



**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)

**Announcement of 2007 Annual Results**

**HIGHLIGHTS**

- 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 was 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% year on year to RMB286,999.0 million year-on-year, including overseas new contract value of RMB90,113.5 million.

## 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 Tsim Sha Tsui, Kowloon Hong Kong
Legal representative of the Company	Li Guorui
Joint company secretaries	Li Tingzhu Law Chun Bui
Information and enquiry department	Office of the Board of Directors
Telephone	(86) 10 5188 6158
Website address	<a href="http://www.crcc.cn">www.crcc.cn</a>
Place of listing of shares	The Stock Exchange of Hong Kong Limited Shanghai Stock Exchange
Stock name	China Rail Cons
Stock code	601186 (Shanghai) 1186 (Hong Kong)

The Board of Directors of China Railway Construction Corporation Limited (the “Company”) is pleased to announce the audited annual operating results of the Company and its subsidiaries (collectively referred to as the “Group”) for the financial year ended 31 December 2007.

## PRINCIPAL OPERATIONS

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.

## RESULTS

In 2007, the revenue from operations of the Group totalled RMB171,997.4 million, representing an increase of 12.0% from RMB153,609.0 million for the same period of the previous 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 for the same period of the previous year. Earnings per share attributable to equity holder of the Company amounted to RMB0.2876, representing an increase of 89.7% from RMB0.1516 for the same period of the previous year.

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
<b>REVENUE</b>	<b>171,997,410</b>	153,608,974
Cost of sales	<b>(160,598,330)</b>	(144,012,964)
Gross profit	<b>11,399,080</b>	9,596,010
Other income and gains, net	<b>612,945</b>	185,868
Selling and distribution costs	<b>(696,113)</b>	(893,106)
Administrative expenses	<b>(6,736,186)</b>	(6,002,090)
Other expenses	<b>(210,599)</b>	(448,343)

<b>PROFIT FROM OPERATIONS</b>	<b>4,369,127</b>	2,438,339
Finance revenue	<b>652,160</b>	546,587
Finance costs	<b>(1,272,223)</b>	(909,326)
Share of profits and losses of:		
Jointly-controlled entities	<b>14,624</b>	25,535
Associates	<b>24,010</b>	(2,888)
	<hr/>	<hr/>
<b>PROFIT BEFORE TAX</b>	<b>3,787,698</b>	2,098,247
Tax	<b>(1,481,766)</b>	(596,289)
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<b>PROFIT FOR THE YEAR</b>	<b>2,305,932</b>	1,501,958
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Attributable to:		
Equity holder of the Company	<b>2,300,770</b>	1,212,950
Minority interests	<b>5,162</b>	289,008
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	<b>2,305,932</b>	1,501,958
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Distributions	<b>4,684,989</b>	305,142
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Earnings per share attributable to equity holder of the Company:		
Basic	<b>28.76 cents</b>	15.16 cents
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Diluted	<b>N/A</b>	N/A
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## CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	<b>15,997,957</b>	14,166,142
Prepaid land lease payments	<b>4,695,513</b>	1,441,246
Intangible assets	<b>1,132,542</b>	338,850
Interests in jointly-controlled entities	<b>71,814</b>	68,381
Interests in associates	<b>256,971</b>	365,735
Held-to-maturity investments	<b>18,358</b>	19,133
Available-for-sale investments	<b>872,418</b>	537,811
Deferred tax assets	<b>3,140,236</b>	3,928,131
Trade and bills receivables	<b>1,033,832</b>	1,570,812
Prepayments, deposits and other receivables	<b>81,750</b>	60,785
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<b>Total non-current assets</b>	<b>27,301,391</b>	<b>22,497,026</b>
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**CURRENT ASSETS**

