixed rate bank and other borrowings have been calculated by discounting the expected future cash flows at the prevailing interest rates as at the balance sheet date.

## 34. FINANCE LEASE PAYABLES

The Group leases certain of its machinery for its construction operations. These leases are classified as finance leases and have remaining lease terms ranging from two to three years. The Group has the option to purchase the machinery at nominal amounts upon the expiry of the lease terms.

At the balance sheet date, the Group's total future minimum lease payments under finance leases and their present values are as follows:

### Group

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Amounts payable: | | | | |
| Within one year | **87,932** | 59,610 | **79,431** | 48,532 |
| In the second year | **79,816** | 58,403 | **75,312** | 50,628 |
| In the third to fifth years, inclusive | **15,852** | 45,088 | **12,677** | 42,643 |
| Total minimum finance lease payments | **183,600** | 163,101 | **167,420** | 141,803 |
| Future finance charges | **(16,180)** | (21,298) | | |
| Total net finance lease payables | **167,420** | 141,803 | | |
| Portion classified as current liabilities *(note 33)* | **(79,431)** | (48,532) | | |
| Non-current portion *(note 33)* | **87,989** | 93,271 | | |

The effective interest rates of the finance lease payables range from 7.7% to 12.9% (2006: 7.3% to 11.8%) per annum. The carrying amounts of the finance lease payables approximate their fair values.

The net carrying amount of the Group's property, plant and equipment held under finance leases included in the total amount of machinery amounted to RMB171,113,000 (2006: RMB145,852,000) as at 31 December 2007 (note 15).

## 35. PROVISIONS FOR SUPPLEMENTARY PENSION SUBSIDIES AND EARLY RETIREMENT BENEFITS

The Group paid supplementary pension subsidies (including post-retirement medical benefits) to its employees who retired prior to 1 January 2007. Pursuant to the Restructuring, CRCCG has agreed to assume the liabilities of the supplementary pension subsidies (including post-retirement medical benefits) of the retired employees of the Group from 1 January 2007. Subsequent to 1 January 2007, the Group terminated the supplementary pension subsidies plan (including post-retirement medical benefits) for its employees who retired after 1 January 2007.

## 35. PROVISIONS FOR SUPPLEMENTARY PENSION SUBSIDIES AND EARLY RETIREMENT BENEFITS *(CONTINUED)*

The Group also implemented an early retirement plan for certain employees in addition to the benefits under the government-sponsored retirement plans and the supplementary pension subsidies described above. The Group's obligations in respect of the supplementary pension subsidies and early retirement benefits at the balance sheet date were computed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

The components of net benefit expenses recognised in the consolidated income statement and the amounts recognised in the balance sheets are summarised below:

(a) The provisions for supplementary pension subsidies (which were assumed by CRCCG from 1 January 2007 pursuant to the Restructuring) and early retirement benefits recognised in the balance sheets are determined as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Present value of defined benefit obligations | **7,446,410** | 11,468,590 | **43,060** |
| Unrecognised net actuarial gain/(loss) | **299,200** | (218,340) | **—** |
| Defined benefit liabilities on the balance sheets | **7,745,610** | 11,250,250 | **43,060** |
| Portion classified as current liabilities | **(1,077,140)** | (1,080,490) | **(6,180)** |
| Non-current portion | **6,668,470** | 10,169,760 | **36,880** |

(b) The movements in provisions for supplementary pension subsidies and early retirement benefits recognised in the balance sheets are as follows:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Net liabilities at beginning of the year/period | **11,250,250** | 11,614,720 | **—** |
| Injection to the Company upon incorporation | **—** | — | **43,948** |
| Benefits paid during the year/period | **(889,100)** | (759,690) | **(910)** |
| Distributions to CRCCG pursuant to the Restructuring *(note 13)* | **(2,880,020)** | — | **—** |
| Net expenses recognised in the consolidated income statement *(note 9)* | **264,480** | 395,220 | **—** |
| Net expenses recognised in the Company's income statement | **—** | — | **22** |
| Net liabilities at end of the year/period | **7,745,610** | 11,250,250 | **43,060** |

(c) The net expenses recognised in the consolidated income statement of the Group are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Interest cost | **264,480** | 395,220 |

## 35. PROVISIONS FOR SUPPLEMENTARY PENSION SUBSIDIES AND EARLY RETIREMENT BENEFITS *(CONTINUED)*

(d) The principal actuarial assumptions used for the purpose of the actuarial valuation are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| Discount rate | **4.5%** | 3.3% |
| Medical cost trend rate | **8.0%** | 8.0% |
| Early-retirees' salary and supplementary benefits inflation rate | **2.5%** | 2.5% |

The mortality assumption is approximately two years above the average life expectancy of the residents in the PRC.

