中國中鐵股份有限公司
CHINA RAILWAY GROUP LIMITED

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

Stock Code : 390




Annual Report 2007

RAILWAY CONSTRUCTION

COMPLETED A TOTAL TRACK LAYING LENGTH OF RAILWAY MAIN LANE OF 2,560 KILOMETERS IN 2007

HIGHWAY CONSTRUCTION

COMPLETED A TOTAL LENGTH OF HIGHWAY CONSTRUCTION OF 1,458 KILOMETERS IN 2007

MUNICIPAL WORKS

COMPLETED A TOTAL LENGTH OF LIGHT RAILWAYS AND SUBWAY LINES CONSTRUCTION OF 165 KILOMETERS IN 2007

Contents

Company Profile

The Company was established as a joint stock company with limited liability in the People's Republic of China ("PRC") under the Company Law of the PRC (the "Company Law") on 12 September 2007. The A shares and H shares issued by the Company were listed on the Shanghai Stock Exchange and the main board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 3 December 2007 and 7 December 2007 respectively.

We are the largest multi-functional integrated construction group in the PRC and Asia, and the third largest construction contractor in the world, based on total contracting revenue, and a Fortune Global 500 company. We offer a full range of construction-related services, including infrastructure construction, survey, design and consulting services and engineering equipment and component manufacturing, and also expand to other businesses such as property development and mining.

We also hold leading positions in the design and construction of bridges, tunnels and electrified railways, and the design and manufacturing of bridge steel structures and turnouts in the PRC, which has achieved advanced international standards. While we operate in every province across the PRC, we have also explored extensive global markets.

Adhering to the motto of "strive to challenge limits and achieve excellence", the Company is committed to the continuous development of the Company to create a brighter and better future.

Financial Summary

Income Statement Summary

	For the year ended 31 December				CAGR
	2007	2006	2005	2004	**(2004–2007)**
		RMB million			(%)
Revenue					
Infrastructure Construction	**164,959**	140,399	99,204	77,249	28.8
Survey, Design and Consulting Services	**3,394**	4,124	3,480	2,780	6.9
Engineering Equipment and Component Manufacturing	**5,193**	4,095	3,814	3,024	19.8
Property Development	**3,282**	1,879	1,622	863	56.1
Others	**8,085**	6,278	4,747	4,018	26.2
Inter-segment Elimination	**(11,162)**	(3,207)	(1,444)	(1,105)	N/A
Total	**173,751**	153,568	111,423	86,829	26.0
Gross Profit	**12,643**	11,921	9,192	7,207	20.6
Profit before Taxation	**3,289**	3,387	750	564	80.0
Profit for the Year	**2,760**	2,739	460	408	89.1
Attributable to Equity Holders of the Company	**2,423**	2,046	171	463	73.6
Basic earnings per Share (RMB)	**0.181**	0.160	0.013	0.036	N/A

Balance Sheet Summary

	As at 31 December				CAGR
	2007	2006	2005	2004	**(2004–2007)**
		RMB million			(%)
Assets					
Current Assets	**172,097**	117,932	81,351	64,579	38.6
Non-current Assets	**42,926**	25,161	21,987	20,457	28.0
Total Assets	**215,023**	143,093	103,338	85,036	36.2
Liabilities					
Current Liabilities	**136,484**	117,509	80,113	62,275	29.9
Non-current Liabilities	**19,792**	15,071	13,959	14,525	10.9
Total Liabilities	**156,276**	132,580	94,092	76,800	26.7
Total Equity	**58,747**	10,513	9,246	8,236	92.5
Total Equity and Liabilities	**215,023**	143,093	103,338	85,036	36.2

Strive to Challenge Limits and Achieve Excellence

As the largest integrated construction group in China and Asia, we are committed to improving construction technique, strengthening quality controls and enhancing the standard of project management to create a brighter prospect for shareholders and a better living environment for the general public.

Chairman's Report

Dear Shareholders,

I am pleased to present the 2007 annual report of China Railway Group Limited on behalf of the Board of Directors.

The year 2007 marked the beginning of a new era in the history of the Company. On 3 December and 7 December 2007, the Company completed the listing of its A Shares followed by H Shares on the Shanghai Stock Exchange and the main board of The Stock Exchange of Hong Kong Limited, respectively.

As the largest multi-functional integrated construction group in the PRC and Asia, the Company established a growing presence in the international capital markets and gained broad acceptance by investors. The Company's H Shares have been included in the Hang Seng Composite Index Series, Hang Seng Freefloat Index Series, Hang Seng China Enterprise Index Series and Hang Seng AH Index Series. Entry into the international capital markets is of great significance to the development of the Company. The Company will take advantage of this opportunity to achieve further and rapid development, so as not to fail to live up to the trust and support of all shareholders of the Company.

1. Financial Results

In 2007, the Group achieved excellent performance in each of its business segment with overall growth in major financial and business indicators. New contracts entered into by the Group in 2007 reached RMB248.49 billion, representing a growth of 25.8% over 2006. Total revenue was RMB173.75 billion, representing an increase of 13.1% over 2006. The profit attributable to the shareholders of the Company for the same period was RMB2.42 billion, representing a growth of 18.4% over 2006, and earnings per share of RMB0.18.

These excellent results are the fruits of great efforts and innovations by all levels of management as well as the hard work and selfless efforts of all employees of the Group. It is their dedication that enabled the Group to attain such uplifting accomplishments over the past year.

2. Business Development

In 2007, leveraging on its established platform of integrated construction services, the Group seized the opportunity of rapid growth in infrastructure construction industry in the PRC, and continued to focus on providing a full range of comprehensive and premium services for its customers.

The Group's infrastructure construction business grew rapidly in 2007. We undertook the construction of several important national railways, including the Harbin-Dalian Passenger Railway. In 2007, the new contracts entered into by the Group, revenue and operating profit of the Group all displayed significant growth. All major projects progressed smoothly, which further strengthened the Group's position as the largest railway construction contractor in the PRC and enabled the Group to maintain its leading position in areas including highway, bridge and tunnel construction and municipal works, demonstrating the Group's all rounded business capabilities.

In terms of survey, design and consulting services, being service-oriented and leveraging on its industry-leading technical expertise and seasoned business experience, the Group also achieved splendid results in 2007.

In the engineering equipment and component manufacturing business, the Group continues to lead in the railway turnouts market with a 90% market share.

In 2007, the Group consolidated part of its existing property business by establishing China Railway Real Estate Group Co. Ltd., a wholly-owned subsidiary, charged with the planning and development of its property development business of the Group and coordination of the property development operations of a number of subsidiaries, in order to facilitate better integration of resources and reduction of costs. The Group's objective is to build "China Railway Real Estate" into one of the renowned brand names in property development in the PRC.

While leveraging on its established business platform to actively expand into a variety of other businesses, the Group has concurrently maintained a leading position in its traditional business. The Group has successfully expanded into high-profit businesses such as railway and road investment and operation projects as well as resources and mining, which will safeguard the ongoing and rapid development of the Group in the future.

3. Corporate Governance

In the past year, the Group has committed to the optimization of its corporate governance structure and set up a modern corporation in order to enhance internal consolidation, improve operating efficiency and adapt to the prevailing corporate competition. Capitalizing on the listing of its A and H Shares, the Group has established a sound corporate governance structure, and implemented a series of internal control systems so as to progressively realize the complete consolidation of internal resources and increased efficiency.

The Group places great emphasis on the establishment of corporate culture. During the development of our long history the Group had established the corporate motto of "Operate Sincerely; Customers First; Shareholders' Return; Social Service" and the corporate spirit of "Strive to challenge limits and achieve excellence". The Group will continue to dedicate itself to the establishment of corporate culture, and assimilate its corporate spirit into every aspect of its corporate operations as well as personal development of all employees to further enhance the cohesiveness of the Group and lay the foundation for its future growth.

4. Prospective Outlook

In 2008, the Group expects the global economy to maintain steady growth and the growth of the PRC economy to remain strong. Continued growth will further drive infrastructure construction in the PRC and in particular the demand for transportation infrastructure will continue to be robust. The PRC government intends to invest RMB3,800 billion in transportation infrastructure projects during the Eleventh Five-Year Plan. Meanwhile, robust growth of the PRC economy and rapid urbanization will continue to encourage investment in municipal works construction and growth in property sectors.

The Group, as a leading multi-functional integrated construction group in the PRC, will seize the market opportunities brought by sustained economic growth of the PRC. The Group will continue to increase its investment in infrastructure construction business, train its expert and technical teams, improve its construction techniques, strengthen quality control and enhance the standard of project management, reduce construction costs and centralize the management of the tender process of infrastructure construction projects and its coordination. While sustaining a dominant position in its traditional infrastructure construction business, the Group will also strive to expand the scope of its infrastructure construction business and increase the business of port, airport and environmental project construction.

The Group will increase its investment in the survey, design and consulting service business and engineering equipment and component manufacturing business in order to further reinforce its existing market leading position and increase its market share.

The Group will further expand its property development business with particular emphasis on cities surrounding the Pearl River Delta, Yangtze River Delta and Bohai Bay areas as well as other provincial capital cities. At the same time, the Group will leverage its dominance to focus on its integrated property development business including old town reclamation projects and new town construction.

The Group will continue to develop its existing mines and actively attend to other market opportunities with a view to increase the scale of its investment in overseas mining and resource development. The Group will leverage its dominance in infrastructure construction to build transportation lines for mining and resource development projects, further optimizing the supply chain from the point of manufacture to transportation to point of sale.

The international construction contracting market will experience dynamic development as the global economy maintains its growth. The Group will continue to selectively explore new opportunities overseas and focus its development on profitable international construction projects. Under the strategic direction and policy of "Going-out", the Group's overseas business will be ushering in a period of greater development opportunities.

The successful listing of the Company's shares is a milestone in the development history of the Company. The Group will continue to strengthen its corporate governance and system innovation, strive to enhance its organizational structure adjustments, streamline management hierarchy and shorten the chain of command to improve management efficiency. At the same time, the Group will implement centralized management of finance and investment activities to achieve economies of scale; centralize the tender and procurement of resources in order to lower procurement costs; and centralize the procurement and allocation of large-scale equipment to better allocate resources.

In the coming year, taking full advantage of the capital markets, the Company will improve its internal control systems and raise its standard of management, build up the "China Railway" brand, reduce cost, raise revenue and bring returns for our domestic and overseas shareholders.

Finally, I would like to take this opportunity to express sincere gratitude to our shareholders and the general public for your concerns and support for our growth, and for the selfless efforts and hard work of all our employees in the past year.

SHI Dahua
Chairman

Beijing, the PRC
24 April 2008

Changes in Share Capital and Information on Shareholders

1. Changes in Share Capital

(1) Details of Changes in Share Capital

	Before movement		Increase/decrease (+/-)					After movement	
	Number of Shares	Percentage (%)	New Issue	Bonus Issue	Conversion from Reserves	Disposal of state-owned shares	Sub-total	Number of Shares	Percentage (%)
(1) Shares with selling restrictions									
1. State-owned shares	12,800,000,000	100	—	—	—	−382,490,000	−382,490,000	12,417,510,000	58.30
2. Shares held by state-owned legal persons									
3. Shares held by domestic investors	—	—	1,402,550,000	—	—	—	1,402,550,000	1,402,550,000	6.58
Of which:									
Shares held by domestic non-state-owned legal persons	—	—	1,402,550,000	—	—	—	1,402,550,000	1,402,550,000	6.58
Shares held by domestic natural persons									
4. Shares held by foreign investors	—	—	550,172,000	—	—	—	550,172,000	550,172,000	2.58
Of which:									
Shares held by foreign legal persons	—	—	550,172,000	—	—	—	550,172,000	550,172,000	2.58
Shares held by foreign natural persons									
(2) Shares without selling restrictions									
1. RMB-denominated ordinary shares	—	—	3,272,450,000	—	—	—	3,272,450,000	3,272,450,000	15.36
2. Domestic listed foreign shares									
3. Overseas listed foreign shares	—	—	3,657,218,000	—	—	—	3,657,218,000	3,657,218,000	17.17
4. Others									
(3) Total	12,800,000,000	100	8,882,390,000	—	—	-382,490,000	8,499,900,000	21,299,900,000	100.00

Approval of changes in share capital:

As approved by China Securities Regulatory Commission and the Shanghai Stock Exchange, the Company carried out an initial public offering of 4,675,000,000 A Shares of a nominal value of RMB1 each at an offer price of RMB4.80 per share in November 2007, and such A Shares were listed on the Shanghai Stock Exchange on 3 December 2007.

As approved by China Securities Regulatory Commission and the Hong Kong Stock Exchange, the Company completed an initial public offering of 4,207,390,000 H Shares (including shares issued pursuant to the exercise of the over-allotment option) of a nominal value of RMB1 each at an offer price of HK$5.78 per share in November 2007, of which 3,658,600,000 H Shares were approved to be listed and commenced trading on the Hong Kong Stock Exchange from 7 December 2007 and 548,790,000 H Shares were approved to be listed and commenced trading from 14 December 2007.

Details of changes in share capital:

The A Shares offered during the initial public offering as stated above have been registered with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited on 26 November 2007.

The 3,658,600,000 H Shares offered during the initial public offering have been registered with Computershare Hong Kong Investor Services Limited on 7 December 2007, and the 548,790,000 H Shares issued pursuant to the exercise of the over-allotment option have been registered with Computershare Hong Kong Investor Services Limited on 14 December 2007.

(2) Details of Changes in Shares with Selling Restrictions

Name of shareholder	Number of shares with selling restrictions at the beginning of 2007	Number of shares with selling restrictions expired in 2007	Number of additional shares with selling restrictions in 2007	Number of shares with selling restrictions at the end of 2007	Reasons for selling restrictions	Expiry date of selling restrictions
CRECG	Not applicable	—	12,417,510,000	12,417,510,000	The promoter undertook to be subject to a lock-up period of 36 months from the date of listing of A Shares	3 December 2010
A Shares placed off-line	Not applicable	—	1,402,550,000	1,402,550,000	Subject to a lock-up period of three months from the date of listing of the A Shares	3 March 2008
Corporate investors of H Shares	Not applicable	—	550,172,000	550,172,000	Subject to a lock-up period of twelve months from the date of listing of the H Shares	7 December 2008
Total	Not applicable	—	14,370,232,000	14,370,232,000	—	—

(3) Issue of securities and listing

1. *Issue of securities over the past three years*

Type of securities	Issue date	Offer price	Number of shares issued	Date of listing	Number of approved tradable shares
A Shares	21 November 2007	RMB4.80 per share	4,675,000,000	3 December 2007	3,272,450,000
H Shares	23 November 2007	HK$5.78	4,207,390,000	7 December 2007 14 December 2007	3,658,600,000 548,790,000

In November 2007, the Company carried out its initial public offering of 4,675,000,000 A Shares each at the offer price of RMB4.80 each, and such A Shares were listed on the Shanghai Stock Exchange on 3 December 2007. Upon completion of the offering of such A Shares, the total issued share capital of the Company is 17,475,000,000, of which CRECG holds 12,800,000,000 A Shares, accounting for 73.25% of the total issued share capital of the Company and the public shareholders hold 4,675,000,000 A Shares, representing 26.75% of the total issued share capital of the Company.

In November 2007, the Company, by means of the global offering and the Hong Kong public offering, carried out its initial public offering of 4,207,390,000 H Shares (including shares issued pursuant to the exercise of the over-allotment option) at the offer price of HK$5.78 each, which includes 382,490,000 state-owned shares simultaneously disposed by CRECG. Upon completion of the offering of such H Shares, the total issued share capital of the Company is 21,299,900,000, of which CRECG holds 12,417,510,000 A Shares, representing 58.30% of the total issued share capital of the Company, the public shareholders hold 4,675,000,000 A Shares, representing 21.95% of the total issued share capital of the Company; and the shareholders of H Shares hold 4,207,390,000 H Shares, representing 19.75% of the total issued share capital of the Company.

2. *Changes in the total issued share capital and shareholding structure*

Save as the above domestic and overseas initial public offerings of A Shares and H Shares by the Company in 2007, there were no changes in the total issued share capital and shareholding structure and the assets to liability ratio of the Company as a result of bonus issue, increase in share capital due to conversion and placing of shares during the reporting period.

3. *Details of shares held by Company's employees*

None of the Company's employees held any share of the Company during the reporting period.