Prepaid land lease payments	<b>101,901</b>	28,823
Inventories	<b>8,026,889</b>	5,994,469
Properties under development	<b>3,510,042</b>	1,584,627
Completed properties held for sale	<b>352,398</b>	296,404
Construction contracts	<b>35,928,314</b>	28,054,058
Trade and bills receivables	<b>30,265,003</b>	22,430,313
Prepayments, deposits and other receivables	<b>23,543,418</b>	21,524,630
Held-to-maturity investments	<b>25,000</b>	305,038
Financial assets at fair value through profit or loss	<b>125,131</b>	65,227
Pledged deposits	<b>1,298,142</b>	808,265
Cash and cash equivalents	<b>26,190,152</b>	20,960,846
	<b>129,366,390</b>	102,052,700
Non-current asset held for sale	<b>210,000</b>	—
<b>Total current assets</b>	<b>129,576,390</b>	102,052,700
<b>TOTAL ASSETS</b>	<b>156,877,781</b>	124,549,726

**CURRENT LIABILITIES**

Trade and bills payables	<b>44,676,793</b>	37,512,875
Construction contracts	<b>17,391,764</b>	14,408,867
Other payables and accruals	<b>53,199,850</b>	38,048,543
Interest-bearing bank and other borrowings	<b>20,766,407</b>	12,514,681
Provisions for supplementary pension subsidies and early retirement benefits	<b>1,077,140</b>	1,080,490
Tax payable	<b>1,021,936</b>	374,979
Provision	<b>7,610</b>	—
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<b>Total current liabilities</b>	<b>138,141,500</b>	103,940,435
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<b>NET CURRENT LIABILITIES</b>	<b>(8,565,110)</b>	(1,887,735)
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<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>18,736,281</b>	20,609,291
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**NON-CURRENT LIABILITIES**

Trade and bills payables	741,228	737,824
Other payables and accruals	382,401	275,230
Interest-bearing bank and other borrowings	5,196,736	4,725,715
Provisions for supplementary pension subsidies and early retirement benefits	6,668,470	10,169,760
Deferred tax liabilities	194,994	636,080
Other long term liabilities	100,922	168,843
Deferred revenue	177,692	196,071
Provision	—	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	8,000,000	—
Reserves	(2,942,040)	—

5,057,960      2,637,393

**MINORITY INTERESTS**

215,878      1,050,376

**TOTAL EQUITY**

5,273,838      3,687,769

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holder of the Company								
	Owner's equity	Issued share capital	Capital reserve	Available-for-sale investment revaluation reserve	Retained earnings	Exchange fluctuation reserve	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	(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	(701,455)	—	—	—	—	—	(701,455)	—	(701,455)
Other distribution	(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	—	—	—	269,628	—	—	269,628	—	269,628
Deferred tax liabilities arising from changes in fair values of available-for-sale investments	—	—	—	(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									
(i) Property, plant and equipment	(1,111,263)	—	—	—	—	—	(1,111,263)	—	(1,111,263)
(ii) Prepaid land lease payments	(229,087)	—	—	—	—	—	(229,087)	—	(229,087)
(iii) Provision for supplementary pension subsidies	2,880,020	—	—	—	—	—	2,880,020	—	2,880,020
(iv) Deferred tax assets arising from provision for supplementary pension subsidies	(846,670)	—	—	—	—	—	(846,670)	—	(846,670)
(v) Special distribution ( <i>note (d)</i> )	(2,423,883)	—	—	—	—	—	(2,423,883)	—	(2,423,883)
Capital contribution of prepaid land lease payments ( <i>note (e)</i> )	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	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 ( <i>note (c)</i> )	(4,500,453)	8,000,000	(3,499,547)	—	—	—	—	—	—
Exchange realignment	—	—	—	—	—	27,452	27,452	16	27,468
As at 31 December 2007	<u>—</u>	<u>8,000,000</u>	<u>(3,499,547)</u>	<u>237,940</u>	<u>292,115</u>	<u>27,452</u>	<u>5,057,960</u>	<u>215,878</u>	<u>5,273,838</u>

*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 10).
- (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.
- (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