(e) A one percentage point change in the assumed rate of increase in medical cost would have the following effects:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Increase in effect on the interest cost | **—** | 1,030 |
| Decrease in effect on the interest cost | **—** | (870) |
| Increase in effect on the defined benefit obligations | **100** | 31,760 |
| Decrease in effect on the defined benefit obligations | **(90)** | (26,780) |

## 36. DEFERRED REVENUE

The Group received government grants from the Ministry of Railways of the PRC for subsidising its purchase of machinery and equipment in respect of customer-related railway projects. The government grants are recognised as income on the straight-line basis over the expected useful life of the relevant machinery and equipment of ten years.

The movements in deferred revenue in relation to government grants as stated under current and non-current liabilities during the year are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Carrying amount at beginning of the year | **210,150** | 217,228 |
| Received during the year | **3,000** | — |
| Released to the consolidated income statement during the year *(note 6)* | **(17,379)** | (7,078) |
| Carrying amount at end of the year | **195,771** | 210,150 |
| Current portion included in other payables and accruals *(note 32)* | **(18,079)** | (14,079) |
| Non-current portion | **177,692** | 196,071 |

## 37. PROVISION

The movements in provision for pending litigations during the year are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **11,999** | 8,028 |
| Provision for the year | **789** | 10,698 |
| Utilised during the year | **(5,178)** | (6,727) |
| At end of the year | **7,610** | 11,999 |
| Portion classified as current liabilities | **(7,610)** | — |
| Non-current portion | **—** | 11,999 |

The Group has been named in a number of legal proceedings and claims arising from disputes of construction contracts in which the subsidiaries of the Company are defendants. The provision regarding these proceedings and claims was made at the balance sheet date, based on the best estimates from the Directors and advice from the Company's legal advisor. The maximum claims made by the plaintiffs against the Group as at 31 December 2007 were approximately RMB11,253,000 (2006: RMB20,346,000).

## 38. ISSUED SHARE CAPITAL

| | 2007 | |
|---|---|---|
| | **Number of shares** | **Nominal value** |
| | | ***RMB'000*** |
| Registered, issued and fully paid: | | |
| — State legal person shares of RMB1.00 each | **8,000,000,000** | **8,000,000** |

The Company was incorporated on 5 November 2007 with an initial registered share capital of RMB8,000 million divided into 8,000 million shares with a par value of RMB1.00 each. 8,000 million state legal person shares with a par value of RMB1.00 each were issued to CRCCG, all of which were credited as fully paid, in consideration for the transfer of the Core Operations, together with certain prepaid land lease payments, to the Company pursuant to the Restructuring as set out in note 1 to the financial statements.

## 39. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity on pages 54 to 55 of the financial statements.

### (b) Company

| | Capital reserve *RMB'000* | Available-for-sale investment revaluation reserve *RMB'000* | Accumulated losses *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| Upon incorporation of the Company *(note (i))* | 1,498,744 | — | — | 1,498,744 |
| Loss for the period from 5 November 2007 (date of incorporation of the Company) to 31 December 2007 *(note 12)* | — | — | (61,990) | (61,990) |
| Changes in fair values of available-for-sale investments *(note 22)* | — | 47,380 | — | 47,380 |
| Deferred tax liabilities arising from changes in fair values of available-for-sale investments *(note 23)* | — | (11,845) | — | (11,845) |
| Special distribution *(note (ii))* | — | — | (16,420) | (16,420) |
| At 31 December 2007 | 1,498,744 | 35,535 | (78,410) | 1,455,869 |

*Notes:*

(i) Upon incorporation of the Company on 5 November 2007, 8,000 million shares of RMB1.00 each were issued to CRCCG in return for the net value of the Core Operations and certain prepaid land lease payments with the resulting difference dealt with in the capital reserve.

(ii) Pursuant to the Restructuring, after the Company's incorporation, the Company is required to make a distribution to CRCCG, which represents an amount equal to the profit of the Company, as determined based on the audited financial statements prepared in accordance with the New PRC GAAP, generated during the period from 5 November 2007 (date of incorporation of the Company) to 30 November 2007. The net profit of the Company under the New PRC GAAP for the period from 5 November 2007 (date of incorporation of the Company) to 30 November 2007 was approximately RMB16,420,000 and therefore, the special distribution payable by the Company to CRCCG was approximately RMB16,420,000.