2. Information on Shareholders

(1) Number of shareholders and their shareholdings

1. *Total number of shareholders at the end of the reporting period*

At the end of the reporting period, the Company had a total of 689,651 shareholders, of which 645,395 were holders of A Shares (including CRECG) and 44,256 were holders of H Shares.

2. *Shareholdings of the top ten shareholders*

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Number of shares with selling restrictions	Number of pledged or frozen shares
CRECG	State-owned	58.30	12,417,510,000	12,417,510,000	Nil
HKSCC Nominees Limited *(Note 1)*	Other	19.14	4,076,758,000	498,269,000	Uncertain
Industrial and Commercial Bank of China ("**ICBC**") — Southern High Performing Growth Equity Securities Investment Fund	Other	0.61	129,885,946	—	Uncertain
ICBC — Southern Stable Growth No.2 Securities Investment Fund	Other	0.54	115,580,984	—	Uncertain
ICBC — Southern Constituents Selective Equity Securities Investment Fund	Other	0.51	109,560,000	—	Uncertain
ICBC — Southern Stable Growth Securities Investment Fund	Other	0.46	98,066,158	—	Uncertain
ICBC — Southern Longyuan Industrial Theme Equity Securities Investment Fund	Other	0.29	61,000,000	—	Uncertain
Bank of China — Southern High Growth Open-ended Equity Securities Investment Fund	Other	0.27	57,000,000	—	Uncertain
Honeybush Limited *(Note 2)*	Other	0.24	51,903,000	51,903,000	Uncertain
China Life Insurance Company Limited — Bonus — Individual Bonus — 005L — FH002 Hu	Other	0.20	41,794,983	—	Uncertain

Statement on the connected relations and concerted actions between the above shareholders:

Except Southern High Performing Growth Equity Securities Investment Fund, Southern Stable Growth No. 2 Securities Investment Fund, Southern Constituents Selective Equity Securities Investment Fund, Southern Stable Growth Securities Investment Fund, Southern Longyuan Industrial Theme Equity Securities Investment Fund, Southern High Growth Open-ended Equity Securities Investment Fund, all of which are under the management of China Southern Fund Management Co, Ltd., the Company is not aware of any connected relation or concerted action between the above shareholders.

Note 1: *H Shares held by HKSCC Nominees Limited are held on behalf of various clients, including the following eight corporate investors of H Shares:*

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Number of shares with selling restrictions	Number of pledged or frozen shares
China Life Franklin Asset Management Co., Ltd. *(Note (1))*	Other	0.243	51,903,000	51,903,000	Not available
Government of Singapore Investment Corporation Pte Ltd. *(Note (1))*	Other	0.243	51,903,000	51,903,000	Not available
Grahamstowe Investments Limited *(Note (1))*	Other	0.243	51,903,000	51,903,000	Not available
Andalee Investments Limited *(Note (1))*	Other	0.243	51,903,000	51,903,000	Not available
Fenbourne Investments Limited *(Note (1))*	Other	0.243	51,903,000	51,903,000	Not available
Kesco Investment Limited *(Note (1))*	Other	0.243	51,903,000	51,903,000	Not available
OZ Group *(Note (1), Note (2))*	Other	0.243	51,903,000	51,903,000	Not available
Best Investment Corporation *(Note (1))*	Other	0.633	134,948,000	134,948,000	Not available

Note (1): *Pursuant to the Corporate Investor Agreements entered into among each of China Life Franklin Asset Management Co., Ltd., Government of Singapore Investment Corporation Pte Ltd., Grahamstowe Investments Limited, Andalee Investments Limited, Fenbourne Investments Limited, Kesco Investment Limited, OZ Group and Best Investment Corporation, respectively, with BOCI Asia Limited, J.P. Morgan Securities Limited, UBS AG, and the Company on 17 November 2007, China Life Franklin Asset Management Co., Ltd., Government of Singapore Investment Corporation Pte Ltd., Grahamstowe Investments Limited, Andalee Investments Limited, Fenbourne Investments Limited, Kesco Investment Limited, OZ Group and Best Investment Corporation subscribed for 51,903,000, 51,903,000, 51,903,000, 51,903,000, 51,903,000, 51,903,000, 51,903,000 and 134,948,000 H Shares of the Company, respectively, at a price of HK$5.78 per share.*

Note (2): *OZ Group includes OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P.*

Note 2: *Pursuant to the Corporate Investor Agreement entered into among Honeybush Limited, BOCI Asia Limited, J.P. Morgan Securities Limited, UBS AG, and the Company on 17 November 2007, Honeybush Limited subscribed for 51,903,000 H Shares of the Company at a price of HK$5.78 per share.*

Note 3: *The numbers shown in the table are based on the register of members of the Company as at 31 December 2007.*

3. *Shareholdings of the top ten shareholders without selling restrictions*

Name of shareholder	Total number of shares held without selling restrictions	Type of shares
HKSCC Nominees Limited	3,578,489,000	H Shares
ICBC — Southern High Performing Growth Equity Securities Investment Fund	129,885,946	A Shares
ICBC — Southern Stable Growth No.2 Securities Investment Fund	115,580,984	A Shares
ICBC — Southern Constituents Selective Equity Securities Investment Fund	109,560,000	A Shares
ICBC — Southern Stable Growth Securities Investment Fund	98,066,158	A Shares
ICBC — Southern Longyuan Industrial Theme Equity Securities Investment Fund	61,000,000	A Shares
Bank of China — Southern High Growth Open-ended Equity Securities Investment Fund	57,000,000	A Shares
China Life Insurance Company Limited — Bonus — Individual Bonus — 005L — FH002 Hu	41,794,983	A Shares
China Life Insurance (Group) Co. — Traditional — General Insurance Products	41,791,983	A Shares
Ping An Life Insurance Company of China, Ltd. — Universal — Individual Universal Insurance	41,790,983	A Shares

Statement on the connected relations and concerted actions between the above Shareholders:

Except Southern High Performing Growth Equity Securities Investment Fund, Southern Stable Growth No. 2 Securities Investment Fund, Southern Constituents Selective Equity Securities Investment Fund, Southern Stable Growth Securities Investment Fund, Southern Longyuan Industrial Theme Equity Securities Investment Fund, Southern High Growth Open-ended Equity Securities Investment Fund, all of which are under the management of China Southern Fund Management Co, Ltd., and China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Co., the Company is not aware of any connected relation or concerted action between the above shareholders.

Note: The numbers shown in the table are based on the register of members of the Company as at 31 December 2007.

4. *Shareholdings of the top ten shareholders with selling restrictions*

Name of shareholder	Number of shares held with selling restrictions	Details of approved tradable shares with selling restrictions: Trading commencement date	Details of approved tradable shares with selling restrictions: Additional number of approved tradable shares	Selling restrictions
CRECG	12,417,510,000	3 December 2010	—	A Shares are subject to a lock-up period of 36 months from the date of listing
Best Investment Corporation *(Note 1, Note 2)*	134,948,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
China Life Franklin Asset Management Co., Ltd. *(Note 1, Note 2)*	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
Government of Singapore Investment Corporation Pte Ltd. *(Note 1, Note 2)*	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
Grahamstowe Investments Limited *(Note 1, Note 2)*	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
Honeybush Limited (Note 2)	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
Andalee Investments Limited *(Note 1, Note 2)*	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
Fenbourne Investments Limited *(Note 1, Note 2)*	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
Kesco Investment Limited (Note 1, Note 2)	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing
OZ Group *(Note 1, Note 2, Note 3)*	51,903,000	7 December 2008	—	H Shares are subject to a lock-up period of 12 months from the date of listing

Note 1: The H Shares were held by HKSCC Nominees Limited on behalf of Best Investment Corporation, China Life Franklin Asset Management Co., Ltd., Government of Singapore Investment Corporation Pte Ltd., Grahamstowe Investments Limited, Andalee Investments Limited, Fenbourne Investments Limited, Kesco Investment Limited and OZ Group.

Note 2: Pursuant to the Corporate Investor Agreements entered into among each of China Life Franklin Asset Management Co., Ltd., Government of Singapore Investment Corporation Pte Ltd., Grahamstowe Investments Limited, Honeybush Limited, Andalee Investments Limited, Fenbourne Investments Limited, Kesco Investment Limited, OZ Group and Best Investment Corporation, respectively, with BOCI Asia Limited, J.P. Morgan Securities Limited, UBS AG, and the Company on 17 November 2007, China Life Franklin Asset Management Co., Ltd., Government of Singapore Investment Corporation Pte Ltd., Grahamstowe Investments Limited, Honeybush Limited, Andalee Investments Limited, Fenbourne Investments Limited, Kesco Investment Limited, OZ Group and Best Investment Corporation subscribed for 51,903,000, 51,903,000, 51,903,000, 51,903,000, 51,903,000, 51,903,000, 51,903,000, 51,903,000 and 134,948,000 H Shares of the Company, respectively, at a price of HK$5.78 per share.

Note 3: OZ Group includes OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P..

(2) Summary on Controlling Shareholder and Ultimate Controller

1. *Controlling shareholder*

Name of controlling shareholder:	China Railway Engineering Corporation
Legal representative:	SHI Dahua
Date of establishment:	7 March 1990
Registered capital:	RMB10,814,925,000
Registered address:	No.1 Xinghuo Road, Fengtai District, Beijing, 100070, PRC
Major scope of business:	construction works and related technological research, survey, design and consulting services, manufacturing of specialized equipment, operation and development of real estate.

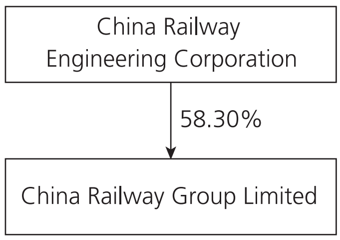
2. *Ultimate controller*

CRECG is the ultimate controller of the Company.

3. *Changes in the controlling shareholder and the ultimate controller*

There was no change in the controlling shareholder and the ultimate controller during the reporting period.

4. *The interests and controlling relationships between the Company and the ultimate controller*



(3) Other shareholders with 10% or above shareholding

As at the end of the reporting period, save for HKSCC Nominees Limited, there are no other shareholders of the Company holding more than 10% of shareholding.

Business Overview

The Group is the largest multi-functional integrated construction group in the PRC and in Asia, which enables us to offer a full range of construction-related services to our customers. The Group holds a leading position in infrastructure construction, survey, design and consulting services and engineering equipment and component manufacturing in the PRC. Leveraging on our established platform in infrastructure construction, the Group is active in expanding into other industries such as property development and resource mining in order to increase our profitability.

In 2007, the Company fulfilled commitment to its shareholders by its remarkable operating results, and pursued outstanding opportunities for the Group's business growth in line with the Group's core strategic concept. The total revenue of the Group in 2007 was RMB173.75 billion, representing an increase of 13.1% over 2006.

Businesses of the Group experienced a steady and rapid growth in 2007, with the value of new contracts for the year amounting to RMB248.49 billion, representing a 25.8% increase as compared with 2006. As of 31 December 2007, the backlog of each business segment of the Group aggregated to RMB216.46 billion, which represents an increase of 36.2%, as compared with that of 31 December 2006.

1. Industry Development Overview

The PRC economy continued to have a sound development in 2007, with gross domestic product increasing by 17.8% from 2006 to approximately RMB24.7 trillion. The PRC's international trade grew steadily, with the import and export trade totaling US$21,738 trillion, representing a 23.5% increase over the same period.

The continuous growth of the PRC's economy has stimulated demand for transportation, necessitating greater investment into transportation infrastructure by the State. During the period of the Eleventh Five-Year Plan, the total investment earmarked by the Ministry of Communications for nationwide transportation infrastructure is approximately RMB3.8 trillion, and the MOR has budgeted for the investment of approximately RMB1.3 trillion into railway infrastructure in the PRC over the same period.

(1) Infrastructure Construction

During 2007, the PRC government gave impetus to infrastructure construction such as the construction of railway lines on a large scale basis, with the investment on completed construction amounting to RMB1,168 billion.

During 2007, the investment in railway construction across the country was RMB190 billion. With regard to railway construction, track laying for new tracks and double-track railway lines of 2,099 kilometers and 2,347 kilometers was completed, respectively, of which new tracks and double-track railway lines of 678 kilometers and 480 kilometers, respectively, have commenced operations. By the end of 2007, the total operating length of railway lines in the PRC was 78,000 kilometers, among which the length of electrified railway lines accounted for 25,400 kilometers.

With regard to highway construction, the investment in road construction in the PRC in 2007 amounted to RMB640 billion, and the total length of newly constructed highways was 143,575 kilometers, of which 8,059 kilometers were expressways. As of the end of 2007, the total length of highways nationwide was 3,573,000 kilometers, including expressways of 53,600 kilometers.

(2) Survey, Design and Consulting Services Business

The growth in infrastructure construction investment also prompted the development of the survey and design market in the PRC. The overall results of ENR "Top 60 Chinese Engineering Design Enterprises" continued to deliver strong growth in 2007, reporting a 20.6% increase in the total revenue of the design sector.

(3) Engineering Equipment and Component Manufacturing Business

Spurred by the growth in the PRC transportation infrastructure industry, the transportation equipment manufacturing industry developed rapidly in 2007. In 2007, the industrial value-added of the transportation equipment manufacturing industry increased by 26.2% as compared with 2006.

(4) Property Development Business

Given the consistent growth of the PRC economy, increasing living standards, expanding scale of investment and the increase of distributable income and rate of urbanization, the PRC property industry continued its rapid development in 2007. In 2007, the completed floor area and sold floor area of the PRC commercial properties amounted to 582.36 million square meters and 761.93 million square meters, respectively; and total revenue from the sale of properties amounted to RMB2,960.39 billion, representing a growth of 44.3% over 2006. In 2007, property prices also increased substantially in the PRC. The average price for residential properties rose by 17.0% to RMB3,665/ sq.m. when compared with 2006; the average price for office buildings rose by 6.7% to RMB8,701/ sq.m.; and the average price for commercial buildings rose by 9.9% to RMB5,819/ sq.m.

2. Business Development Overview

(1) Infrastructure Construction Business

During 2007, the Group actively participated in a number of key infrastructure construction projects in the PRC, including railway construction, highway construction and municipal works construction, which contributed to remarkable results for our infrastructure construction business segment. In 2007, the value of new contracts for the infrastructure construction business amounted to RMB223.64 billion, representing a growth of 20.5% over the same period; while the segment revenue and operating profit were RMB164.96 billion and RMB1.89 billion respectively, representing an increase of 17.5% and a decrease of 15.2%, respectively, over the same period. As of 31 December 2007, the backlog of the infrastructure construction business was RMB206.0 billion.

i. *Railway Construction*

The Group is the largest railway construction group in the PRC. During 2007, the Group completed a total track laying length of railway main lane (new track and double-track) of 2,560 kilometers, and completed main lane length of electrified railway network of 3,887 kilometers. This further strengthens our leading position in the railway construction market.

ii. *Highway Construction*

In 2007, the Group achieved an outstanding result in highway construction, and completed total highway construction of 1,458 kilometers, including expressways of approximately 1,318 kilometers, with 698 projects in total.

In 2007, completed highway construction projects with the Group's involvement mainly included:

(a) Xihan Expressway

This project was the Shaanxi section of Beijing — Kunming Expressway, one of the five North-South trunk lines of the State. Its total length is 255 kilometers.

(b) Zhongnanshan Tunnel

This project was built under the Zhongnan Mountain in Shaanxi Province with a total length of approximately 18 kilometers. It is one of the world's longest highway twin mountain tunnels.

(c) Caiyuanba Yangtze River Bridge

This project is located in Chongqing and spans the Yangtze River, and designed to have a length of 1,867 meters. It is the longest arch bridge designed to carry both highway and metropolitan railway traffic in the PRC.

iii. *Municipal Works and Other Construction*

During 2007, the Group committed to contributing more to a number of municipal works construction projects in all major cities in the PRC. In particular, the metropolitan railway market is experiencing continual growth due to the acceleration of the PRC's rate of urbanization. The Group have also benefited from this market and engaged in the construction of light railways and subway lines totaling 165 kilometers in 2007.

In 2007, completed municipal works and other construction projects with the Group's involvement mainly included:

(a) Line 5 of the Beijing Subway

This project is an important north-south line within the Beijing metropolitan railway network. The line commenced trial operation on 7 October 2007, with a total length of 27.6 kilometers and 23 stations. Line 5 has adopted numerous new technologies and equipment during its construction process.