	<b>2007</b>	2006
	<b>RMB'000</b>	<b>RMB'000</b>
<b>CASH FLOWS FROM</b>		
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>3,787,698</b>	2,098,247
Adjustments for:		
Finance costs	<b>1,272,223</b>	909,326
Foreign exchange differences, net	<b>91,957</b>	58,491
Finance revenue	<b>(652,160)</b>	(546,587)
Share of profits and losses of jointly-controlled entities	<b>(14,624)</b>	(25,535)
Share of profits and losses of associates	<b>(24,010)</b>	2,888
Depreciation	<b>3,405,608</b>	2,364,172
Amortisation of prepaid land lease payments	<b>45,041</b>	25,857
Amortisation of intangible assets	<b>23,190</b>	16,461
Impairment of property, plant and equipment	<b>4,785</b>	91,265
Impairment of prepaid land lease payments	<b>—</b>	15,294
Impairment of intangible assets	<b>508</b>	—
Impairment of available-for-sale investments	<b>4,035</b>	951
Impairment/(reversal of impairment) of trade and bills receivables	<b>(24,067)</b>	79,016
Impairment/(reversal of impairment) of other receivables	<b>(20,944)</b>	42,614
Write-down of inventories to net realisable value	<b>202</b>	22,834
Provision for completed properties held for sale	<b>—</b>	4,716

Provision for foreseeable losses		
on construction contracts	<b>154,123</b>	133,162
Loss on disposal of property,		
plant and equipment, net	<b>697</b>	28,307
Fair value gains, net, on financial assets		
at fair value through profit or loss	<b>(99,458)</b>	(51,384)
Gain on disposal of available-for-sale		
investments	<b>(17,513)</b>	(6,127)
Gain on disposal of a subsidiary	<b>(315,791)</b>	—
Recognition of deferred revenue	<b>(17,379)</b>	(7,078)
	<b>3,816,423</b>	3,158,643
Increase in inventories	<b>(2,032,622)</b>	(1,451,400)
Increase in completed properties		
held for sale and properties		
under development	<b>(1,872,783)</b>	(766,280)
Decrease/(increase) in construction contracts	<b>(4,992,496)</b>	551,242
Increase in trade and bills receivables	<b>(7,099,287)</b>	(6,616,183)
Increase in prepayments, deposits and other		
receivables	<b>(3,308,747)</b>	(2,820,184)
Increase in trade and bills payables	<b>8,364,666</b>	7,557,207
Increase in other payables and accruals	<b>13,769,968</b>	5,243,864
Increase/(decrease) in provision	<b>(4,389)</b>	3,971
Decrease in provisions for		
supplementary pension subsidies		
and early retirement benefits	<b>(624,620)</b>	(364,470)
Decrease in other long term liabilities	<b>(67,921)</b>	(34,349)
Cash generated from operations	<b>9,735,890</b>	6,560,308
Income taxes paid	<b>(315,055)</b>	(223,359)
Net cash inflow from operating activities	<b>9,420,835</b>	6,336,949

	<b>2007</b>	2006
	<b>RMB'000</b>	<b>RMB'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	<b>(8,831,969)</b>	(5,260,338)
Additions to prepaid land lease payments	<b>(590,433)</b>	(112,238)
Additions to intangible assets	<b>(767,957)</b>	(209,005)
Proceeds from disposal of property, plant and equipment	<b>1,114,529</b>	970,699
Proceeds from disposal of prepaid land lease payments	<b>69,629</b>	27,635
Proceeds from disposal of intangible assets	<b>10,719</b>	1,405
Capital contributions to jointly-controlled entities	<b>(4,000)</b>	(4,900)
Capital contributions to associates	<b>(89,781)</b>	(29,298)
Purchases of held-to-maturity investments	<b>—</b>	(14,214)
Purchases of available-for-sale investments	<b>(90,175)</b>	(85,272)
Purchases of financial assets at fair value through profit or loss	<b>(9,372)</b>	(20,857)
Purchases of minority interests	<b>(2,425,092)</b>	—
Proceeds from disposal of a subsidiary	<b>117,228</b>	—
Proceeds from disposal of associates	<b>11,536</b>	1,268
Proceeds from disposal of held-to-maturity investments	<b>157,310</b>	54,555
Proceeds from disposal of available-for-sale investments	<b>33,058</b>	12,400
Proceeds from disposal of financial assets at fair value through profit or loss	<b>48,925</b>	105,991
Advance proceeds from disposal of an associate	<b>300,000</b>	—
Dividends received	<b>171,695</b>	26,552
Increase in balances with the ultimate holding company, net	<b>(1,118,023)</b>	(346,285)
Increase in pledged deposits	<b>(489,877)</b>	(336,766)
Increase in non-pledged time deposits with original maturity of three months or more when acquired	<b>(414,450)</b>	(112,376)
Interest received	<b>613,887</b>	522,046