## 40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Disposal of a subsidiary

On 11 November 2007, the Group entered into an agreement for the disposal of the Group's wholly-owned subsidiary, 中鐵能源投資有限公司 (China Railway Energy Investment Co., Ltd.), to an independent third party for a consideration of RMB435,890,000. As at the date of issuance of these financial statements, the Group has received the consideration from the independent third party. The principal activity of 中鐵能源投資有限公司 is investment holding in an entity engaging in the investment and construction of water conservancy and hydropower facilities.

| | 2007<br>*RMB'000* |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment *(note 15)* | 429,091 |
| Cash and bank balances | 144,306 |
| Prepayments and other receivables | 806 |
| Trade payables | (49,639) |
| Interest-bearing bank and other borrowings | (400,000) |
| Other payables and accruals | (4,465) |
| | 120,099 |
| Gain on disposal of a subsidiary *(note 6)* | 315,791 |
| | 435,890 |
| Satisfied by: | |
| Cash | 261,534 |
| Receivable from an independent third party | 174,356 |
| | 435,890 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

| | 2007<br>*RMB'000* |
|---|---|
| Cash consideration | 261,534 |
| Cash and bank balances disposed of | (144,306) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 117,228 |

## 40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

### (b) Major non-cash transactions

Major non-cash transactions during the year are set out as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Distributions pursuant to the Restructuring *(note 13)*: | | |
| (i) Property, plant and equipment | **1,111,263** | — |
| (ii) Prepaid land lease payments | **229,087** | — |
| (iii) Provision for supplementary pension subsidies | **2,880,020** | — |
| (iv) Deferred tax assets arising from provision for supplementary pension subsidies | **846,670** | — |
| Other distribution *(note 13)* | **2,252,651** | — |
| Deferred tax assets on revaluation surplus arising from the Restructuring *(note 23)* | **1,051,303** | — |
| Capital contribution of prepaid land lease payments *(note 16)* | **3,074,967** | — |

## 41. CONTINGENT LIABILITIES

(a) In connection with the Restructuring Agreement, except for liabilities constituting or arising out of or relating to the businesses undertaken by the Company after the Restructuring, no other liabilities were assumed by the Company and the Company is not liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the Restructuring by CRCCG. CRCCG has also undertaken to indemnify the Company in respect of any loss or damage incurred relating to the Core Operations prior to their transfer by CRCCG to the Company in the Restructuring, any loss or damage suffered or incurred by the Company in relation to the novation of relevant contracts from CRCCG to the Company and as a result of any breach by CRCCG of any provision of the Restructuring Agreement. The Company has also undertaken to indemnify CRCCG in respect of any loss or damage suffered or incurred by CRCCG as a result of any breach by the Company of any provision of the Restructuring Agreement.

(b) The Group was involved in a number of legal proceedings and claims against it in the ordinary course of business. Provision has been made for the probable losses to the Group on those legal proceedings and claims when the management can reasonably estimate the outcome of the legal proceedings and claims taking into account the legal advice. No provision has been made for pending legal proceedings and claims when the outcome of the legal proceedings and claims cannot be reasonably estimated or management believes that the probability of loss is remote.

(c) The Group and the Company had issued guarantees to banks in respect of the banking facilities granted to the following parties:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Associates *(note (i))* | **247,000** | 115,000 | **—** |
| Jointly-controlled entities | **5,228** | 5,400 | **—** |
| Subsidiaries | **—** | — | **9,463,310** |
| An investee of the Company *(note (ii))* | **117,600** | — | **117,600** |
| An associate of the ultimate holding company *(note (iii))* | **30,000** | — | **—** |
| An independent third party | **50,000** | 90,000 | **—** |
| | **449,828** | 210,400 | **9,580,910** |

## 41. CONTINGENT LIABILITIES *(CONTINUED)*

(c) *(continued)*

*Notes:*

(i) As at 31 December 2006, the Group's time deposit of RMB20 million was pledged in relation to the corporate guarantees granted by the Group to an associate of RMB19 million (note 30).

(ii) The Company has a 16.8% equity interest in this investee. Other than that, in the opinion of the Directors, this investee has no relationship with the Group and the ultimate holding company.

(iii) Subsequent to 31 December 2007, this guarantee had been fully released.