(b) Line 4 of the Guangzhou Subway

This project is the first elevated subway line in Guangzhou. The total length of the line is 68.96 kilometers.

iv. *Overseas Operations*

The Group is well-established in the international construction market. During 2007, the Group further expanded the overseas market, and undertook a total of 136 overseas projects in 50 countries and regions, which include 106 construction contracting projects.

Completed overseas projects with engagement in 2007 mainly includes:

(a) Morocco — Tangier Railway Tunnel Project

The Government of Morocco invested into this project. Its construction mainly included single track tunnel construction of Ras R'Mel and the design and construction of the SIDIALI single track railway tunnel.

(b) Shatin Heights Tunnel Project in Hong Kong

This project mainly included the excavation of a dual two-lane twin bore tunnel at Shatin Heights, the construction of dual two-lane highway approaches and dual single-lane approach viaducts, as well as the construction of the toll plaza and ancillary tunnel work.

(c) Road Upgrade Project in the Republic of Ghana

This project was a foreign aid project sponsored by the PRC government to Ghana. Its total length was 17.424 kilometers.

(2) Survey, Design and Consulting Services Business

Leveraging on the Group's enriched experience in survey, design and consulting services and industry leading technologies, the Group strengthened its leading position within the industry by undertaking numerous survey, design and consulting service projects. During 2007, the Group's new contract value of the survey, design and consulting services business amounted to RMB3.57 billion, representing a decrease of 29.5% over 2006. The segment revenue and operating profit were RMB3.39 billion and RMB234 million respectively, representing a decrease of 17.7% and 33.3% over 2006 respectively. As of 31 December 2007, the Group's backlog of the survey, design and consulting services business was RMB6.10 billion.

Our survey, design and consulting services projects completed in 2007 included:

(a) Beijing-Tianjin Inter-city Passenger Railway Line Project

The project connected the Beijing Railway and Tianjin Railway networks. The total length of the project is designed to be 115 kilometers, which can accommodate speeds of up to 350 kilometers per hour. The Group provided survey and design services for the entire project. The project has the highest speed accommodation ability amongst railway lines in the PRC and was one of the earliest high-speed railway lines to be constructed in the PRC.

(b) Hangzhou Bay Sea-Crossing Bridge

The total length of the project is designed to be approximately 36 kilometers, and is the longest sea-crossing bridge in the world. The Group provided survey services for approximately 60% of the length of the bridge and design services for approximately 78% of the length of the bridge for the project.

(c) Dongjiang Bridge in Dongguan

The project is an ultra-large expressway bridge in Dongguan, with a total length of 2,645 meters. The main bridge is a reinforced rod steel truss bridge with a main span of 208 meters and has two levels. The upper level is a highway, while the urban expressway on the lower level has six passageways and a span of 32.5 meters. The Group provided survey and design services for the whole project.

(3) Engineering Equipment and Component Manufacturing Business

During 2007, the Group's new contract value of the engineering equipment and component manufacturing business amounted to RMB5.77 billion, representing a decrease of 15.1% over 2006. The segment revenue and operating profit were RMB5.19 billion and RMB168 million respectively, representing an increase of 26.8% and a decrease of 62.2% over 2006 respectively. As of 31 December 2007, our backlog of the engineering equipment and component manufacturing business was RMB4.36 billion.

(4) Property Development Business

In 2007, the Group consolidated some of the existing property businesses and set up the China Railway Real Estate Group Co., Ltd, a wholly-owned subsidiary, which was in charge of development and planning of the Group's property development business and coordination of the property development businesses of several subsidiaries, in order to facilitate better resource integration and to reduce cost. The segment revenue and operating profit of the property development business for the year were RMB3.28 billion and RMB502 million respectively, representing an increase of 74.7% and 17.8% over 2006 respectively.

As of 31 December 2007, the Group had 59 projects in various stages of development. These projects had an aggregate site area of approximately 6,740,000 million square meters and a total GFA of approximately 12.6 million square meters.

The Group's property development projects completed in 2007 included:

(a) Jinrong Huating (錦榮華庭)

The project is located in Dengzhou City, Henan Province. It covers 18,842 square meters, with floor area of 33,000 square meters. The project consists of the Jinrong Huating residential property and shopping street (錦榮華庭名店街) , and was named as the "Exemplary Construction of Peaceful Community in Dengzhou" by Dengzhou Municipal Legal Committee.

(b) Good Hope International Apartment (好望角國際公寓)

The project is located in the Economic and Technology Development Zone in Zhengzhou City. It covers 23,024.6 square meters, with a construction scale of 83,000 square meters. The project was awarded the honor of "Supreme Structure Engineering in Zhengzhou 2007" by Zhengzhou Construction Engineering Quality Management Association, the "Standardized Site on Safety and Civilization" by Zhengzhou Municipal Construction Committee and the certificate of "Zhongzhou Cup – Structure Construction in Henan Province" by Henan Provincial Head Office for Construction Works Quality Supervision.

(c) Hongtai Mingyuan (鴻泰名園)

The project is located in the Upper Jinjiang Ecological Conservation Zone in Chengdu. It covers 31,933 square meters, with the total GFA of 24,056 square meters and plot ratio of 0.65. The project comprises of duplex villas.

(5) Other Businesses

During 2007, leveraging on its platform established by existing businesses, the Group also actively engaged in railways and highway investment and operation, mining, raw material trading and a variety of other businesses. The segment revenue and operating profit of other businesses in 2007 was RMB8.09 billion and RMB611 million respectively, representing an increase of 28.8% and 237.6% over 2006 respectively.

3. Technology Research Development and Technological Achievements

In 2007, the Group conducted 614 new technology research projects: 46 projects passed the provincial and ministry-level evaluation and assessment, 35 projects passed the internal assessment of the Group, and over 100 projects passed the assessment and examination and acceptance of each relevant unit; one project and five projects were awarded Grade I and Grade II of National Advanced Science and Technology Prizes, respectively, and 48 projects were awarded Provincial and Ministry-Level Advanced Science and Technology Prizes. The Group developed over 100 corporate-level engineering methods, among which 30 was awarded Grade I National-Level Engineering Methods. The Group also applied for 251 national patents (including 120 invention patents) and were authorized 57 patents (including 6 invention patents, 50 practical innovations and 1 appearance design).

Leading Market Player

With more than 50 years of operating history in construction-related business in China, we have established a large scale of operation and an eminent brand name, accumulated extensive expertise and experience and developed advanced equipment, demonstrating the Group's all rounded business capabilities.

Management Discussion and Analysis

1. Overview

Our business is greatly dependent on the PRC's investment in railways and other public transportation infrastructure, including construction and improvement of railways, highways, bridges, tunnels, metropolitan railways and other projects. In 2007, the PRC maintained rapid and steady economic growth, and the ever-increasing investment in railways and other transportation infrastructure projects brought tremendous development opportunity to the Group. Benefiting from the increasing investment in transportation infrastructure, the volume of the Group's business correspondingly grew. At the same time, the Group actively developed new businesses and our profitability surged. In 2007, the Group's revenue increased by 13.1% year on year to RMB173.75 billion, among which, the revenue from Hong Kong, Macau and overseas operations increased by 95.7% year on year to RMB6.2 billion. The Group realized net profit of RMB2.76 billion, representing an increase of 0.8% year on year. The net profit attributable to shareholders increased by 18.4% year on year to RMB2.42 billion.

A comparison of the financial results for 2007 and 2006 is set forth below.

2. Consolidated Results of Operations

Revenue

The Group's principal business activities are infrastructure construction, survey, design and consulting services, engineering equipment and components manufacturing, property development and other businesses. The Group's total revenue increased by 13.1% from RMB153.57 billion for 2006 to RMB173.75 billion for 2007. The increase in the Group's revenue was primarily attributable to the increase in the volume of infrastructure construction projects benefiting from the increased investments in transportation infrastructure in the PRC. In 2007, new contracts increased by 25.8% compared with 2006 to RMB248.49 billion. In 2007, backlog increased by 36.2% to RMB216.46 billion compared with 2006.

Cost of Sales and Gross Profit

The Group's cost of sales primarily includes cost of raw materials and consumables, subcontracting cost, equipment usage cost (consisting of maintenance, rental and fuel), employee compensation and benefits and depreciation and amortization expenses. In 2007, our cost of sales increased by 13.7% to RMB161.11 billion from RMB141.65 billion for 2006 due to the expansion of the overall business of the Group. In 2007, gross profit of the Group increased by RMB0.72 billion to RMB12.64 billion from RMB11.92 billion with an annual growth rate of 6.0%. The gross profit margin decreased slightly to 7.3% from 7.8% for 2006 primarily due to the cost increase arising from the higher quality raw materials such as steel and cement used for the infrastructure construction carried out by the Group and the certain lag in construction project pricing adjustment.

Other Income

The Group's other income primarily consists of income from the acquisition or disposal of assets as well as profits from sundry operations supplemental to our principal revenue-generating activities, such as sales of materials. In 2007, the Group's other income increased by 103.6% to RMB1.18 billion from RMB581 million of last year. The significant increase of other income was due to the revenue from sales of materials, gain from investment in financial assets and write-back on provision for loans made in previous years arising from the early repayment of loan by borrowers.

Selling and Marketing Expenses

The Group's selling and marketing expenses primarily consist of employee compensation and benefits, distribution and logistic costs and advertising costs. In 2007, the Group's selling and marketing expenses increased by 27.2% year on year to RMB930 million from RMB731 million primarily due to the growth of the scale of business, particularly the increase in the value of new contracts which resulted in the growth of the total marketing expenses. However, the marketing expenses as a percentage of the total revenue of approximately 0.5% remained at the same level as 2006.

Administrative Expenses

The Group's administrative expenses mainly consist of employee compensation and benefits, impairment in trade and other receivables and depreciation and amortization of its assets related to administration. In 2007, the Group's administrative expenses increased by 15.7% to RMB9.36 billion from RMB8.09 billion of last year. The salary level of the Group's management increased in 2007. At the same time, the Group recorded an exchange loss of RMB245 million for 2007, representing an increase of RMB229 million compared with 2006 because the proceeds from the listing of the H-shares of the Company in Hong Kong dollars depreciated against the Renminbi. However, administrative expenses as a percentage of operating revenue remained at approximately 5%, which reflected the sound cost management of the Group. In the future, the Group will further optimize the administrative cost through various measures such as streamlining the levels of management and enhancing project management capabilities.

Gains on Disposal of Interests in Subsidiaries

In 2007, the gains on disposal of interests in subsidiaries increased by 69.7% to RMB616 million from RMB363 million for 2006. Such gain was primarily attributable to an earning of RMB94 million from the placement of new shares at a premium over market price by China Railway No. 2 Engineering Group Co., Ltd., and an earning of RMB424 million from the partial disposal of the shares of China Railway Erju Co., Ltd. held by the Group.

Interest Income

In 2007, the interest income increased by RMB334 million, or 51.6% to RMB981 million from RMB647 million for 2006. The increase of the interest income is primarily due to: 1) the several hikes in the deposit interest rate by the People's Bank of China in 2007; 2) the increase of retention receivables to RMB10.4 billion for 2007 from RMB6.97 billion for 2006, and the accrued interest income correspondingly increased to RMB191 million for 2007 from RMB99 million for 2006 as a result of the expansion of the Group's business scale; and 3) the interest income increased to RMB628 million from RMB404 million for 2006 as a result of the completion of the initial public offering of the Company in the fourth quarter of 2007.

Interest Expenses

In 2007, the interest expenses increased by RMB600 million, or 47.6% to RMB1.85 billion from RMB1.25 billion for 2006 primarily due to: 1) the increase in principal borrowing amount as a result of the increased working capital requirement with the Group's expansion of business scale; and 2) the significant increase in borrowing cost due to several hikes in the lending rate by the People's Bank of China in 2007.

Profit before Income Tax

As a result of the foregoing factors, the profit before income tax for 2007 decreased by RMB98 million, or 2.9% to RMB3.289 billion from RMB3.387 billion for 2006.

Income Tax Expense

In 2007, the income tax expense decreased by RMB119 million, or 18.4% to RMB529 million from RMB648 million for 2006. The effective tax rate of the Group reduced from 19.1% for 2006 to 16.1% for 2007 primarily attributable to: 1) the tax-exempt revenue from the construction of the Qinghai-Tibet Railway in 2007 is higher than that in 2006 as a result of the adjustment of the budget estimate for the Qinghai-Tibet Railway by the Ministry of Railways and the corresponding increase of the project contract price on a one-off basis in 2007; and 2) the tax credits on acquisition of equipment amounted to RMB129 million.

Minority Interests

In 2007, minority interests amounted to RMB337 million, representing a decrease of RMB356 million, or 51.4% from RMB693 million for 2006 primarily due to the acquisition by the Group of minority interests in its subsidiaries.

Profit Attributable to the Equity Holders of the Company

As a result of the foregoing factors, the profit attributable to the equity holders of the Company for 2007 increased by 18.4% to RMB2.42 billion from RMB2.05 billion for 2006. The profit margin of the profits attributable to equity holders of the Company for 2007 increased to 1.4% from 1.3% for 2006.

3. Segment Results

The revenue, results and operating profit margin of each segment of the Group's business for the year ended 31 December 2007 are set forth in the table below.

Business Segments	Segment Revenue RMB million	Growth Rate (%)	Operating Profit[1] RMB million	Growth Rate (%)	Operating Profit Margin[2] (%)	Segment Revenue as a Percentage of Total (%)	Operating Profit as a Percentage of Total (%)
Infrastructure Construction	164,959	17.5	1,889	(15.2)	1.1	89.2	55.5
Survey, Design and Consulting Service	3,394	(17.7)	234	(33.3)	6.9	1.8	6.9
Engineering Equipment and Component Manufacturing	5,193	26.8	168	(62.2)	3.2	2.8	4.9
Property Development	3,282	74.7	502	17.8	15.3	1.8	14.7
Other Businesses	8,085	28.8	611	237.6	7.6	4.4	18.0
Adjustment[3]	(11,162)		(306)				
Total	**173,751**	**13.1**	**3,098**	**(7.9)**	**1.8**	**100.0**	**100.0**

1 Figures provided in this column are derived from segment results in respect of business segments.

2 Operating profit margin is the operating profit divided by the segment revenue.

3 Inter-segment transactions are eliminated.

Infrastructure Construction Business

Revenue from the operation of the Group's infrastructure construction business is mainly derived from railway, highway and municipal works construction. Revenue from the operation of the infrastructure construction business continues to account for a high percentage of total revenue of the Group. In 2007, the revenue from the infrastructure construction business accounted for 89.2% of the total revenue of the Group. In 2007, segment revenue from the Group's infrastructure construction business increased by 17.5% year on year to RMB164.96 billion, among which, the revenue from railway construction increased by 26.2% year on year to RMB77.46 billion, and that of municipal works construction and highway construction amounted to RMB46.59 billion and RMB40.91 billion respectively.

In 2007, the total operating expenses of the infrastructure construction segment amounted to RMB163.07 billion, among which, the cost of sales was RMB155.45 billion. Among the cost of sales, RMB72.58 billion, RMB39.36 billion, and RMB43.51 billion were attributable to railway, highway and municipal works construction respectively.

Operating profit margin of the infrastructure construction segment fell to 1.1% for 2007 from 1.6% for 2006 primarily due to the significant rise in the costs of raw materials such as steel, cement, sand and stones in 2007 and the lag in the pricing adjustment of railway construction projects. In particular, the increase in raw material costs was mainly due to the higher quality requirements for raw materials such as steel and cement used for high-speed railway construction projects since 2007. The Group had implemented various measures to control costs, including centralized procurement for raw materials and centralized procurement and management for large equipment in order to improve operating profit.

Survey, Design and Consulting Services Business

Revenue from the operation of the survey, design and consulting services business primarily derives from providing a full range of survey, design and consulting services, research and development, feasibility studies and compliance certification services on infrastructure construction projects, including integrated "one-stop" solutions as well as specialized services in the areas of railway electrification, bridge, tunnel and machinery design. In 2007, segment revenue of survey, design and consulting services decreased by 17.7% year on year to RMB3.39 billion from RMB4.12 billion primarily due to the results of operations of The Third Railway Survey and Design Institute Group Corporation (鐵道第三勘察設計院集團有限公司), which was transferred on 29 December 2006, being reflected in the 2006 consolidated income statement prior to the transfer.

Given the same reason, operating expenses decreased from RMB3.77 billion for 2006 to RMB3.16 billion for 2007, among which, the cost of sales amounted to RMB2.34 billion. Operating profit decreased from RMB351 million for 2006 to RMB234 million for 2007. Operating profit margin for the segment decreased to 6.9% as compared with 8.5% for 2006. This is mainly due to the increase in employee remuneration leading to management expenses accounting for a greater proportion of operating income of the Group.