Net cash outflow from investing activities	<b>(12,182,613)</b>	(4,808,998)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions from the ultimate holding company	<b>2,400,000</b>	—
New bank and other borrowings	<b>27,017,301</b>	16,427,031
Repayment of bank and other borrowings	<b>(17,920,171)</b>	(12,206,865)
Distributions to the equity holder of the Company	<b>(701,455)</b>	(305,142)
Special distribution to the equity holder of the Company	<b>(1,400,000)</b>	—
Dividends paid to minority shareholders	<b>(257,085)</b>	(160,159)
Interest paid	<b>(1,507,588)</b>	(1,082,857)
<b>Net cash inflow from financing activities</b>	<b>7,631,002</b>	2,672,008
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>4,869,224</b>	4,199,959
Cash and cash equivalents at beginning of the year	<b>18,373,635</b>	14,224,588
Effect of foreign exchange rate changes, net	<b>(54,368)</b>	(50,912)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>23,188,491</b>	18,373,635

# NOTES TO FINANCIAL STATEMENTS

As at 31 December 2007

## 1. GROUP RESTRUCTURING AND CORPORATE INFORMATION

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 RMB3,075.0 million 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

	<b>Group</b>	
	<b>2007</b>	2006
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
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
	<hr/>	<hr/>
Decrease in net assets	<u>—</u>	<u>(652,953)</u>

(ii) Impact on consolidated results of operations

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

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. 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 RMB8,565.0 million (2006: RMB1,888.0 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. 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 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.

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.

#### **4. 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.

(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**

	<b>Construction operations</b>	<b>Survey, design and consultancy operations</b>	<b>Manufacturing operations</b>	<b>Other business operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue</b>						
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	<u>162,932,041</u>	<u>3,709,054</u>	<u>1,855,951</u>	<u>5,376,703</u>	<u>(1,876,339)</u>	<u>171,997,410</u>
<b>Segment results</b>						
	<u>3,624,330</u>	<u>299,586</u>	<u>124,773</u>	<u>320,438</u>	<u>—</u>	<u>4,369,127</u>
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						<u>(1,481,766)</u>
Profit for the year						<u>2,305,932</u>

	<b>Construction operations</b>	<b>Survey, design and consultancy operations</b>	<b>Manufacturing operations</b>	<b>Other business operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets and liabilities</b>						
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						<u>3,140,236</u>
Total assets						<u><u>156,877,781</u></u>
Segment liabilities	140,064,942	4,382,448	2,325,131	7,524,973	(3,910,481)	150,387,013
Unallocated liabilities						<u>1,216,930</u>
Total liabilities						<u><u>151,603,943</u></u>
<b>Other segment information</b>						
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	<u>(58,103)</u>	<u>1,101</u>	<u>(1,273)</u>	<u>22,592</u>	<u>—</u>	<u>(35,683)</u>

Year ended 31 December 2006

	<b>Construction operations</b>	<b>Survey, design and consultancy operations</b>	<b>Manufacturing operations</b>	<b>Other business operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue</b>						
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)	—
<b>Total</b>	<b>146,359,651</b>	<b>3,348,522</b>	<b>1,355,235</b>	<b>3,553,878</b>	<b>(1,008,312)</b>	<b>153,608,974</b>
<b>Segment results</b>						
	<b>2,093,430</b>	<b>80,690</b>	<b>16,642</b>	<b>247,577</b>	<b>—</b>	<b>2,438,339</b>
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						<b>1,501,958</b>