(d) Certain interest-bearing bank and other borrowings of the Company of RMB215 million were guaranteed by the subsidiaries of the Company as at 31 December 2007 (note 33).

## 42. COMMITMENTS

### (a) Operating leases

The Group leases certain buildings under operating lease arrangements, with leases negotiated for terms ranging from one to eight years. The terms of the leases generally require the tenants to pay security deposits.

The Group's future minimum operating lease payments under non-cancelable operating leases as at the balance sheet date are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Within one year | **27,309** | 6,107 |
| In the second to fifth years, inclusive | **12,489** | 2,461 |
| Beyond five years | **1,753** | — |
| | **41,551** | 8,568 |

### (b) Capital commitments

In addition to the operating lease commitments detailed above, the Group and the Company had the following commitments as at the balance sheet date:

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** |
| Contracted, but not provided for: | | | |
| Property, plant and equipment | **2,254,206** | 824,505 | **470,149** |
| Intangible assets | **1,107,715** | 1,784,066 | **—** |
| Available-for-sale investment | **35,040** | 117,390 | **—** |
| | **3,396,961** | 2,725,961 | **470,149** |
| Authorised, but not contracted for: | | | |
| Property, plant and equipment | **17,665** | 319,677 | **—** |
| Intangible assets | **—** | 2,820 | **—** |
| Capital contributions to an associate | **—** | 70,000 | **—** |
| | **17,665** | 392,497 | **—** |

## 43. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions related to the Restructuring as detailed in note 1 to the financial statements, the Group had the following significant transactions with related parties during the year:

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Construction operations income** | | | |
| Fellow subsidiaries | | **843,348** | 744,201 |
| Associates | | **111,690** | 173,467 |
| Jointly-controlled entity | | **—** | 22,428 |
| Ultimate holding company | | **93,776** | 37,643 |
| | | **1,048,814** | 977,739 |
| **Survey, design and consultancy operations income** | | | |
| Fellow subsidiary | | **7,000** | 12,153 |
| Ultimate holding company | | **5,734** | 6,171 |
| | | **12,734** | 18,324 |
| **Interest income** | | | |
| Fellow subsidiaries | | **—** | 613 |
| **Other income** | (i) | | |
| Fellow subsidiaries | | **405** | 20 |
| Associate | | **240** | 240 |
| Jointly-controlled entities | | **58,349** | 455 |
| | | **58,994** | 715 |
| **Operating expenses** | (ii) | | |
| Fellow subsidiaries | (iii) | **27,038** | 140,542 |
| Associate | | **77,705** | 3,365 |
| Jointly-controlled entity | | **226,980** | — |
| | | **331,723** | 143,907 |

*Notes:*

(i) Other income mainly includes management fee income and rental income.

(ii) Operating expenses mainly include management fee expenses, property management fees, sub-contracting costs and printing costs.

(iii) Included in these related party transactions are amounts of approximately RMB104,096,000 for the year ended 31 December 2006, which related to transactions with entities in which the ultimate holding company did not have control subsequent to 31 August 2006. Hence, transactions with the aforesaid fellow subsidiaries were disclosed as related party transactions before 31 August 2006.

(iv) Certain interest-bearing bank and other borrowings of the subsidiaries in the aggregate amount of approximately RMB3,561 million which were guaranteed by the ultimate holding company as at 31 December 2006 (note 33), were released and replaced by corporate guarantees executed by the Company after its incorporation.

(v) 北京鐵城建設監理有限責任公司, a subsidiary of the Company, obtained corporate guarantees from the ultimate holding company for project bidding purposes with maximum guarantee amounts of RMB15,000,000 and RMB21,370,000 for the periods from 6 September 2005 to 6 September 2006 and from 6 November 2006 to 6 November 2007, respectively. The maximum guarantee amount of RMB21,370,000 was fully released as at 3 September 2007.

## 43. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) *(continued)*

(vi) The Group had issued guarantees to banks in respect of the banking facilities granted to the following parties:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Associates | **247,000** | 115,000* |
| Jointly-controlled entities | **5,228** | 5,400 |
| | **252,228** | 120,400 |

* As at 31 December 2006, the Group's time deposit of RMB20 million was pledged in relation to the corporate guarantees granted by the Group to an associate of RMB19 million (note 30).

In the opinion of the Directors, the transactions between the Group and the related parties were based on prices mutually agreed between the parties after taking into account the market prices.

In the opinion of the Directors, the above related party transactions were conducted in the ordinary course of business.