From 2006 to 2007, excluding contributions made by The Third Railway Survey and Design Institute Group Corporation, the effective growth rate of the revenue of the survey and design segment was 6.7%, growth rate of the value of new contracts entered into was 17.4%.

Engineering Equipment and Component Manufacturing Business

Revenue from the operation of the engineering equipment and component manufacturing business primarily derives from the design, research and development, manufacture and sale of turnouts and other railway-related equipment, bridge steel structures and engineering machinery. In 2007, segment revenue of the engineering equipment and component manufacturing business of the Group increased by 26.8% year on year to RMB5.19 billion from RMB4.10 billion.

In 2007, the operating expenses of that segment increased by 37.7% year on year to RMB5.03 billion, among which, the cost of sales amounted to RMB4.26 billion. The increase of operating expenses was primarily attributable to the expansion of the scale of the Group's business and the rise in the costs of raw materials and consumables.

Operating profit margin decreased from 10.9% for 2006 to 3.2% for 2007. In 2007, a number of large-scale railway construction projects called for tenders in the second half and had not entered into the stage of track laying, thus lowering the demand for turnouts, especially acceleration turnouts, as compared with 2006. Under these circumstances, the Group engaged in the production of bridge steel structures with relatively low profit margin in 2007, thereby lowering operating profit margin for the segment.

Property Development Business

Revenue from our property development business primarily derives from the development, sale and management of a wide range of residential properties targeting middle and upper-middle income purchasers and commercial properties in the PRC. In 2007, segment revenue from property development business increased by 74.7% to RMB3.28 billion from RMB1.88 billion for 2006.

In 2007, the operating expenses of that segment increased by 91.3% year on year to RMB2.78 billion, among which, the cost of sales amounted to RMB2.19 billion. Operating profit increased by 17.8% from RMB426 million to RMB502 million. Operating profit margin decreased from 22.7% for 2006 to 15.3% for 2007.

In 2007, operating profit margin was lower than that for 2006 primarily due to: 1) the lower profit margin of some residential projects sold in the first half of 2007, which were acquired from a third party prior to its sale, as compared with that of the properties developed by the Group; 2) the lower profit margin of the project in Guiyang developed in the first half of 2007 as compared with that of the projects the Group mainly developed in the major cities in the PRC; 3) the higher development costs of large-scale property projects as compared with those for previous years; and 4) the greater marketing expenses of the property development business were incurred as a result of the accelerated development of the property segment, which was charged to the marketing expenses of 2007 but the corresponding revenue is yet to be realized.

Other Businesses

Segment revenue from other businesses increased by 28.8% from RMB6.28 billion to RMB8.09 billion. Operating expenses increased 22.6% from RMB6.10 billion in 2006 to RMB7.47 billion, among which, the cost of sales amounted to 6.86 billion. Operating profit increased by 237.6% from RMB181 million for 2006 to RMB611 million primarily due to the increase of the sales and trading of raw materials of the Group as a result of the strong demand for the services of the Group and the growth of the infrastructure construction industry in the PRC, as well as the increase in revenue from the financial service business of the Group.

4. Cash Flow

In 2007, the net cash flow generated from operating activities amounted to RMB21 million, representing a significant decrease from RMB8.24 billion for 2006. The decrease in operating cash flows was primarily attributable to: 1) the Group's increased emphasis on property development which in turn increased the inventories for property under development by RMB2.40 billion from 2006 to 2007; 2) the increase of retention receivables as the Group's scale of business expanded.

In 2007, the net cash used in investing activities of the Group amounted to RMB15.57 billion, representing an increase of 92.6% from RMB8.08 billion for 2006. The increase of the cash flows used in investing activities was primarily attributable to: 1) the cash used for the purchase of property, plant and equipment increased by RMB596 million; 2) the investment in BOT projects increased by RMB2.15 billion; 3) the cash used for the acquisition of minority interests in subsidiaries increased by RMB3.06 billion; and 4) the investment in cash in the Company's associated companies, in which the Company owned more than a 20% interest, increased by RMB1.25 billion.

In 2007, the net cash generated from financing activities of the Group amounted to RMB42.86 billion, representing an increase of RMB29.42 billion from 2006. The increase of cash flows from financing activities was primarily attributable to net cash of RMB42.39 billion raised through the Company's initial public offering in the fourth quarter of 2007.

Capital Expenditure

The capital expenditure of the Group primarily comprises of expenditure on purchases of equipment and upgrading of the Group's production facilities. In order to further expand the infrastructure construction business of the Group, the Group increased its capital expenditure in 2007, particularly investing in advanced equipment such as tunnel boring machines, which will benefit the Group's continued efforts to expand its business and improve its competitiveness. In 2007, the Group had expenditure of RMB6.27 billion on the purchase of fixed assets.

The following table sets forth the Group's capital expenditure (including acquisition of subsidiaries) by business segments in 2007.

For the year ended 31 December 2007	Infrastructure construction RMB million	Survey, design and consulting services RMB million	Engineering equipment and component manufacturing RMB million	Property RMB million	Others RMB million	Total RMB million
Fixed assets, plant and equipment	5,035	186	441	122	486	6,270
Investment property	—	—	—	—	63	63
Intangible assets	404	93	12	—	3,112	3,621
Acquisition of subsidiaries	1	—	—	5	2,343	2,349
Total	5,440	279	453	127	6,004	12,303

Working Capital

	As at 31 December 2007 RMB million	2006 RMB million
Inventories	10,407	8,612
Property development expenses	11,246	3,929
Trade and bills payables	54,120	44,150
Trade and bills receivables	40,449	31,276
Turnover of inventory (days)	21	20
Turnover of trade and bills payables (days)	110	96
Turnover of trade and bills receivables (days)	74	69

In 2007, the Group's inventories increased by 20.8% from RMB8.61 billion as at the end of 2006 to RMB10.40 billion primarily due to: 1) the increase in the purchase of raw materials and consumables in response to the growth of the infrastructure construction business and the engineering equipment and component manufacturing business; 2) the increase in raw materials inventory levels to combat the rise in prices of raw materials and consumables; and 3) the increase in inventory levels as a result of the increase in properties under development with the growth of our property development business. The inventory turnover days of 21 days remained at the same level as in 2006.

In 2007, trade and bills receivables increased by 29.3% from RMB31.28 billion as at the end of 2006 to RMB40.45 billion as at the end of 2007, among which, the balance of retention receivables as at the end of 2007 greatly increased by 49.1% from RMB6.97 billion for 2006 to RMB10.4 billion due to the rapid business expansion in the past two years. According to the ageing analysis of the Group's receivables, most of the Group's receivables were of less than 6 months and the receivables of more than one year accounted for less than 20% of the total receivables, which reflected the sound receivables management capability of the Group.

Trade and bills receivables	As at 31 December 2007 RMB million	2006 RMB million
Less than six months	17,814	17,488
Six months to one year	15,585	9,112
One year to two years	5,296	3,012
Two years to three years	1,157	1,098
More than three years	597	566
Total	40,449	31,276

The Group's trade and bills payables primarily consist of amounts owed to the Group's suppliers of raw material, machinery and equipment. As the Group's business scale expanded, the Group's trade and bills payables increased by 22.6% from RMB44.15 billion as at the end of 2006 to RMB54.12 billion. The number of turnover days increased from 96 days for 2006 to 110 days for 2007. A substantial portion of the Group's trade and other payables remain outstanding for more than one year, which is attributable to: 1) retention payables are due from the Group's suppliers and contractors only after a specified period (usually one year) in accordance with the relevant contracts; 2) the Group enjoy better credit terms because of the long-standing cooperation with the Group's suppliers and contractors.

Trade and bills payables	As at 31 December 2007 RMB million	2006 RMB million
Less than one year	47,821	40,898
One year to two years	4,730	2,230
Two years to three years	964	625
More than three years	605	397
Total	54,120	44,150

5. Borrowings

The following table sets forth the Group's total borrowings as at 31 December 2007 and 31 December 2006. 70% of our debts were short-term debts which financed the Group's working capital. The Group's need for debt financing is seasonal as our construction business is subject to seasonal fluctuations. In general, demand for debt financing is higher during mid-year and declines towards year-end. The Group is generally capable of making timely repayments.

As at 31 December 2007, the Group had unutilized credit facilities in the amount of RMB70.22 billion.

	As at 31 December 2007 RMB million	2006 RMB million
Bank loans		
Secured	**6,599**	2,800
Unsecured	**28,158**	27,564
Total	**34,757**	30,364
Short-term debentures, unsecured	**2,657**	3,772
Other short-term borrowings, unsecured	**680**	53
Other long-term borrowings, unsecured	**672**	—
Total	**38,766**	34,189
Non-current	**10,239**	5,100
Current	**28,527**	29,089
Total	**38,766**	34,189

The following table sets forth the exposure of fixed-rate and floating-rate borrowings of the Group and the contractual maturity as at the dates indicated. Most of the Group's borrowings have terms of under 5 years.

	As at 31 December 2007 RMB million	2006 RMB million
Fixed-rate bank loans repayable		
On demand or within one year	**52**	78
More than one year, but within two years	**66**	62
More than two years, but within three years	**66**	62
More than three years, but within four years	**178**	62
More than four years, but within five years	**21**	148
More than five years	**126**	172
	509	584

	As at 31 December 2007 RMB million	2006 RMB million
Floating-rate bank loans repayable		
On demand or within one year	**25,138**	25,186
More than one year, but within two years	**2,781**	1,420
More than two years, but within three years	**1,767**	1,600
More than three years, but within four years	**42**	90
More than four years, but within five years	**141**	281
More than five years	**4,379**	1,203
	34,248	29,780

The following table sets forth the exposure of other long-term fixed-rate and floating-rate borrowings of the Group and the contractual maturity dates as at the dates indicated.

	As at 31 December	
	2007	2006
	RMB million	RMB million
Other long-term fixed rate loans repayable after two years, but within three years	**228**	—
Other long-term floating-rate loans repayable		
More than one year, but within two years	**341**	—
More than two years, but within three years	**4**	—
More than three years, but within four years	**4**	—
More than four years, but within five years	**41**	—
More than five years	**54**	—
	444	—

Bank loans carry interest rates ranging from 5.0% to 7.4% (2006: 2.6% to 7.4%) per annum. Short-term debentures are either zero-coupon debentures issued at a discount or carry fixed rates ranging from 3.0% to 7.0% (2006: 3.4% to 3.8%) per annum. Other short-term loans carry interest rates ranging from 4.1% to 10.9% (2006: 4.1% to 10.9%) per annum. Other long-term loans carry interest rates ranging from 4.0% to 8.0% (2006: Nil) per annum.

The following table sets forth the carrying amounts of the Group's borrowings by currencies as at 31 December 2007 and 31 December 2006. The Group's borrowings are primarily denominated in Renminbi and the Group's foreign currency borrowings are primarily denominated in U.S. dollars and Euros.

	Borrowings in U.S. dollars	Borrowings in Euros (RMB million)	Borrowings in other currencies
As at 31 December 2007	**645**	**750**	**68**
As at 31 December 2006	325	424	53

As at 31 December 2007, approximately RMB6.6 billion in total bank loans were secured by assets of the Group with an aggregate value of RMB3.15 billion.

In 2007, the Group's gearing ratio (total liabilities/total assets) was 72.7%, a decrease of 20 percentage points as compared with 2006; the Group's total borrowings/(total borrowings and total equity) ratio was 39.8%, a decrease of 36.7 percentage points compared to 2006, enhancing the Group's repayment ability. This was primarily attributable to the increase in equity resulting from the initial public offering of the Company in 2007.

The Group has always financed its working capital and other capital requirements through internal funds generated from operations, and through borrowings in case of any deficiencies. During the past financial reporting periods, apart from applying the proceeds arising from the A-share offering and the global offering of the Company's shares to working capital, the Group primarily relied on operating income, bank loans and the issuance of debentures to finance the Group's working capital requirements. The Group will continue to rely on internally generated funds, and intends to utilize the financial instruments currently available to the Group (for example, issuing debentures, short-term bonds, bills and other kinds of convertible securities) and the Group's credit history with banks to secure financing for business development. The Group will continue to adjust its financing policies and centralize cash management to minimize financing costs and shorten liquidity turnover period, thereby utilizing operating capital more efficiently.

The Group's cash and cash equivalents were primarily denominated in Renminbi, with a limited amount of foreign currencies denominated in U.S. dollars and Hong Kong dollars.

6. Contingent Liabilities

The contingent liabilities related to legal claims in the Group's ordinary course of business are set forth in the table below:

	As at 31 December 2007 RMB million	As at 31 December 2006 RMB million
Pending lawsuits *(Note)*	**220**	220

Note: A subsidiary (the "Guarantor") has provided a guarantee to a bank for a bank loan of RMB220 million to an independent party (the "Borrower"). The bank has brought a lawsuit against the Borrower for the repayment of the outstanding principal and the attributable interest (including penalty interest) and against the Guarantor for the fulfilment of its responsibility under the guarantee. According to the judgment dated 22 December 2007, the court gave a judgement in favour of the bank and demanded the Guarantor to fulfil its responsibility under the guarantee to pay the outstanding principal, interest and penalty to the bank. Then the Guarantor lodged an appeal to the court to overrule the previous court judgement. On the other hand, the bank and two independent parties have entered into a debt restructuring agreement so that the two independent parties undertake to repay the outstanding bank loan of RMB220 million and the attributable interest. Based on a legal opinion and the debt restructuring agreement, the Directors consider that the Guarantor is not liable for paying any compensation and the litigation has no impact on the Group's state of affairs at the balance sheet date and the results for the year.

The Group has been named in a number of lawsuits arising in the ordinary course of business. Provisions have been made for the probable losses to the Group on those claims where management can reasonably estimate the outcome of the lawsuits while taking into account legal advice. Provision would not be made for pending lawsuits where their outcome cannot be reasonably estimated or management believes the probability of loss is remote.

The Group has provided guarantees to banks in respect of banking facilities utilized by affiliated companies and third parties resulting in certain contingent liabilities. The following table sets forth the maximum exposure of these guarantees of the Group.

	As at 31 December			
	2007		2006	
	Amount RMB million	Expiry period	Amount RMB million	Expiry period
Guarantees given to banks in respect of banking facilities utilized by:				
Jointly controlled entities and joint ventures	**5,150**	**2008–2027**	900	2008–2009
A former jointly controlled entity	—	—	800	2007–2008
A fellow subsidiary	—	—	8	2008
Other State-owned enterprises	**808**	**2008–2011**	318	2007–2008
Property purchasers	**1,001**	**2008–2010**	172	2007–2009
Other independent parties	**1,382**	**2008–2016**	1,184	2007–2014
Total	**8,341**		3,382	

7. Market Risks

We are exposed to various types of market risks, including risks associated with changes in interest rate, foreign exchange and inflation in the ordinary course of business.

Interest Rate Risk

The Group's revenue and operating cash flows are substantially independent of changes in market interest rates as we have no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at floating rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group currently does not have any interest rate hedging policy. However, the management continuously monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Foreign Exchange Risk

The Group's functional currency is the Renminbi as most of its transactions are settled in Renminbi. However, the Group uses foreign currencies to settle its invoices from overseas operations, purchases of machinery and equipment from overseas suppliers and for certain expenses. In addition, some of the Group's bank borrowings and the proceeds raised through the public offering of H Shares at the end of 2007 were denominated in foreign currencies. The Renminbi is not freely convertible into other foreign currencies as it is subject to rules and regulations of foreign exchange control promulgated by the PRC government. In July 2005, the PRC government implemented a regulated floating exchange rate system to allow the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. In 2007, appreciation of the Renminbi against the U.S. dollar amounted to 7.1%. The PRC government has since made and may in the future make further adjustments to the exchange rate system. When the Renminbi appreciates, the value of foreign currency denominated assets will decline against the Renminbi. Fluctuations in foreign exchange currency rates could adversely affect the Group by effectively decreasing any revenues from the Group's sales which are denominated in foreign currencies and increasing the Group's borrowings which are denominated in foreign currencies. The Group currently does not have a foreign exchange hedging policy. However, the management continuously monitors foreign exchange exposure and will prudently consider hedging significant foreign exchange exposure should the need arise.