	<b>Construction operations</b>	<b>Survey, design and consultancy operations</b>	<b>Manufacturing operations</b>	<b>Other business operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets and liabilities</b>						
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
						<u>124,549,726</u>
Total assets						<u>124,549,726</u>
Segment liabilities	111,265,105	4,865,853	1,347,416	3,212,647	(840,123)	119,850,898
Unallocated liabilities						1,011,059
						<u>120,861,957</u>
Total liabilities						<u>120,861,957</u>
<b>Other segment information</b>						
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
	<u>212,151</u>	<u>10,489</u>	<u>4,099</u>	<u>2,401</u>	<u>—</u>	<u>229,140</u>

(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**

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

**Year ended 31 December 2006**

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

## 5. 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:

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

## 6. PROFIT FROM OPERATIONS

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

	<b>Group</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Cost of services rendered	<b>155,685,619</b>	140,715,514
Cost of goods sold	<b>4,912,711</b>	3,297,450
	<hr/>	<hr/>
Total cost of sales	<b>160,598,330</b>	144,012,964
	<hr/> <hr/>	<hr/> <hr/>
Depreciation of property, plant and equipment ( <i>note (a)</i> )	<b>3,405,608</b>	2,364,172
Amortisation of prepaid land lease payments	<b>45,041</b>	25,857
Amortisation of intangible assets	<b>23,190</b>	16,461
	<hr/>	<hr/>
Total depreciation and amortisation	<b>3,473,839</b>	2,406,490
	<hr/> <hr/>	<hr/> <hr/>
Impairment of property, plant and equipment	<b>4,785</b>	91,265
Impairment of prepaid land lease payments	<b>—</b>	15,294
Impairment of intangible assets	<b>508</b>	—
Impairment of available-for-sale investments	<b>4,035</b>	951
Impairment/(reversal of impairment) of trade and bills receivables	<b>(24,067)</b>	79,016
Impairment/(reversal of impairment) of other receivables	<b>(20,944)</b>	42,614
	<hr/>	<hr/>
Total impairment/(reversal of impairment), net	<b>(35,683)</b>	229,140
	<hr/> <hr/>	<hr/> <hr/>

Employee compensation costs (including Directors' and Supervisors' remuneration)	<b>11,056,661</b>	9,672,939
Research and development expenditure	<b>284,862</b>	148,331
Write-down of inventories to net realisable value	<b>202</b>	22,834
Provision for completed properties held for sale	<b>—</b>	4,716
Provision for foreseeable losses on construction contracts	<b>154,123</b>	133,162
Auditors' remuneration	<b>31,536</b>	3,067
Minimum lease payments under operating leases	<b>30,315</b>	21,351
Fair value gains, net, on financial assets at fair value through profit or loss	<b>(99,458)</b>	(51,384)
Gain on disposal of available-for-sale investments	<b>(17,513)</b>	(6,127)
Loss on disposal of property, plant and equipment, net	<b>697</b>	28,307
Foreign exchange differences, net	<b>91,957</b>	58,491
	<b><u>91,957</u></b>	<b><u>58,491</u></b>

*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.

## 7. 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:

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

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

	<b>2007</b>	2006
Capitalisation rates	<b>4.9% - 8.9%</b>	3.6% - 8.1%
	<hr/> <hr/>	<hr/> <hr/>

## 8. 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.

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.

	<b>Group</b>	
	<b>2007</b>	2006
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Current income tax		
— Mainland China	<b>923,270</b>	286,022
— Hong Kong	<b>2,027</b>	746
— Others	<b>36,715</b>	18,102
Deferred income tax	<b>519,754</b>	291,419
	<hr/>	<hr/>
Income tax charge for the year	<b><u>1,481,766</u></b>	<u>596,289</u>

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:

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

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.