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the year, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of infrastructure construction services and purchases of services. The Directors consider that the transactions with these State-owned Enterprises are activities in the ordinary course of the Group's business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for its services and products, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(b) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 26, 27, 28, 31 and 32 to the financial statements.

(c) Compensation of key management personnel of the Group

Save as disclosed in note 10 to the financial statements, no remuneration has been paid or is payable during the year by the Company or any of the companies now comprising the Group, to the Directors and Supervisors of the Company.

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Short term employee benefits | **7,954** | 5,509 |
| Post-employment benefits | **977** | 1,128 |
| | **8,931** | 6,637 |

## 44. NON-CURRENT ASSET HELD FOR SALE

As at 31 December 2007, the non-current asset held for sale represents the Group's investment in an associate, 內蒙古呼准鐵路有限公司 (Inner Mongolia Huzhun Railways Limited) ("Huzhun Railways"), which is engaged in railway construction and is included in the construction operations segment.

In August 2007, the Group through its wholly-owned subsidiary, China Railway 23rd Bureau Group Co., Ltd., entered into a disposal agreement (the "Disposal Agreement") with an external third party, Inner Mongolia Yitai Coal Co., Ltd. ("Yitai Coal"), for the disposal of the Group's entire shareholding of 35% in Huzhun Railways. The consideration for the disposal is based on 35% of the valuation amount of the net assets of Huzhun Railways as determined from an independent valuation.

In November 2007, the Group entered into a supplementary disposal agreement with Yitai Coal whereby Yitai Coal will make an advance payment of RMB300 million to the Group. As at 31 December 2007, the Group received the advance payment of RMB300 million from Yitai Coal and recorded the same in other payables.

The independent valuation report was issued on 25 December 2007. As at 31 December 2007, the Group is still in the process of reviewing the independent valuation report. Accordingly, the consideration for the disposal has not been finalised by the Group with Yitai Coal and hence, the disposal has not been completed as at 31 December 2007.

As the disposal transaction is expected to be completed within the next twelve months from 31 December 2007, the investment in Huzhun Railways is classified as a non-current asset held for sale in the consolidated balance sheet as at 31 December 2007. As at the date of issuance of these financial statements, the disposal transaction has been completed.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are fair value and cash flow interest rate risks, foreign currency risk, credit risk and liquidity risk. Generally, the senior management of the Company meets at least four times a year to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the Board of Directors of the Company holds meetings at least twice per year to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group did not use any derivatives and other instruments for hedging purposes and the Group did not hold or issue derivative financial instruments for trading purposes as at 31 December 2007. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### (a) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. With its borrowings issued at fixed and floating interest rates, the Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. Interest-bearing borrowings, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

Management does not anticipate any significant impact resulting from the changes in interest rates because most of the Group's borrowings as at 31 December 2007 were at fixed interest rates which have no significant impact on cash flow interest rate risk.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### (a) Fair value and cash flow interest rate risks *(continued)*

If there would be a general increase/decrease in the interest rate of bank and other borrowings with floating interest rates by one percentage point, with all other variables held constant, the consolidated operating results would have decreased/increased by approximately RMB65 million (2006: RMB56 million) for the year, and there is no impact on other components of the consolidated equity, except for retained earnings, of the Group. The sensitivity analysis above has been determined assuming that the change in interest rates had occurred as at 31 December 2007 and has applied the exposure to interest rate risk to those financial instruments in existence at that date. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

### (b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB, the aforesaid currency is defined as the Group's functional currency. The RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As a result of its significant business operations in Mainland China, the Group's revenue and expenses are mainly denominated in RMB and over 90% of the financial assets and liabilities are denominated in RMB. The effect of the fluctuations in the exchange rate of RMB against foreign currencies on the Group's results of operations is therefore minimal and the Group has not entered into any hedging transactions as at 31 December 2007 in order to reduce the Group's exposure to foreign currency risk in this regard.