The following table details the Group's sensitivity to a change of 5% (2006: 1%) in the exchange rate of each foreign currency against the Renminbi while all other variables are held constant. 5% (2006: 1%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonable change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts for impact at each balance sheet date of a 5% (2006: 1%) change in foreign currency rates.

Increase (decrease) in profit for the year	**2007** **RMB million**	2006 RMB million
If RMB weakens against foreign currencies	**843**	(3)
If RMB strengthens against foreign currencies	**(843)**	3

A change of 5% (2006:1%) in exchange rate of each foreign currency against Renminbi does not affect other components of equity value of the Group.

Inflation

In 2007, the PRC saw relatively significant inflation, which led to a large rise in the prices of food and raw materials. The consumer price index (CPI) rose by 4.8% in 2007. Inflation will have an adverse effect on the Group's business as pricing adjustment to the budget estimate of railway construction by the Ministry of Railways generally lags behind the rise of actual cost of railway construction.

1. Directors

SHI Dahua (石大華)

56, Chairman, Executive Director and Secretary to the Communist Party Committee of our Company. Mr. Shi is also chairman, general manager and deputy secretary to the communist party committee of CRECG, an alternate member of the 16th and 17th Central Committee of the Chinese Communist Party, director of the Transportation Professionals Co-operation Committee of the Consultant Council for the Promotion of Economic & Technology Cooperation of China-Spain Forum and deputy director of the Steering Committee of the National Construction Enterprise Career Manager Certification and Construction Enterprises Qualifications Administration and Research. From November 1998 to September 2007, Mr. Shi was secretary to the communist party committee of CRECG. He was deputy general manager of CRECG from December 2002 to September 2006. Mr. Shi has been chairman of CRECG since September 2006. Since September 2007, he has been the Chairman and Executive Director of our Company.

LI Changjin (李長進)

49, Executive Director, and President of our Company, Mr. Li is also a director and secretary to the communist party committee of CRECG. From July 2002 to September 2006, he was deputy general manager of CRECG. From September 2006 to September 2007, he was general manager and deputy secretary to the communist party committee of CRECG. Mr. Li has been a director of CRECG since September 2006 and secretary to the communist party committee of CRECG, Executive Director and President of the Company and deputy secretary to the Communist Party Committee of our Company.

BAI Zhongren (白中仁)

47, Executive Director, Vice-President and Chief Economist of our Company. From October 2001 to September 2007, Mr. Bai was the chief economist of CRECG. He was the chairman of China Railway Construction Group (CRCG) Co., Ltd. from November 2006 to January 2008. Since September 2007, he has been the Executive Director, Vice-President and Chief Economist of our Company.

WANG Qiuming (王秋明)

55, Non-executive Director, Deputy Secretary to the Communist Party Committee and Secretary to the Disciplinary Committee of our Company. Mr. Wang is also deputy secretary to the Communist Party Committee and secretary to the Disciplinary Committee of CRECG. From November 1989 to September 2006, he was deputy director and then director of the cadre department of CRECG and also served as deputy chief economist of CRECG from June 2004 to September 2006. Since September 2006, Mr. Wang was deputy secretary to the communist party committee and secretary to the disciplinary committee of CRECG. He was the chairman of China Railway NO.3 Engineering Group Co. Ltd. from April 2007 to January 2008. Since September 2007, Mr. Wang has been the Non-executive Director, Deputy Secretary to the Communist Party Committee and Secretary to the Disciplinary Committee of our Company.

HE Gong (賀恭)

64, Independent Non-executive Director of our Company. Mr. He served as cadre of second hydroelectric engineering department of Yunnan Electric Power Bureau (雲南省電力局水電建設第二工程處幹部), secretary and deputy director of the office of Yunnan Electric Power Department, deputy director and member of the Communist Party Committee of Yunnan Electric Power Industry Bureau, director of preparatory division, director and deputy secretary to the Communist Party Committee of Man Shui Wan Hydroelectric Engineering Management Bureau, deputy general manager and member of the Communist Party Committee of China Three Gorges Project Corporation, deputy general manager and member of the Communist Party Committee of State Electric Power Corporation, and Chairman of Organizing Committee, general manager and secretary to the Communist Party Committee of China Hua Dian Corporation. Mr. He has been an Independent Non-executive Director of our Company since September 2007.

ZHANG Qinglin (張青林)

65, Independent Non-executive Director of our Company. Mr. Zhang is also an external director of China National Real Estate Development Group Corporation, member of the Tenth National Committee of the Chinese People's Political Consultative Conference, head of China Construction Supervision Association, head of Project Management Committee (項目管理和經營管理委員會) of China Construction Industry Association and part-time professor of Institute of International Engineering Project Management of Tsinghua University. He served as secretary to the communist party committee and deputy general manager (equivalent to a deputy minister of Central Authority of the State) of the China State Construction Engineering Corporation from 1993 to 2004. Mr. Zhang was an external director of CRECG from October 2006 to September 2007. Since September 2007, he has been an Independent Non-executive Director of our Company.

GONG Huazhang (貢華章)

62, Independent Non-executive Director of our Company. Mr. Gong is also director of PetroChina Company Limited, chairman of China Petroleum Finance Co., Ltd., independent director of China Southern Airlines Company Limited, director of China Yangtze Power Co., Ltd., member of China Accounting Standards Committee and Valuation Standards Committee under the Ministry of Finance, vice chairman of the Accounting Society of China, standing director of China International Taxation Research Institute, advisor of the Standing Committee of the Price Association of China, vice chairman of China Petroleum Society and a specially invited member of China Appraisal Society. Mr. Gong is a part-time professor of Tsinghua University, Nankai University, Xiamen University, China University of Petroleum and a professor of National Accounting Institute (Beijing). From August 2000 to April 2007, Mr. Gong was a chief accountant and member of the Party Committee of China National Petroleum Corporation, and executive vice chairman of China Petroleum Finance Co., Ltd. Since September 2007, he has been an Independent Non-executive Director of our Company.

WANG Taiwen (王泰文)

61, Independent Non-executive Director of our Company. Mr. Wang is also the external director of China National Foreign Trade Transportation (Group) Corporation. From June 2002 to May 2004, he served as secretary to the communist party committee of China Southern Locomotive Industrial Group Corporation. Mr. Wang served as an external director of CRECG from November 2006 to September 2007. Since September 2007, he has been an Independent Non-executive Director of our Company.

SUN Patrick (辛定華)

48, Independent Non-executive Director of our Company. Mr. Sun is also executive director and chief executive officer of Value Convergence Holdings Limited, and independent non-executive director and chairman of Solomon Systech International Limited. He was a member of Takeovers & Mergers Panel, deputy chairman of the Listing Committee of The Stock Exchange of Hong Kong Limited, member of the Council of the Stock Exchange of Hong Kong Limited. He also served as honorary director of the Chamber of Hong Kong Listed Companies Limited, President and Head of Investment Banking for Hong Kong of JPMorgan. He was an executive director of SW Kingsway Capital Holdings Limited, group executive director and Head of Investment Banking of Greater China of Jardine Fleming Holdings Limited, independent non-executive director of Link Management Limited, and independent non-executive director of Everbright Pramerica Fund Management Co., Ltd. Mr. Sun is currently a member of the general committee of the Chamber of Hong Kong Listed Companies. Since September 2007, he has been an Independent Non-executive Director of our Company.

2. Supervisors

GAO Shutang (高樹堂)

59, Chairman of the Supervisory Committee of our Company. Mr. Gao is also director of CRECG. From May 2001 to September 2006, he was the deputy secretary to the communist party committee and secretary to the disciplinary committee of CRECG. He was chairman of China Railway Electrification Engineering Group Co. from December 2003 to January 2008.He has been a director of CRECG since September 2006 and the Chairman of the Supervisory Committee of our Company since September 2007.

JI Zhihua (季志華)

46, Supervisor and deputy chief engineer of our Company. From October 2001 to August 2005, he served as the deputy chief engineer and director of the planning and operation department of CRECG. He was the deputy chief engineer of CRECG from August 2005 to August 2007. Since September 2007, he has been an employee supervisor of our Company.

ZHANG Xixue (張喜學)

55, Supervisor of our Company. From September 1990 to September 2007, he served as secretary to the general office, head of supervisory department of the disciplinary committee and head of case judgment promotion and education department of disciplinary committee of CRECG. From 2001 to April 2007, he was an employee-representative supervisor of the State-owned Enterprise Supervisory Committee of SASAC. Mr. Zhang has been an employee supervisor of our Company since September 2007.

ZHOU Yuqing (周玉清)

57, Supervisor of our Company. Mr. Zhou is also an employee supervisor of State-owned Enterprise Supervisory Committee of SASAC. From June 2001 to September 2007, he was deputy executive director of the management office of directors and supervisors of CRECG. He has been an employee supervisor of our Company since September 2007.

LIN Longbiao (林隆彪)

50, Supervisor of our Company. Mr. Lin is also an employee supervisor of State-owned Enterprise Supervisory Committee of SASAC. From July 2005 to September 2007, he was director of the audit department of CRECG. He has been an employee supervisor and the director of internal audit department of our Company since September 2007.

3. Senior Management

Biographical details of Mr. Li Changjin and Mr. Bai Zhongren who are the directors and senior management of our Company are mentioned above.

LI Jiansheng (李建生)

53, Vice-President, Chief Financial Officer and General Legal Advisor of our Company. Ms. Li is also chairman of Equity Trust Co., Ltd. She was the chief accountant and general legal advisor of CRECG from December 2002 to September 2007. She has been the Vice-President, Chief Financial Officer and General Legal Advisor of our Company since September 2007.

LIU Hui (劉輝)

48, Vice-President and Chief Engineer of our Company. From April 2001 to September 2007, he served as deputy general manager and chief engineer of CRECG. He has been the Vice-President and Chief Engineer of our Company since September 2007.

YAO Guiqing (姚桂清)

53, Vice-President, Deputy Secretary to the Communist Party Committee and Chairman of the Labour Union of our Company. Mr. Yao is also executive member of Federation of Labour Unions and chairman of China Railway NO.9 Engineering Group Co., Ltd. He was chairman of the labour union of CRECG from February 2001 to October 2004 and deputy secretary to the Communist Party Committee of CRECG from December 2004 to September 2007. He has been chairman of China Railway NO.9 Engineering Group Co., Ltd. since April 2006. He has been deputy secretary to the Communist Party Committee and chairman of the labour union of CRECG, and Vice-President, deputy secretary to the Communist Party Committee and Chairman of the Labour Union of our Company since September 2007.

MA Li (馬力)

50, Vice-President of our Company. He was also general manager and secretary to the Communist Party Committee of China National Overseas Engineering Corporation from March 2002 to March 2004. Mr. Ma served as deputy general manager of CRECG from March 2004 to September 2007. He has been a Vice-President of our Company since September 2007.

ZHOU Mengbo (周孟波)

43, Vice-President of our Company. Mr. Zhou was vice chairman and general manager of China Railway Major Bridge Engineering Group Co., Ltd. from April 2001 to September 2006. Mr. Zhou served as deputy general manager of CRECG from September 2006 to September 2007. He has been a Vice-President of our Company since September 2007.

DAI Hegen (戴和根)

42, Vice-President of our Company. Mr. Dai was general manager and vice chairman of China Railway NO.4 Engineering Group Co., Ltd. from April 2004 to September 2006. He served as deputy general manager of CRECG from September 2006 to September 2007 and became a Vice-President of our Company since September 2007.

DUAN Xiubin (段秀斌)

54, Vice-President of our Company. Mr. Duan is also chairman and secretary to the communist party committee of China Railway Real Estate Group Co., Ltd. From December 2002 to October 2006, Mr. Duan held various positions with China Railway Construction Group (CRCG) Co., Ltd., including general manager, chairman and secretary to the communist party committee. Mr. Duan was deputy general manager of CRECG from October 2006 to September 2007. He has been chairman and secretary to communist party committee of China Railway Real Estate Group Co., Ltd. since February 2007. He has been a Vice-President of our Company since September 2007.

YU Tengqun (于騰群)

38, Secretary to the Board and Joint Company Secretary of our Company. Mr. Yu is also an arbitrator of China International Economic and Trade Arbitration Commission, an arbitrator of Beijing Arbitration Commission, a member of the Rights Protection Committee of China Enterprise Confederation & China Enterprise Directors Association, a member of Legal Expert Panel of China Association of Communication Enterprise Management and a member of Engineering Expert Panel of China International Contractors Association. He was secretary of the board and director of legal affair division from November 2006 to September 2007. Mr. Yu was a supervisor of China Railway Turnout & Bridge Co., Ltd. from 2001 to 2007, a director of China Railway NO. 1 Engineering Group Co., Ltd. from 2003 to 2005, and vice chairman of China Railway NO. 10 Engineering Group Co., Ltd. from 2005 to 2007. Mr. Yu has been the secretary to the Board of our Company since September 2007.

TAM Chun Chung (譚振忠)

35, Qualified Accountant and Joint Company Secretary of our Company. Mr. TAM joined our Company in November 2007. Prior to joining our Company, Mr. Tam served as a qualified accountant and joint company secretary of an H-share listed company in Hong Kong. He had also held various senior positions including senior manager of internal audit and senior manager of finance department in another Hong Kong listed company previously. From 1994 to 2000, Mr. Tam worked for a major international accounting firm as an assistant manager. Mr. Tam has over twelve years of experience in the accounting and audit field. He has been a member of the Hong Kong Institute of Certified Public Accountants since December 1997 and a fellow of the Chartered Association of Certified Accountants since November 2002. Mr. Tam graduated from the Chinese University of Hong Kong in December 1994 majoring in accounting.

Principal Businesses

We are the largest integrated construction group in the PRC and in Asia primarily engaged in the infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, property development and other businesses.

Financial Statements

The profit of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 58 to 140.

Special Distribution

Pursuant to the Provisional Regulations Relating to Corporate Reorganization of Enterprise and Related Management of State-owned Capital and Financial Treatment issued by the Ministry of Finance of the PRC, the board of directors declared a special distribution on 24 April 2008 to our sole promoter, CRECG, in an aggregate amount of RMB2,404,896,000, which is equal to the profits generated during the period from 1 January 2007 to 12 September 2007 as determined in accordance with Chinese Accounting Standards.

Dividends

For the purpose of realizing the continuing growth of the Company, the Company does not recommend a distribution of the profits generated during the period from 13 September 2007 to 31 December 2007. The retained profits will be used for additional working capital and reinvestments in projects.

Donations

Donations made by the Group during the year amounted to RMB16,989,700.

Property, Plant and Equipment

Changes to the property, plant and equipment of the Group and the Company during the year are set out in note 16 to the financial statements.

Share Capital

Details of the Company's share capital are set out in note 35 to the financial statements.

Distributable Reserves

As at 31 December 2007, pursuant to the relevant laws and regulations, the Company's distributable reserves amounted to approximately RMB2,648 million, which included the special dividend of RMB2,404,896,000 declared to be paid to CRECG.

Use of Proceeds from the Initial Public Offering

In 2007, the Company's shares were listed on the Shanghai Stock Exchange and the main board of the Hong Kong Stock Exchange, respectively. A total of 4,675,000,000 A shares were issued at RMB4.80 per share for a total of approximately RMB22,440 million and 3,824,900,000 H shares were issued at HK$5.78 per share for a total of approximately HK$22,108 million. The net proceeds raised from the abovementioned A share offering and the H share offering of the Company, which are approximately RMB21, 930 million and approximately HK$21,374 million respectively, are and will be used in accordance with the purposes disclosed in the A share prospectus of the Company dated 30 November 2007 and the H share prospectus of the Company dated 23 November 2007, respectively.

During the financial year, approximately RMB13,658 million raised from the A share offering of the Company was used for the purposes and approximately in the amounts set out below:

- Approximately RMB2,020 million was used for equipment purchase;
- Approximately RMB1,003 million was used for property development projects: approximately RMB377 million was used for the commercial property development project comprising an underground garage and other commercial properties at the southern square of the West Railway Station in Beijing, and approximately RMB626 million was used for the residential property development project named Zhong Jing Si Ji Hua Cheng in Shijiazhuang; and
- Approximately RMB10,635 million was used for additional working capital and repayment of bank loans.

Approximately RMB8,272 million raised from the A share offering of the Company remains unused, which is deposited in the special bank account of the Company.

Reserves

Changes to the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 61 to 62.

Major Customers and Suppliers

The Ministry of Railways of the PRC ("MOR") is the largest customer of the Group. For the year ended 31 December 2007, sales to the MOR accounted for approximately 43.9% of the total revenue of the Group. For the same period, sales to the five largest customers of the Group (including the MOR) in aggregate accounted for approximately 47% of the total revenue of the Group. At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these five largest customers.