## **9. 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.

## 10. DISTRIBUTIONS

The distributions for the year are set out below:

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

*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).

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.

## 11. 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).

## 12. ANALYSIS OF THE DIFFERENCE BETWEEN THE FINANCIAL INFORMATION PREPARED UNDER IFRSs AND CHINA ACCOUNTING STANDARDS

Item	Net profit for the year ended		Net assets at	
	31 December		31 December	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	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)
	<u>2,305,932</u>	<u>1,501,958</u>	<u>5,273,838</u>	<u>3,687,769</u>

## **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-establishment Distribution”). In addition, pursuant to the resolution of a general meeting dated 30 November 2007, the sole shareholder of the Company, CRCCG, has 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. We have paid the Pre-establishment Distribution and the Special Dividend out of our internal financial resources.

Pursuant to the undertakings in the Company’s 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 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 existing shareholders of the Company and distributed in 2008 according to the Company’s relevant dividend policies and relevant requirements.

## **BUSINESS OVERVIEW**

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 of 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 resource 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 an integrated restructuring plan for listing and establishment of six profitable business segments.

The Company's business for 2007 kept on stable and rapid growth. The 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.

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 globally 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 of 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. The 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 our 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 Systems 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.

## **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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

## (I) SUMMARY

For the year end 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
	<i>(RMB million)</i>	
Construction operations*	198,203.7	<b>265,650.5</b>
Survey, design and consultancy operations	3,073.3	<b>3,657.8</b>
Manufacturing operations	1,064.4	<b>6,321.5</b>
Other operations	9,856.1	<b>11,369.2</b>
Total	<u>212,197.4</u>	<u><b>286,999.0</b></u>

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

## 2. Outstanding contracts

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

\* 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 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 of 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.

## **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 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.

## (II) 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 year of 2006 and 2007:

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

## 1. Construction operations

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

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

**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 operations.

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 in the year ended 31 December 2006 and RMB162,635.1 million in 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 operations, partially offset by the decreases in the cost of sales incurred from the highway construction operations.

**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, in 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.

**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
	<i>(RMB million)</i>	
Segment revenue	3,348.5	<b>3,709.1</b>
Cost of sales	(2,713.6)	<b>(2,905.3)</b>
Gross profit	634.9	<b>803.7</b>
Selling and distribution costs	(116.8)	<b>(84.0)</b>
Administrative expenses and others	(437.5)	<b>(420.2)</b>
Segment results	80.7	<b>299.6</b>
Depreciation and amortization	70.1	<b>130.2</b>

**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 construction market for the year ended 31 December 2007, which have a relatively higher gross margin than those of our other projects.

**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 intersegment sales is as follows:

	Year ended 31 December	
	2006	2007
	<i>(RMB million)</i>	
Segment revenue	1,355.2	<b>1,856.0</b>
Cost of sales	(1,130.7)	<b>(1,522.2)</b>
Gross profit	(224.5)	<b>303.7</b>
Selling and distribution costs	(17.7)	<b>(17.1)</b>
Administrative expenses and others	(190.2)	<b>(161.8)</b>
Segment results	16.6	<b>124.8</b>
Depreciation and amortization	16.2	<b>85.1</b>

**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 RMB1,522.2 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.

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

**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 the year ended 31 December 2007 from RMB49.5 million for 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.

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.

### (III) LIQUIDITY AND CAPITAL RESOURCES

#### 1. Cash Flow

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

## 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 fixed assets 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 receivables 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 fixed assets 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. 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 in cash. 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
	<i>(RMB million)</i>	
Construction operations	6,157.0	<b>10,843.0</b>
Survey, design and consultancy operations	210.9	<b>525.0</b>
Manufacturing operations	21.1	<b>844.6</b>
Others	187.2	<b>184.4</b>
Total	<u>6,576.3</u>	<u><b>12,397.0</b></u>