Details of the Group's cash and cash equivalents, pledged deposits, and interest-bearing bank and other borrowings as at 31 December 2007 are disclosed in notes 30 and 33 to the financial statements.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar, Euros and Nigerian Naira exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

**Effect on profit before tax**

| | Increase/ (decrease) in foreign exchange rate | Increase/ (decrease) in profit before tax | |
|---|---|---|---|
| | | **2007** | 2006 |
| | | ***RMB'000*** | *RMB'000* |
| Increase in United States dollar rate | +3% | **32,100** | 25,500 |
| Decrease in United States dollar rate | -3% | **(32,100)** | (25,500) |
| Increase in Euros rate | +5% | **(37,100)** | (15,800) |
| Decrease in Euros rate | -5% | **37,100** | 15,800 |
| Increase in Nigerian Naira rate | +3% | **27,000** | 13,500 |
| Decrease in Nigerian Naira rate | -3% | **(27,000)** | (13,500) |

The sensitivity analysis above has been determined assuming that the change in foreign currency rates had occurred as at 31 December 2007 and has applied the exposure to foreign currency risk to those monetary assets and liabilities in existence at that date. The estimated percentage increase or decrease represents management's assessment of a reasonably possible change in foreign currency rates over the period until the next annual balance sheet date.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### (c) Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, other receivables, investments and other financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. In addition, the Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 41 (c) to the financial statements. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limit the amount of credit exposure to any single financial institution.

The Group trades only with recognised and creditworthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As the Group's major customers are the PRC government agencies at the national, provincial and local levels and other state-owned enterprises, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. As the Group's exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables is disclosed in note 27 to the financial statements.

### (d) Liquidity risk

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year. Due to the capital intensive nature of the Group's businesses, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Group has already obtained banking facilities with several PRC banks of up to an amount of RMB190,421 million as at 31 December 2007, of which an amount of approximately RMB67,355 million has been utilised.

The Directors have carried out a detailed review of the cash flow forecast of the Group for the period from 1 January 2008 to 31 March 2009. Based on this forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loan financing which may impact the operations of the Group. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions with regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### (d) Liquidity risk *(continued)*

The maturity profile of the Group's and the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

**Group**

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | 3 to 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | 20,766,407 | 1,450,961 | 2,250,818 | 1,494,957 | 25,963,143 |
| Trade and bills payables | 44,676,793 | 468,648 | 262,026 | 10,554 | 45,418,021 |
| Other payables | 14,096,067 | 64,777 | 33,791 | 283,833 | 14,478,468 |
| | 79,539,267 | 1,984,386 | 2,546,635 | 1,789,344 | 85,859,632 |

**Group**

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | 3 to 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | 12,514,681 | 1,595,006 | 1,852,487 | 1,278,222 | 17,240,396 |
| Trade and bills payables | 37,512,875 | 551,582 | 186,242 | — | 38,250,699 |
| Other payables | 10,057,403 | 25,354 | 25,054 | 224,822 | 10,332,633 |
| | 60,084,959 | 2,171,942 | 2,063,783 | 1,503,044 | 65,823,728 |

**Company**

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | 3 to 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | 6,188,631 | 80,751 | 1,291,561 | 671,553 | 8,232,496 |
| Trade payables | 241,102 | — | — | — | 241,102 |
| Other payables | 1,753,181 | 458,278 | — | — | 2,211,459 |
| | 8,182,914 | 539,029 | 1,291,561 | 671,553 | 10,685,057 |

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, finance lease payable and other interest-bearing borrowings. The Group's policy is to maintain the proportion of its current maturity profile to the total liabilities at year end at between 10% and 14% (2007: 13.7%; 2006: 10.4%) and to maintain its non-current maturity profile at less than 5% of the total liabilities at year end (2007: 3.4%; 2006: 3.9%).

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services and products commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### (e) Capital management *(continued)*

The Group monitors capital using a gearing ratio which is net debt divided by total equity. Net debt comprises all interest-bearing bank and other borrowings less cash and cash equivalents and pledged deposits. Total equity comprises owner's equity and minority interests stated in the consolidated balance sheet.

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its businesses. The gearing ratios at the balance sheet date were as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Total interest-bearing bank and other borrowings *(note 33)* | **25,963,143** | 17,240,396 |
| Less: Cash and cash equivalents *(note 30)* | **(26,190,152)** | (20,960,846) |
| Less: Pledged deposits *(note 30)* | **(1,298,142)** | (808,265) |
| Net debt | **(1,525,151)** | (4,528,715) |
| Total equity | **5,273,838** | 3,687,769 |
| Gearing ratio | **(29%)** | (123%) |

The fluctuation of the gearing ratio as at 31 December 2007 is partly due to the increase in total equity to RMB5,274 million as at 31 December 2007 and partly due to the significant cash outflow from investing activities of RMB12,183 million for the year ended 31 December 2007.

## 46. EVENTS AFTER THE BALANCE SHEET DATE

(a) In connection with the Restructuring, on 29 January 2008, the Company and CRCCG entered into a supplementary agreement to the Service Mutual Provision Framework Agreement dated 5 November 2007 regarding the provision of certain ancillary services by CRCCG to the Group and the provision of certain construction services by the Group to CRCCG.