For the year ended 31 December 2007, purchases from the five largest suppliers of the Group in aggregate accounted for less than 30% of the total purchases of the Group in 2007.

Subsidiaries and Associates

Particulars of the Company's principal subsidiaries and the Group's principal associates as at 31 December 2007 are set out in note 48 and note 50, respectively, to the financial statements.

Directors, Supervisors and Senior Management of the Company

The Directors of the Company during the financial year were as follows:

Chairman of the Board and Executive Director:	Mr. SHI Dahua
President and Executive Director:	Mr. LI Changjin
Vice-president and Executive Director:	Mr. Bai Zhongren
Non-executive Director:	Mr. WANG Qiuming
Independent Non-executive Director:	Mr. HE Gong Mr. ZHANG Qinglin Mr. GONG Huazhang Mr. WANG Taiwen Mr. SUN Patrick

The biographical details of the directors of the Company are set out in "Biography of Directors, Supervisors and Senior Management".

Directors' and Supervisors' Interests in Contracts

No contract of significance to which the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Emoluments of the Directors and Supervisors and the Five Highest Paid individuals of the Company

Details of the emoluments of the directors, supervisors and the five highest paid individuals of the Company in 2007 are set out in note 13 of the audited financial statements.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

For the year ended 31 December 2007, none of the Company or the Company's subsidiary or holding company or a subsidiary of the company's holding company was a party to any arrangement to enable the Company's directors, supervisors or their respective spouses or minor children to acquire shares in or debentures of the Company or any other body corporate.

Directors' and Supervisors' Service Contracts

None of the directors and supervisors of the Company has entered into a service contract with the Company or its subsidiaries that is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' Interest and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2007, none of the directors and supervisors of the Company had any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2007, the Company had been informed by the following persons that they had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO:

Holders of A-shares

Name of Substantial Shareholders	Capacity	Number of A Shares held (Shares)	Nature of Interest	Approximate percentage of Issued A Shares (%)	Approximate Percentage of Total Issued Shares (%)
CRECG	Beneficial owner	12,417,510,000	Long position	72.65	58.30

Holders of H-shares

Name of Substantial Shareholders	Capacity	Number of H Shares held (Shares)	Nature of Interest	Approximate percentage of Issued H Shares (%)	Approximate Percentage of Total Issued Shares (%)
National Council for Social Security Fund of the PRC	Beneficial owner	382,490,000	Long position	9.09	1.80
KBC Group N.V. *(Note 1)*	Interest of controlled corporations	379,606,000	Long position	9.02	1.78
	Interest of controlled corporations	18,900,600	Short position	0.44	0.09

Note 1: *According to the Corporate Substantial Shareholder Notice filed by KBC Group N.V. with The Hong Kong Stock Exchange dated 2 January 2008, KBC Group N.V. wholly owns KBC Bank N.V., which in turn wholly owns KBC Investments Hong Kong. Accordingly, KBC Group N.V. is deemed interested in the long position and short position held by KBC Investments Hong Kong as set out above, which are held through a nominee shareholder.*

Apart from the foregoing, as at 31 December 2007, no person or corporation had any interest in the share capital of the Company as recorded in the registers required to be kept under section 336 of the SFO as having an interest of or any short position in the issued share capital of the Company that would fall to be disclosed by the Company under Divisions 2 and 3 of Part XV of the SFO.

Competing Business

None of the Company's directors held any interest in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Group.

Connected Transactions

Continuing Connected Transactions Defined under the Listing Rules

1. *Continuing connected transactions between the Company and CRECG — Social services agreement*

   CRECG is the Company's sole promoter and controlling shareholder and is therefore one of the Company's connected persons under the Listing Rules. Transactions between the Company and/or its subsidiaries and CRECG and/or its associates constitute connected transactions.

   The Company entered into a social services agreement with CRECG on 18 September 2007 (the "Social Services Agreement"), pursuant to which CRECG and/or its associates provide social services to the Group, including health check, vaccination and preventive medical services, on-site medical services, prevention of occupational-illness and other specialist medical services to employees of our Group as well as training to the Group's employees. The medical services provided by CRECG and/or its associates to us are charged at rates which are determined in accordance with relevant regulations or government prescribed standards. In determining the fees for the provision of training, the content of the training, the number of employees attending the training and the training time are taken into account and the fees are determined with reference to market rates such that the fees charged cannot be higher than market rates. The term of the Social Services Agreement commences on the date of the agreement and expires on 31 December 2009. The agreement may be renewed upon agreement of the parties provided the requirements of the Listing Rules in relation to connected transactions are complied with.

   Pursuant to the Listing Rules, the relevant percentage ratio for the above continuing connected transactions is less than 2.5% but more than 0.1% on an annual basis. Accordingly, the above continuing connected transactions are exempted from the independent shareholders approval requirement under the Listing Rules. The Company has obtained a waiver from the Hong Kong Stock Exchange from strict compliance with the announcement requirement set out in Rule 14A.47 of the Listing Rules in respect of the above continuing connected transactions. The maximum aggregate annual value for the year ended 31 December 2007 permitted by the Hong Kong Stock Exchange for the above continuing connected transactions is RMB200.0 million and such cap has been kept.

2. *Continuing connected transactions between the Company and promoter of the company's subsidiaries — Purchase of raw materials from Wuhan Iron and Steel Company Limited ("WISC")*

   WISC is a promoter of China Railway Major Bridge Engineering Group Co., Ltd., an indirect subsidiary of the Company. Accordingly, WISC, as a promoter of one of the Company's subsidiaries, is one of the Company's connected persons under the Listing Rules and transactions between us and WISC and/or its associates constitute connected transactions.

   In the ordinary and usual course of business, the Company's subsidiaries purchase iron and steel products and other raw materials from WISC and its associates. The above raw materials are provided by WISC and its associates to us on normal commercial terms after arm's length negotiation. The price for these raw materials is determined with reference to market price of the relevant products prevailing at the time of purchase. Our subsidiaries will enter into written agreements with WISC or its associates each time it purchases raw materials from WISC or its associates and their tenure will be less than three years.

Pursuant to the Listing Rules, the relevant percentage ratio for the above continuing connected transactions is less than 2.5% but more than 0.1% on an annual basis. Accordingly, the above continuing connected transactions are exempted from the independent shareholders approval requirement under the Listing Rules. The Company has obtained a waiver from the Hong Kong Stock Exchange from strict compliance with the announcement requirement set out in Rule 14A.47 of the Listing Rules in respect of the above continuing connected transactions. The maximum aggregate annual value for the year ended 31 December 2007 permitted by the Hong Kong Stock Exchange for the above continuing connected transactions is RMB600.0 million and such cap has been kept.

In the opinion of the independent non-executive directors, the abovementioned continuing connected transactions with CRECG and WISC (the "Continuing Connected Transactions") were entered into by the Group:

(i) in the ordinary and usual course of its business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors of the Company have reported the factual findings on these procedures to the board of directors.

The board of directors has received a letter from the auditors of the Company stating that the Continuing Connected Transactions:

(i) have received the approval of the Company's board of directors;

(ii) have been entered into in accordance with relevant agreements governing the Continuing Connected Transactions; and

(iii) have not exceeded their respective maximum aggregate annual value set out above for the financial year ended 31 December 2007.

In respect of the Continuing Connected Transactions, the Company has complied with the disclosure requirements under the Listing Rules in force from time to time.

Material Connected Transactions as Defined by PRC Laws and Regulations

Details of the material connected transactions as defined by PRC laws and regulations are set out on pages 145 to 150 of this annual report.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Pre-emptive Rights and Share Option Arrangements

There are no provisions for pre-emptive rights pursuant to the Company's Articles of Association (the "Articles of Association") and the relevant laws and regulations of the PRC. Currently, the Company does not have any arrangement with respect to share option.

Bank and Other Loans

Particulars of bank and other loans of the Group as at 31 December 2007 are set out in note 37 to the financial statements.

Financial Summary

A summary of the audited results and of the audited statements of the assets and liabilities of the Group for the last four financial years is set out on page 3.

Emolument Policy

The Group emphasises the importance of recruiting, incentivising, developing and retaining its staff and paid close attention to the fairness of its remuneration structure. The Company implemented an annual remuneration adjustment policy with reference to market price and performance. Employees' remuneration is comprised of a basic salary, allowances and a performance-based bonus. In accordance with applicable PRC laws, the Group entered into an employment contract with each of its employees. Such contracts include provisions on wages, employee benefits, training programs, health and safety, confidentiality obligations and grounds for termination. Particulars of the employees' remuneration of the Company are set out in note 13 to the financial statements.

In accordance with applicable regulations, the Group make contributions to the employees' pension contribution plan, medical insurance, unemployment insurance, maternity insurance and workers' compensation insurance. The amount of contributions is based on the specified percentages of employees' aggregate salaries as required by relevant PRC authorities. The Group also make contributions to an employee housing fund according to applicable PRC regulations. In addition to statutory contributions, the Group also provide voluntary benefits to current employees and retired employees. These benefits include supplemental medical insurance plans and supplemental pension plans, for both current and retired employees, and annual bonuses for our current employees.

The Company invests in continuing education and training programs for the management staff and technical staff with a view to continuously upgrading their skills and knowledge. In addition to sending some of the top managers overseas for training, the Company also offers management courses to its senior managers and annual project management training for its project managers.

The cash portion of the remuneration of the directors currently consists of a fixed monthly salary and a performance-linked annual bonus. The award of the performance-linked annual bonus is tied to the attainment of key performance indicators or targets. Remuneration of the directors is determined with reference to the prevailing market conditions. The Company's independent non-executive directors did not receive any salary from the Company for the year ended 31 December 2007.

The personnel expenses of the Company for the year ended 31 December 2007 were RMB13.389 billion. As at 31 December 2007, the number of employees hired by the Group was 266,607. The following table sets forth a breakdown of the Group's employees by divisions as at 31 December 2007:

Division	As at 31 December 2007 Number of employees
Production	141,184
Sales and Marketing	20,663
Engineering and Technology	73,735
Financing	12,318
Administration	18,707
Total	266,607

Employee Retirement Benefits

Particulars of the employee retirement benefits of the Group are set out in note 40 to the financial statements.

Public Float

The Company launched its initial public offering in 2007 with its A shares listed on the Shanghai Stock Exchange on 3 December 2007 and its H shares listed on the main board of the Hong Kong Stock Exchange on 7 December 2007.

As at the date of this annual report, the Company has maintained sufficient public float, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

Compliance with the Code on Corporate Governance Practices of the Listing Rules

For details of the Company's corporate governance practices, please refer to the Report on Corporate Governance Practices on pages 48 to 56 of this annual report.

Auditors

The 2007 financial statements of the Company which were prepared in accordance with the International Financial Reporting Standards were audited by Deloitte Touche Tohmatsu, and the financial statements prepared in accordance with the Chinese Accounting Standards were audited by Deloitte Touche Tohmatsu CPA Ltd..

A resolution for the reappointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Ltd. as the international and domestic auditors of the Company shall be proposed at the forthcoming annual general meeting.

By order of the board
SHI Dahua
Chairman

Beijing, the PRC
24 April 2008

Report of Supervisory Committee

On behalf of the Company, I am pleased to present the report of the tasks initiated by the first session of the Supervisory Committee during the reporting period.

The establishment of the Supervisory Committee for the year was approved at the inaugural meeting of our Company on 12 September 2007. There are five supervisors in the Supervisory Committee in total.

1. Workings of Supervisory Committee

On 12 September 2007, the first meeting of the first Supervisory Committee of the Company was held in Beijing Yanfeng Hotel. In compliance with relevant provisions of the Company Law and the Articles of Association, all supervisors of the Company, namely GAO Shutang, JI Zhihua, ZHANG Xixue, ZHOU Yuqing and LIN Longbiao, attended the meeting, which was chaired by GAO Shutang. YU Tengqun and other related persons were also present at the meeting. The Proposal of Election of Chairman of Supervisory Committee of China Railway Group Limited was considered and approved and GAO Shutang was elected as the Chairman of Supervisory Committee of the Company at the meeting.

On 13 September 2007, the second meeting of the first Supervisory Committee of the Company was held in Beijing Yanfeng Hotel. In compliance with relevant provisions of the Company Law and the Articles of Association, all supervisors of the Company, namely GAO Shutang, JI Zhihua, ZHANG Xixue, ZHOU Yuqing and LIN Longbiao, attended the meeting, which was chaired by GAO Shutang. YU Tengqun and other related persons were also present at the meeting. The Terms of Reference for the Supervisory Committee of China Railway Group Limited was considered and approved at the meeting.

2. Independent Opinions of Supervisory Committee on Legal Compliance of the Operations of the Company

During the reporting period, the Company operated in compliance with applicable laws. The operation and procedures for making decisions complied with the related provisions of the Company Law, the Securities Law of the People's Republic of China (the "Securities Law") and the Articles of Association. The Company established a relatively comprehensive internal control system. Directors and President of the Company prudently and diligently fulfilled their responsibilities and no actions were noted which may result in a breach of laws or regulations or the Articles of Association and which may damage the interests of the Company and the shareholders.

3. Independent Opinions of Supervisory Committee on Inspection of the Financial Position of the Company

During the reporting period, the Supervisory Committee supervised and inspected the financial policies and financial position of the Company, and was of the opinion that the internal control over financial reporting was adequate without substantial omission or fraud.

4. Independent Opinions of Supervisory Committee on the Actual Use of the Listing Proceeds

During the reporting period, the listing proceeds were used by the Company pursuant to its commitments. The Supervisory Committee was of the opinion that the use of proceeds was in compliance with relevant provisions of laws, regulations and the Articles of Association and the Company did not conduct any action which would damage the interests of the Company and the shareholders. The Supervisory Committee of the Company will continue to supervise and inspect the progress of the projects.

5. Independent Opinions of Supervisory Committee on Material Acquisition and Disposal of Assets by the Company

During the reporting period, the Company did not conduct any material acquisition or disposal of assets or any mergers.

6. Independent Opinions of Supervisory Committee on the Connected Transactions of the Company

The Supervisory Committee was of the opinion that, during the reporting period, the connected transactions of the Company were fair, open and just, and neither insider dealing nor the issues were noted which may damage the interests of the Company and the shareholders.

GAO Shutang
Chairman of Supervisory Committee

Beijing, the PRC
24 April 2008

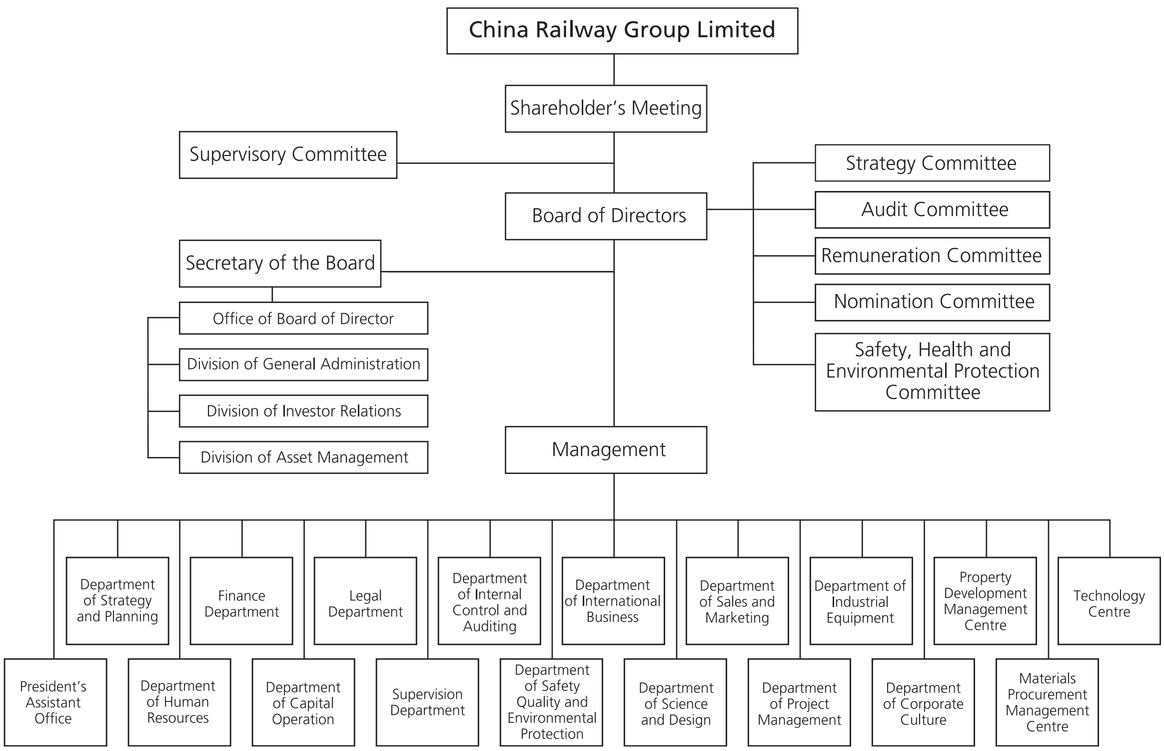
Report on Corporate Governance Practices

Overview

The Company was incorporated on 12 September 2007 and became listed on the Shanghai Stock Exchange and the Main Board of the Hong Kong Stock Exchange on 3 December 2007 and 7 December 2007, respectively. During the reporting period, the Company complied with the laws and regulations of the places where it operates its business as well as the regulations and guidelines stipulated by regulatory authorities such as the China Securities Regulatory Commission, the Hong Kong Securities and Futures Commission, the Shanghai Stock Exchange and the Hong Kong Stock Exchange. The Company's goal is to ensure the sustainable long-term development of the Company and to generate greater returns for shareholders. The Board of Directors believes that, in order to achieve this goal, the Company must maintain and implement corporate governance principles and structures that are credible, transparent, open and effective. For this reason, we have taken various measures to achieve an effective board of directors, including establishing five board committees, namely, the Strategy Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety, Health and Environmental Protection Committee. Moreover, the Company has set up 19 functional departments. We have adopted internal working procedures to ensure accurate and timely information disclosure in accordance with the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as well as the requirements under the relevant PRC laws and regulations. As a newly listed company, the Company will continue to adopt measures to refine its corporate governance structures, such as further enhancing its internal controls and procedures on information disclosure and financial reporting.