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

## 6. Working Capital

### (a) Construction contract in progress

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

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

Our construction contract 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	<b>2007</b>
Turnover days of trade receivables <sup>(1)</sup>	49	<b>59</b>
Turnover days of trade payables <sup>(2)</sup>	86	<b>95</b>

(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	<b>2007</b>
	<i>(RMB million)</i>	
Less than one year	19,774.2	<b>27,528.2</b>
One to two years	2,767.7	<b>2,376.2</b>
Two to three years	928.4	<b>909.6</b>
More than three years	530.9	<b>484.9</b>
Total	<u>24,001.1</u>	<u><b>31,298.8</b></u>

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
	<i>(RMB million)</i>	
Less than one year	33,353.2	<b>42,010.7</b>
One to two years	3,026.3	<b>1,893.7</b>
Two to three years	1,362.8	<b>933.8</b>
More than three years	508.3	<b>579.7</b>
Total	<u>38,250.7</u>	<u><b>45,418.0</b></u>

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 an 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.

## 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
	<i>(RMB million)</i>	
Within one year	12,514.7	<b>20,766.4</b>
In the second year	1,595.0	<b>1,451.0</b>
In the third to fifth years (inclusive)	1,852.5	<b>2,250.8</b>
Beyond five years	1,278.2	<b>1,495.0</b>
Total	<u>17,240.4</u>	<u><b>25,963.1</b></u>

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 shareholders' 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 our Group have been fully released or withdrawn. As as of 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.

**(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
	<i>(RMB million)</i>	
Contracted, but not provided for:		
Property, plant and equipment	824.5	<b>2,254.2</b>
Intangible assets	1,784.1	<b>1,107.7</b>
Available-for-sale investment	117.4	<b>35.0</b>
	<u>2,726.0</u>	<u><b>3,397.0</b></u>
Authorized, but not contracted for:		
Intangible assets	2.8	—
Property, plant and equipment	319.7	<b>17.7</b>
Capital contributions to an associate	70.0	—
	<u>392.5</u>	<u><b>17.7</b></u>

## **12. Lawsuits and other proceedings**

The Group 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 the Group's 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.

## **15. Property evaluation**

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.

## **(IV) 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 is the which the Company is responsible 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.

## 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 and partial exercise of the Over-allotment Option:

Shareholders	Nature	Number of shares	Approximate percentage of share capital in issue <sup>(2)</sup> %
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		<u>12,337,541,500</u>	<u>100.00</u>

\* Lock-up period is 36 months

\*\* Including social insurance fund

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

For the year ended 31 December 2007, since the shares of this 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.

## **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, holding 8 billion domestic shares of the Company in issue. CRCCG is a State-owned enterprise, which is wholly-owned by SASAC.

## **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.

## **EVENTS AFTER REPORTING PERIOD**

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 our 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, term 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 opinion that the documents have covered most of principles and code provisions in the Code.

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

## **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 Hong Kong Listing Rules) have confirmed that they are in compliance with the model code.

## **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 Group's financial statements for the year ended 31 December 2007 were reviewed by the Audit Committee of the Company.

## **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 purchase or sold any shares in the Company.

## **PUBLICATION OF THE ANNUAL REPORT ON THE WEBSITE OF THE HONG KONG STOCK EXCHANGE**

The 2007 annual report of the Company will be published on the website of the Company at <http://www.crcc.cn> and on the website of the Hong Kong Stock Exchange at proper time.

By order of the Board of Directors  
**China Railway Construction Corporation Limited**  
*Chairman*  
**Li Guorui**

Beijing, PRC  
25 April 2008

*As at the date of this announcement, the Board comprises: Mr. Li Guorui (Chairman and non-executive director), Mr. Ding Yuanchen (Vice chairman and executive director), Mr. Jin Puqing (Executive director and president), Mr. Huo Jingui (Non-executive director), Mr. Wu Xiaohua (Non-executive director), Mr. Li Kecheng (Independent non-executive director), Mr. Zhao Guangjie (Independent non-executive director), Mr. Wu Taishi (Independent non-executive director) and Mr. Ngai Wai Fung (Independent non-executive director).*