(b) On 23 January 2008, certain workers hired by a subcontractor of a subsidiary of the Company entered the Jiaoji Railway Line before scheduled maintenance hours, resulting in a major railway accident involving 9 injuries and 18 fatalities. The accident is still under investigation by the relevant authorities as of the date of issuance of these financial statements.

(c) During the period from 25 February to 26 Februrary 2008, the Company issued 2,450,000,000 A Shares at RMB9.08 per A Share, which raised total gross proceeds, excluding listing expenses, of RMB22.2 billion. The A Shares are listed on The Shanghai Stock Exchange on 10 March 2008.

(d) During the period from 29 February to 5 March 2008, the Company issued 1,706,000,000 H Shares at HK$10.70 per H Share, which raised total gross proceeds, excluding listing expenses, of HK$18.3 billion. The H Shares are listed on the Main Board of The Hong Kong Stock Exchange on 13 March 2008. On 13 March 2008, CRCCG converted 170,600,000 state legal person shares of the Company into H Shares and transferred the shares to the National Council for Social Security Fund ("NSSF") of the PRC.

(e) On 8 April 2008, the over-allotment option of H Shares was exercised in part and an additional 181,541,500 H Shares were issued at HK$10.70 per H Share, which were listed on the Main Board of The Hong Kong Stock Exchange on the same day. The gross proceeds from the issuance of these H Shares, excluding listing expenses, amounted to HK$1.9 billion. On 8 April 2008, CRCCG converted its 18,154,500 state legal person shares of the Company into H Shares and transferred the shares to the NSSF.

(f) Save as aforesaid, no other significant events took place subsequent to 31 December 2007.

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 25 April 2008.

## 1. FINANCIAL HIGHLIGHTS PREPARED UNDER IFRSs

| **Consolidated Income Statement** | **2007** *RMB'000* | 2006 *RMB'000* | 2005 *RMB'000* | 2004 *RMB'000* |
|---|---|---|---|---|
| **Revenue** | **171,997,410** | 153,608,974 | 110,794,747 | 86,187,491 |
| Cost of sales | **(160,598,330)** | (144,012,964) | (102,869,824) | (79,802,559) |
| Gross profit | **11,399,080** | 9,596,010 | 7,924,923 | 6,384,932 |
| Other income and gains, net | **612,945** | 185,868 | 202,823 | 125,178 |
| Selling and distribution costs | **(696,113)** | (893,106) | (926,945) | (760,901) |
| Administrative expenses | **(6,736,186)** | (6,002,090) | (5,251,653) | (4,661,234) |
| Other expenses | **(210,599)** | (448,343) | (674,205) | (630,625) |
| **Profit from operations** | **4,369,127** | 2,438,339 | 1,274,943 | 457,350 |
| Finance revenue | **652,160** | 546,587 | 384,032 | 280,745 |
| Finance costs | **(1,272,223)** | (909,326) | (782,795) | (416,216) |
| Share of profits and losses of: | | | | |
| Jointly-controlled entities | **14,624** | 25,535 | 34,122 | 49,622 |
| Associates | **24,010** | (2,888) | 25,086 | 396 |
| **Profit before tax** | **3,787,698** | 2,098,247 | 935,388 | 371,897 |
| Tax | **(1,481,766)** | (596,289) | (409,507) | (179,321) |
| **Profit for the year** | **2,305,932** | 1,501,958 | 525,881 | 192,576 |
| Attributable to: | | | | |
| Equity holder of the Company | **2,300,770** | 1,212,950 | 349,339 | 102,867 |
| Minority interests | **5,162** | 289,008 | 176,542 | 89,709 |
| | **2,305,932** | 1,501,958 | 525,881 | 192,576 |
| Distributions | **4,684,989** | 305,142 | 132,681 | — |
| Earnings per share attributable to equity holder of the Company: | | | | |
| Basic | **28.76 cents** | 15.16 cents | 4.37cents | 1.29 cents |
| Diluted | **N/A** | N/A | N/A | N/A |

The consolidated total assets and the total liabilities of the Group as at 31 December 2004, 2005, 2006, and 2007 are summarised as follows:

| | **31 December 2007** *RMB'000* | 31 December 2006 *RMB'000* | 31 December 2005 *RMB'000* | 31 December 2004 *RMB'000* |
|---|---|---|---|---|
| Total assets | **156,877,781** | 124,549,726 | 100,347,305 | 79,644,649 |
| Total liabilities | **151,603,943** | 120,861,957 | 97,744,753 | 77,421,660 |
| Net assets | **5,273,838** | 3,687,769 | 2,602,552 | 2,222,989 |