Corporate Governance Framework

Pursuant to the requirements of the Company Law, the Securities Law, the Listing Rules and other relevant laws and regulations, the Company established its corporate governance structure which comprises of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and senior management.



Compliance with the Code Provisions of the Code on Corporate Governance Practices

As a company listed on the main board of the Hong Kong Stock Exchange, the Company is committed to uphold the principles of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Company complied with all code provisions of the Code on Corporate Governance Practices throughout the period from 7 December 2007 to 31 December 2007.

Shareholders' General Meeting

The Shareholders' General Meeting is an organ of power of the Company. In accordance with the requirements of the Company Law, the Securities Law and other relevant laws and regulations, the Company fomulated the Articles of Association and the Terms of Reference for the Shareholders' General Meeting to regulate the convening and voting procedures for shareholders' general meetings.

During the reporting period, the Company convened and held one extraordinary shareholders' general meeting before its listing, at which a total of 14 resolutions were passed. The meeting was convened in compliance with the relevant legal procedures which safeguarded shareholders' participation and exercise of rights.

The Board of Directors

(1) Composition of the Board of Directors

The Company's Board of Directors consists of nine Directors, including three Executive Directors, one Non-executive Director and five Independent Non-executive Directors. Current members of the Board are as follows:

Chairman of the Board and Executive Director:	Mr. SHI Dahua
President and Executive Director:	Mr. LI Changjin
Vice-president and Executive Director:	Mr. BAI Zhongren
Non-executive Director:	Mr. WANG Qiuming
Independent Non-executive Directors:	Mr. HE Gong, Mr. ZHANG Qinglin, Mr. GONG Huazhang, Mr. WANG Taiwen and Mr. SUN Patrick

There were no material financial, business, family or other relationship among members of the Board of Directors.

The majority of the members of the Board are Independent Non-executive Directors. The Company has received confirmation on independence from each of the Independent Non-executive Directors and the Company considers each Independent Non-executive Director as independent.

Pursuant to the Articles of Association, the term of office of Directors (including Non-executive Director and Independent Non-executive Directors) is three years which is renewable upon re-election and each Independent Non-executive Director shall not serve that position for more than six years continuously in order to ensure his independence.

(2) Board Meetings

In 2007, the Company held five board meetings, two of which were convened by way of telephone meeting. At the board meeting held on 13 September 2007, the board passed a series of resolutions with respect to the initial public offering of the Company's A shares and H shares and the listing of the Company on the Shanghai Stock Exchange and the main board of the Hong Kong Stock Exchange. The initial public offering of the Company's A shares and H shares made it a forerunner of listing of A shares and H shares in way of "A then H". At the five meetings convened during the year, the board also discussed and passed a number of resolutions which significantly impact on the business development of the Company, including a number of resolutions with respect to investments in certain property development projects and BOT/BT construction projects.

The table below sets out the details of board meeting attendance of each Director in 2007.

Director	Number of board meetings attended
SHI Dahua	5/5
LI Changjin	5/5
BAI Zhongren	5/5
WANG Qiuming	5/5
HE Gong	5/5
ZHANG Qinglin	5/5
GONG Huazhang	5/5
WANG Taiwen	5/5
SUN Patrick	5/5

(3) Responsibilities and Operation of the Board of Directors

The responsibilities of the Board of Directors are, among other things, convening shareholders' general meetings and reporting its work to shareholders at such meetings, implementing resolutions of shareholders' general meetings, making decisions on business strategies, business plans and material investment plans, formulating proposed annual financial budgets and final accounts, formulating profit distribution plans and if applicable, plans for making up losses previously incurred, formulating plans relating to the increase or reduction of our Company's registered capital, the issuance of corporate bonds or other securities and where applicable, the listing of such securities, deciding on the organization of the Company's internal management, and exercising any other powers conferred by shareholders' meetings or under the Articles of Association.

There are currently five committees established under the Board of Directors, being Strategy Committee, Audit Committee, Remuneration Committee, Nomination Committee and Safety, Health and Environmental Protection Committee. Each committee has its terms of reference which are available on the Company's website www.crec.cn.

The roles of the Chairman of the Board and President of the Company are performed by separate persons and the division of power between the Board of Directors and senior management strictly complies with the Articles of Association and relevant regulations. The Board formulates overall strategy of the Company and monitors its financial performance. The management of the Company is responsible for implementing the strategy and direction as determined by the Board, and is delegated with daily operations and administration of the Company. The Chairman of the Board is responsible for leading the Board of Directors. Pursuant to the Articles of Association, the President is delegated with the authority to, among other things, oversee the operation and management of the Company, implement Board decisions, carry out investment plans, and formulate the management system of the Company.

(4) Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for securities transactions by its Directors and Supervisors. After specific enquiries to all Directors and Supervisors of the Company, the Company confirms that the Directors and Supervisors complied with the standards set out in the Model Code for the period commencing from the date of listing of the Company on the Hong Kong Stock Exchange to the end of the year.

(5) Committees under the Board

(a) *Strategy Committee*

The primary responsibilities of the Strategy Committee include, among other things, reviewing proposals and making recommendations to the Board regarding the Company's strategic development plans, annual budgets, capital allocation plans, major mergers and acquisitions, major investments and financing plans, and significant internal reorganisations. The Strategy Committee comprises Mr. GONG Huazhang and Mr. WANG Taiwen who are Independent Non-executive Directors, Mr. SHI Dahua, Mr. LI Changjin and Mr. BAI Zhongren who are Executive Directors and is chaired by Mr. SHI Dahua.

No meeting was held by the Strategy Committee during the period from the listing of the Company to the end of 2007 as the Company only became listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange in December 2007.

(b) *Audit Committee*

The primary responsibilities of the Audit Committee are,

- making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;

- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- monitoring the integrity of the financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports, and reviewing significant financial reporting judgments contained in such reports; and

- overseeing the Company's financial reporting system and internal control procedures, including but not limited to, review of financial control, internal control and risk management systems, consideration of actions to be taken in respect of any findings of major investigations of internal control matters as delegated by the Board or at its own initiative and management's response thereto, and review of the Group's financial and accounting policies and practices.

The Audit Committee comprises Mr. GONG Huazhang and Mr. SUN Patrick who are Independent Non-executive Directors and Mr. WANG Qiuming who is a Non-executive Director. The Audit Committee is chaired by Mr. GONG Huazhang.

No meeting was held by the Audit Committee during the period from the listing of the Company to the end of 2007.

(c) *Remuneration Committee*

The primary responsibilities of the Remuneration Committee are,

- making recommendations to the Board on the Company's policy and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent process for developing policy on such remuneration;

- to have the delegated responsibility to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board in relation to the remuneration of Non-executive Directors;

- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; and

- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee comprises Mr. ZHANG Qinglin, Mr. HE Gong and Mr. SUN Patrick who are Independent Non-executive Directors, Mr. BAI Zhongren who is an Executive Director and Mr. WANG Qiuming who is a Non-executive Director. The Remuneration Committee is chaired by Mr. ZHANG Qinglin.

No meeting was held by the Remuneration Committee during the period from the listing of the Company to the end of 2007.

The emolument payable to directors, supervisors and senior management members will depend on their respective contractual terms under employment contracts. Details of the remuneration of directors and supervisors are set out in note 13 to the financial statements.

(d) *Nomination Committee*

The primary responsibilities of the Nomination Committee include, among other things, making recommendations to the Board on the appointment and removal of senior officers of the Company. The Nomination Committee comprises Mr. HE Gong, Mr. ZHANG Qinglin and Mr. WANG Taiwen who are Independent Non-executive Directors, Mr. WANG Qiuming who is a Non-executive Director and Mr. LI Changjin who is an Executive Director. The Nomination Committee is chaired by Mr. HE Gong.

No meeting was held by the Nomination Committee during the period from the listing of the Company to the end of 2007.

The Nomination Committee nominates candidates for director elections in accordance with the formalities and procedures stipulated in the Articles of Association and the terms of reference of the Nomination Committee. The Nomination Committee considers candidates for directorship based on the qualification, ability and experience of the individual candidates.

(e) *Safety, Health and Environmental Protection Committee*

The primary responsibilities of the Safety, Health and Environmental Protection Committee include, among other things, making recommendations to the Board regarding matters relating to safe construction, employees' health and environmental protection. The Safety, Health and Environmental Protection Committee comprises Mr. ZHANG Qinglin, Mr. HE Gong and Mr. WANG Taiwen who are Independent Non-executive Directors and Mr. LI Changjin and Mr. BAI Zhongren who are Executive Directors and is chaired by Mr. LI Changjin.

No meeting was held by the Safety, Health and Environmental Protection Committee during the period from the listing of the Company to the end of 2007.

Supervisory Committee

The primary responsibilities of the Supervisory Committee are,

- supervising the performance by Directors and senior management members of their duties, and proposing removal of Directors or senior management members who have violated laws and regulations, the Articles of Association or resolutions of shareholders' general meetings;
- requesting Directors and senior management members to rectify any actions damaging the Company's interests;
- examining the Company's financial matters;
- making proposals in relation to the convening of extraordinary shareholders' general meetings, and convening and presiding over shareholders' general meetings in case the Board of Directors fails to perform its duty of convening and presiding over shareholders' general meetings under the Company Law;
- making proposals for shareholders' general meetings; and
- making proposals in relation to the convening of interim meetings of the Board of Directors other than regular meetings.

The Supervisory Committee of the Company consists of five members, being Mr. JI Zhihua, Mr. ZHANG Xixue, Mr. ZHOU Yuqing and Mr. LIN Longbiao who are representatives of the employees and Mr. GAO Shutang, who is the Chairman of the Supervisory Committee. The Supervisory Committee has detailed terms of reference that specifically define its responsibilities, ensuring that the Supervisory Committee operates in a compliant and efficient manner. The terms of office for the supervisors are three years which is renewable upon re-election.

In 2007, the Supervisory Committee held two meetings, at which Mr. GAO Shutang was elected as the chairman of the Committee and the Terms of Reference of the Supervisory Committee was adopted. All members of the Supervisory Committee attended the meetings. For more information of the Supervisory Committee, please refer to the Report of Supervisory Committee.

Relationship with the Controlling Shareholder

CRECG is the Company's controlling shareholder. The Company is independent from CRECG in respect of its staff, assets, finance, organisational structure and operation. Except for the Chairman and Executive Director of the Company, Mr. SHI Dahua, who also serves as the chairman of CRECG, the President and Executive Director of the Company, Mr. LI Changjin, who also serves as a director of CRECG and the Chairman of the Supervisory Committee, Mr. GAO Shutang who also serves as a director of CRECG, none of the directors, supervisors or senior management of the Company hold any positions with CRECG or receive any salary from CRECG and/or its associates. Notwithstanding that both SHI Dahua and LI Changjin (collectively the "overlapping directors") act as directors of CRECG and the Company, they are not involved in the day to day management of CRECG and have the capacity to commit to the management of the Company on a full-time basis. Moreover, the overlapping directors represent a minority in the Company's Board of Directors which consists of nine members. The Board also has five independent non-executive directors, which ensures that the interests of the Company and shareholders are protected. The Company also have its own financial management system and related personnel who are independent from CRECG.

The Company entered into a non-competition agreement with CRECG on 18 September 2007 and received a non-competition undertaking dated 18 September 2007 from CRECG. CRECG has confirmed to the Company that for the year 2007, it had complied with such non-competition agreement and non-competition undertaking.

Auditors' Remuneration

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Ltd. (collectively the "External Auditors") are appointed as the international and domestic auditors of the Company, respectively.

Fees for the audit of the financial statements of the Group for the year ended 31 December 2007 paid to the External Auditors in aggregate are RMB117.8 million, of which RMB99.8 million represents audit fees paid in relation to the audit for the initial public offering and listing of the Company, RMB15 million represents annual audit fees paid to Deloitte Touche Tohmatsu Certified Public Accountants Limited, and RMB3 million represents fees paid to Deloitte Touche Tohmatsu as the annual audit fee.

The External Auditors did not provide any material non-audit services to the Group in the year.

The Board of Directors proposes to re-appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Ltd. as the international and domestic auditors of the Company for the year 2008, which has been discussed and approved by the Audit Committee and is subject to shareholders' approval at the forthcoming annual general meeting.

Information Disclosure

Joint Company Secretaries and the Secretary of the Board are in charge of information disclosure affairs of the Company. During the reporting period, the Company adopted relevant management measures for information disclosure to ensure accurate and timely information disclosure in both domestic and Hong Kong markets in accordance with the requirements under the Listing Rules and the Stock Listing Rules of the Shanghai Stock Exchange, as well as the requirements under the relevant PRC laws and regulations.

Internal Control

The Company has established internal control systems with a view to improve the effectiveness of the operation of the Company's businesses. In preparation for the Company's Global Offering and A Share Offering in 2007, the Board engaged a consulting company to conduct an internal control assessment of the Group, which covers, among other things, corporate governance, financial and audit, operational and compliance controls and risk management functions. Based on the internal control assessment report issued by the consulting company, the Directors reviewed the effectiveness of the system of internal control of the Group.

To protect its assets and to ensure the accuracy and reliability of the financial information that the Company employs in its business or releases to the public, the Company is in the process of refining its internal control systems. During the year, the Company adopted various measures to improve its internal control systems, such as setting up special committees under the Board to improve the corporate governance, formulating policies on disclosure control, internal audit and project management, adopting measures and procedures for the management of investments, guarantees and connected transactions in accordance with applicable regulations and the Articles of Association, and refining the supervisory systems for quality inspection and safety control.

Accountability of the Directors in Relation to Financial Statements

The Directors are responsible for overseeing the preparation of financial statements. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected appropriate accounting policies and applied them consistently and made prudent and reasonable judgment and estimates so as to give a true and fair view of the state of affairs of the Group and of the results and cash flow for that fiscal year.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 57.

Investor Relations

The Company place great emphasis on the importance of communicating with investors actively and effectively. Based on the principles of honesty, fairness and two-way communication, the Company conducts accurate, timely, clear and interactive communication with investors on the Company's strategic plan, corporate governance, business performance, financial position and development prospect so as to maintain the transparency of corporate governance. The Directors believe that regular and open communications and interactions with investors will improve shareholders' understanding of the Company, enhance shareholders' confidence in the Company and benefit the Company's operation, which will further improve the Company's abilities to generate greater returns for shareholders.