## 2. FINANCIAL HIGHLIGHTS PREPARED UNDER CHINA ACCOUNTING STANDARDS

### Major financial information for the year

| Items of Consolidated Income Statement and Consolidated Cash Flow Statement | 2007 RMB'000 |
|---|---|
| Profit from operations | 4,890,822 |
| Total profit | 4,976,788 |
| Net profit attributable to equity holder of the Company | 3,143,404 |
| Net profit excluding non-recurring gains or losses items attributable to equity holder of the Company | 2,024,277 |
| Net cash flows from operating activities | 9,420,835 |

**Non-recurring gains or losses items**

| | (Increase)/decrease in net profit for 2007 RMB'000 |
|---|---|
| Net losses from disposal of fixed assets and intangible assets | 697 |
| Net gains from transfer of equity investments | (328,176) |
| Government grants received in the current year | (45,280) |
| Losses from estimated liabilities not related to revenue from principal operations | 789 |
| Balance of employee's benefits payable adjusted to administrative expenses | (1,189,090) |
| Other non-operating net income/expense, excluding the aforesaid items | (41,383) |
| Impact of income tax on non-recurring gains or losses | 482,862 |
| Impact of non-recurring gains or losses attributable to minority interests | 454 |
| Net effect of non-recurring gains or losses | (1,119,127) |

## 2. FINANCIAL HIGHLIGHTS PREPARED UNDER CHINA ACCOUNTING STANDARDS *(CONTINUED)*

### Major accounting information and financial indicators of the Group for the past two years

Year ended 31 December 2007

| Major accounting information and financial indicators | 2007 *RMB'000* | 2006 *RMB'000* | Year-on-year increase/ (decrease) *(%)* |
|---|---|---|---|
| Revenue from operations | 177,487,288 | 158,488,092 | 11.99 |
| Total profit | 4,976,788 | 2,093,385 | 137.74 |
| Net profit attributable to equity holder of the Company | 3,143,404 | 1,240,156 | 153.47 |
| Net profit excluding non-recurring gains or losses attributable to equity holder of the Company | 2,024,277 | 1,249,614 | 61.99 |
| Basic earnings per share *(RMB)* | 0.39 | 0.16 | 143.75 |
| Diluted earnings per share *(RMB)* | N/A | N/A | N/A |
| Basic earnings per share after deduction of non-recurring gains or losses *(RMB)* | 0.25 | N/A | N/A |
| Return on net assets, fully diluted *(%)* | 62.15 | 63.24 | (1.72) |
| Return on net assets, weighted average *(%)* | 94.77 | 85.87 | 10.36 |
| Return on net assets after deduction of non-recurring gains or losses, fully diluted *(%)* | 40.02 | 63.72 | (37.19) |
| Return on net assets after deduction of non-recurring gains or losses, weighted average *(%)* | 61.03 | 86.52 | (29.46) |
| Net cash flows from operating activities | 9,420,835 | 6,336,949 | 48.67 |
| Total assets | 156,877,781 | 124,549,726 | 25.96 |
| Equity attributable to equity holder of the Company | 5,057,960 | 1,961,087 | 157.92 |
| Net assets per share attributable to the equity holder of the Company *(RMB)* | 0.63 | 0.25 | 152.0 |

## 3. ANALYSIS OF THE DIFFERENCE BETWEEN THE FINANCIAL INFORMATION PREPARED UNDER IFRSs AND CHINA ACCOUNTING STANDARDS

| Item | Net profit for the year ended 31 December | | Net assets at 31 December | |
|---|---|---|---|---|
| | 2007 *RMB'000* | 2006 *RMB'000* | 2007 *RMB'000* | 2006 *RMB'000* |
| Prepared in accordance with China Accounting Standards | 3,148,566 | 1,497,590 | 5,273,838 | 2,845,135 |
| Adjusted in accordance with IFRSs: | | | | |
| Welfare payable | (1,189,090) | 4,862 | — | 1,189,090 |
| Deferred income tax on the above welfare payable | 346,456 | (494) | — | (346,456) |
| Prepared in accordance with IFRSs | 2,305,932 | 1,501,958 | 5,273,838 | 3,687,769 |