In 2007, by means of road show, large-scale promotion activities and other communication activities with investors, the Company became successfully listed on the Shanghai Stock Exchange and the main board of the Hong Kong Stock Exchange, and won the award of "2007 Top 10 Favourite Hong Kong IPO Companies"

In order to provide investors with sound services, the Company formulated the Management Measures on Investor Relations to regulate the daily affairs in relation to the management of investor relations. In addition, the Company set up the division of investor relations which is responsible for the management of investor relations. The company adopted various measures to enhance the interactive communications with investors, such as setting up reception offices to welcome visits of investors, replying to investors' queries, setting up and maintaining the website of the Company, answering the investor hotlines and reading emails from investors. Since its dual listing on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the Company has welcomed visitors for approximately 300 person-times, arranged on-site visits for approximately 100 person-times, answered investor hotlines for more than 700 person-times and replied more than 100 emails from investors. The management of the Company also actively participated in a number of international investment forums organised by major investment banks, and meetings with investors and analysts.

Continuous Evolvement of Corporate Governance

The Company will closely study the development of corporate governance practices among the world's leading corporations and the requirements of the investing community continuously. We will also review and strengthen our corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.

Independent Auditor's Report

TO THE MEMBERS OF CHINA RAILWAY GROUP LIMITED
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Railway Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 140, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB million	2006 RMB million
Revenue	6 & 7	**173,751**	153,568
Cost of sales		**(161,108)**	(141,647)
Gross profit		**12,643**	11,921
Other income	8	**1,183**	581
Selling and marketing expenses		**(930)**	(731)
Administrative expenses		**(9,362)**	(8,089)
Gains on disposal of interests in subsidiaries	9	**616**	363
Interest income	10	**981**	647
Interest expenses	10	**(1,850)**	(1,253)
Share of losses of jointly controlled entities		**(3)**	(50)
Share of profits (losses) of associates		**11**	(2)
Profit before taxation		**3,289**	3,387
Income tax expense	11	**(529)**	(648)
Profit for the year	12	**2,760**	2,739
Attributable to:			
Equity holders of the Company		**2,423**	2,046
Minority interests		**337**	693
		2,760	2,739
Dividend/Distributions	14	**—**	1,117
Earnings per share (Basic)	15	**RMB0.181**	RMB0.160

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 RMB million	2006 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	*16*	**18,288**	15,326
Deposit for acquisition of property, plant and equipment		**683**	187
Lease prepayments	*17*	**6,091**	2,020
Deposit for land use rights		**14**	—
Investment properties	*18*	**794**	152
Intangible assets	*19*	**7,074**	2,329
Mining assets	*20*	**46**	48
Interests in jointly controlled entities	*21*	**651**	514
Interests in associates	*22*	**2,591**	879
Goodwill	*23*	**779**	189
Available-for-sale financial assets	*24*	**2,908**	864
Held-to-maturity financial assets	*25*	**—**	106
Other loans and receivables	*26*	**989**	656
Deferred income tax assets	*41*	**1,925**	1,883
Other prepayments		**14**	8
Other receivables	*29*	**79**	—
		42,926	25,161
Current assets			
Lease prepayments	*17*	**106**	39
Properties held for sale	*27*	**665**	683
Properties under development for sale	*27*	**11,246**	3,929
Inventories	*28*	**10,407**	8,612
Trade and other receivables	*29*	**63,318**	52,233
Amounts due from customers for contract work	*30*	**27,021**	20,099
Held-to-maturity financial assets	*25*	**—**	74
Other loans and receivables	*26*	**272**	948
Held-for-trading financial assets	*31*	**166**	10
Restricted cash	*32*	**2,170**	1,523
Cash and cash equivalents	*33*	**56,726**	29,721
		172,097	117,871
Non-current assets held for sale	*34*	**—**	61
		172,097	117,932
Total assets		**215,023**	143,093

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 RMB million	2006 RMB million
EQUITY			
Equity attributable to the equity holders of the Company		**55,254**	6,999
Minority interests		**3,493**	3,514
Total equity		**58,747**	10,513
LIABILITIES			
Non-current liabilities			
Other payables	*36*	**233**	207
Borrowings	*37*	**10,239**	5,100
Obligations under finance lease	*38*	**69**	—
Financial guarantee contracts	*39*	**77**	21
Retirement and other supplemental benefit obligations	*40*	**8,650**	9,449
Deferred income government grant		**209**	107
Deferred income tax liabilities	*41*	**315**	187
		19,792	15,071
Current liabilities			
Trade and other payables	*36*	**95,838**	78,477
Amounts due to customers for contract work	*30*	**11,144**	9,222
Current income tax liabilities		**536**	387
Borrowings	*37*	**28,527**	29,089
Obligations under finance lease	*38*	**44**	—
Financial guarantee contracts	*39*	**10**	22
Retirement and other supplemental benefit obligations	*40*	**385**	312
		136,484	117,509
Total liabilities		**156,276**	132,580
Total equity and liabilities		**215,023**	143,093
Net current assets		**35,613**	423
Total assets less current liabilities		**78,539**	25,584

The consolidated financial statements on pages 58 to 140 were approved and authorised for issue by the board of directors on 24 April 2008.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Equity attributable to the equity holders of the Company									
	Share capital RMB million (Note 35)	Share premium RMB million	Capital reserve RMB million	Statutory reserves RMB million (Note (b))	Exchange translation reserve RMB million	Investment revaluation reserve RMB million	Contributed capital and accumulated profits RMB million (Note (c))	Total RMB million	Minority interests RMB million	Total equity RMB million
At 1 January 2006	—	—	—	—	(9)	4	4,758	4,753	4,493	9,246
Exchange differences arising on translation of foreign operations	—	—	—	—	(1)	—	—	(1)	(1)	(2)
Change in fair value of available-for-sale financial assets, net of deferred tax	—	—	—	—	—	4	—	4	1	5
Net (expense) income recognised directly in equity	—	—	—	—	(1)	4	—	3	—	3
Profit for the year	—	—	—	—	—	—	2,046	2,046	693	2,739
Total recognised income and expenses	—	—	—	—	(1)	4	2,046	2,049	693	2,742
Dividend declared to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(414)	(414)
Acquisition of subsidiaries *(Note 42)*	—	—	—	—	—	—	—	—	14	14
Disposal of subsidiaries *(Note 43)*	—	—	—	—	—	—	—	—	(4)	(4)
Purchase of additional interests in subsidiaries	—	—	—	—	—	—	—	—	(40)	(40)
Minority interests in subsidiaries collectively held by employees assigned to the Company *(Note 1)*	—	—	—	—	—	—	1,314	1,314	(1,314)	—
Distribution of assets to China Railway Engineering Corporation ("CRECG") *(Note 1)*	—	—	—	—	—	—	(1,117)	(1,117)	(1)	(1,118)
Capital contribution	—	—	—	—	—	—	—	—	87	87
At 31 December 2006	—	—	—	—	(10)	8	7,001	6,999	3,514	10,513
Exchange differences arising on translation of foreign operations	—	—	—	—	(14)	—	—	(14)	1	(13)
Change in fair value of available-for-sale financial assets, net of deferred tax	—	—	—	—	—	885	—	885	125	1,010
Net (expense) income recognised directly in equity	—	—	—	—	(14)	885	—	871	126	997
Profit for the year	—	—	—	—	—	—	2,423	2,423	337	2,760
Total recognised income and expenses	—	—	—	—	(14)	885	2,423	3,294	463	3,757
Issue of shares and distribution pursuant to Group Reorganization *(Note 1)*	12,800	—	(6,626)	—	—	—	(6,346)	(172)	—	(172)
Issue of shares upon initial public offering	8,500	34,912	—	—	—	—	—	43,412	—	43,412
Share issue expenses	—	(1,265)	—	—	—	—	—	(1,265)	—	(1,265)
Capital contribution by CRECG *(Note 19 (a))*	—	—	2,787	—	—	—	—	2,787	—	2,787
Dividend declared to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(276)	(276)
Acquisition of subsidiaries *(Note 42)*	—	—	—	—	—	—	—	—	269	269
Disposal of subsidiaries *(Note 43)*	—	—	—	—	—	—	—	—	(58)	(58)
Purchase of additional interests in subsidiaries from employees *(Note 1)*	—	—	259	—	—	—	—	259	(2,153)	(1,894)
Capital contribution from increase in tax base of lease prepayments	—	—	32	—	—	—	—	32	—	32
Purchase of additional interests in a subsidiary *(Note (a))*	—	—	(92)	—	—	—	—	(92)	(3)	(95)
Capital contribution	—	—	—	—	—	—	—	—	1,761	1,761
Disposal of partial interests in a subsidiary *(Note 9)*	—	—	—	—	—	—	—	—	(24)	(24)
Transfer to reserves *(Note (b))*	—	—	84	346	—	—	(430)	—	—	—
At 31 December 2007	21,300	33,647	(3,556)	346	(24)	893	2,648	55,254	3,493	58,747

Notes:

(a) *During the year ended 31 December 2007, the Group has acquired additional interest in a subsidiary involved in mining activities. The amount of approximately RMB92 million debited under owner's equity represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiary being acquired from the minority shareholder, which will be recognised in the income statement upon the earlier of the disposal of the subsidiary or the disposal by the subsidiary of the assets to which it relates.*

(b) *Statutory reserves at 31 December 2007 and transferred from retained profits during the year represent statutory surplus reserve of RMB326 million, trust compensation reserve of RMB4 million and general risk reserve of RMB16 million.*

According to relevant laws and regulations of the People's Republic of China (the "PRC"), an entity established under the PRC Companies Law is required to make an appropriation at ten percent of the profit for the year as shown in the PRC statutory financial statements, prepared in accordance with the PRC accounting standards, to the statutory surplus reserve fund until the balance reached 50 percent of the registered capital of that entity. The reserve appropriated can only make up the losses or use to increase the registered capital of that entity and is not distributable.

Certain items recognised as income and expenses in the consolidated financial statements are dealt with directly in the capital reserves of the Group in the Company's statutory consolidated financial statements prepared in accordance with the relevant Chinese Accounting Standards. Accordingly, the directors of the Company have resolved to transfer the net effect of these items of RMB84 million to capital reserves of the Group.

(c) *Pursuant to the Provisional Regulations Relating to Corporate Reorganisation of Enterprise and Related Management of State-owned Capital and Financial Treatment issued by the Ministry of Finance and a resolution passed in the first meeting of shareholders of the Company in 2007, a special distribution will have to be paid by the Company to CRECG in an amount equal to the consolidated net profit of the Company, as determined in accordance with PRC accounting standards, for the period from the date of assessment of the valuation of the Group's assets on 31 December 2006 to the date of incorporation of the Company on 12 September 2007. The Directors of the Company has determined this amount to be RMB2,405 million. Under the relevant laws and regulations in the PRC, such special distribution will be declared when the Company has sufficient distributable profit in its retained earnings.*

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 RMB million	2006 RMB million
Operating activities			
Profit before taxation		**3,289**	3,387
Adjustments for:			
Interest income		**(981)**	(647)
Dividend income from unlisted investments		**(9)**	(5)
(Gains) losses on disposal and/or write-off of:			
Property, plant and equipment		**31**	24
Lease prepayments		**—**	(66)
Available-for-sale financial assets		**(22)**	(49)
Non-current assets held for sale		**(31)**	—
Interests in subsidiaries		**(616)**	(363)
Interests in associates		**4**	—
Foreign exchange losses, net		**245**	—
Fair value increase on held-for-trading financial assets		**(24)**	(12)
Gain on early redemption of receivables		**(136)**	—
Waiver of borrowings		**—**	(25)
Waiver of trade and other payables		**(75)**	(11)
Discount on acquisition of a subsidiary		**(34)**	(9)
Discount on acquisition of additional interests in subsidiaries		**(58)**	—
Impairment losses recognised (reversed) on:			
Property, plant and equipment		**14**	—
Available-for-sale financial assets		**9**	(4)
Interests in associates		**6**	—
Trade and other receivables		**163**	229
Other loans and receivables		**3**	—
Allowance on properties held for sale		**—**	2
Allowance for foreseeable losses on construction contracts		**301**	111
Provision for legal costs		**—**	1
Amortisation of deferred financial guarantee contracts		**(47)**	(1)
Financial guarantee released to income upon cancellation of a guarantee		**(3)**	—
Interest expenses		**1,850**	1,253
Share of losses of jointly controlled entities		**3**	50
Share of (profits) losses of associates		**(11)**	2
Charge to retirement benefit obligations		**312**	349
Government grants credited to income		**(21)**	(40)
Depreciation and amortisation		**2,959**	2,486
Write-off of goodwill		**6**	—
Unrealised profit in interests in associates		**7**	—
Operating cash flows before movements in working capital		**7,134**	6,662
Movements in working capital:			
Increase in other prepayments		**(6)**	(1)
Increase in properties held for sale		**(340)**	(199)
Increase in properties under development for sale		**(4,225)**	(1,830)
Increase in inventories		**(1,718)**	(2,072)
Increase in trade and other receivables		**(9,763)**	(11,108)
Increase in amounts due from customers for contract work		**(7,129)**	(7,123)
Decrease in retirement and supplemental benefit obligations		**(1,038)**	(898)
Increase in trade and other payables		**15,684**	22,113
Increase in amounts due to customers for contract work		**1,922**	2,977
Increase in government grants for operating expenses		**44**	7
Net cash inflows from operations		**565**	8,528
Income tax paid		**(544)**	(285)
Net cash generated from operating activities		**21**	8,243

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 RMB million	2006 RMB million
Investing activities			
Purchase of property, plant and equipment		**(5,754)**	(5,158)
Deposit for acquisition of property, plant and equipment		**(683)**	(187)
Government grants received for acquisition of property, plant and equipment		**79**	29
Disposal of property, plant and equipment		**16**	441
Deposit paid for land use rights		**(14)**	—
Increase in other payables		**—**	257
Acqusition of new lease prepayments		**(920)**	(417)
Disposal of lease prepayments		**53**	238
Purchase of investment properties		**(63)**	(1)
Disposal of investment properties		**—**	37
Purchase of intangible assets		**(3,621)**	(1,436)
Disposal of intangible assets		**25**	73
Purchase of mining assets		**(1)**	(48)
Acquisition of subsidiaries	*42*	**(655)**	(10)
Acquisition of additional interest in subsidiaries		**(2,453)**	(40)
Disposal of subsidiaries	*43*	**65**	(679)
Consideration received from disposal of subsidiary in prior year		**56**	—
Investments in jointly controlled entities		**(195)**	(263)
Disposal of interests in jointly controlled entities		**18**	—
Disposal of non-current assets held for sale		**40**	—
Investments in associates		**(1,804)**	(556)
Disposal of interests in associates		**50**	7
Purchase of available-for-sale financial assets		**(808)**	(89)
Disposal of available-for-sale financial assets		**173**	116
Purchase of held-to-maturity financial assets		**—**	(50)
Redemption of held-to-maturity financial assets		**55**	52
New other loans and receivables		**(944)**	(1,129)
Recovery of other loans and receivables		**1,276**	452
Interest received		**710**	551
Dividends received from jointly controlled entities and associates		**6**	18
Dividends received from other financial assets		**9**	5
Partial disposal of a subsidiary		**494**	—
Net increase in restricted cash		**(647)**	(452)
(Increase) decrease in held-for-trading financial assets		**(132)**	157
Net cash used in investing activities		**(15,569)**	(8,082)
Financing activities			
Issue of shares, net of share issue expenses		**42,298**	—
Distribution of assets to CRECG		**—**	(4)
Capital contributions from minority interests		**1,761**	87
New borrowings		**45,491**	36,726
Repayment of borrowings		**(43,961)**	(21,526)
Interest paid		**(2,266)**	(1,413)
Dividends to minority shareholders of subsidiaries paid		**(287)**	(429)
Distributions to former minority shareholders of subsidiaries		**(172)**	—
Net cash generated from financing activities		**42,864**	13,441
Net increase in cash and cash equivalents		**27,316**	13,602
Effect of foreign exchange rate changes		**(311)**	—
Cash and cash equivalents at the beginning of the year		**29,721**	16,119
Cash and cash equivalents at the end of the year		**56,726**	29,721

1. Group reorganisation

The Company was established in PRC on 12 September 2007 as a joint stock company with limited liability. The Company's A Shares were listed on Shanghai Stock Exchange on 3 December 2007 and the Company's H Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 7 December 2007. The details of A Shares and H Shares are set out in Note 35. The address of the Company's registered office is No. 1 Xinghuo Road, Fengtai District, Beijing, the PRC. The Company's ultimate holding company is China Railway Engineering Corporation ("CRECG"), incorporated in the PRC.

Prior to establishment of the Company, the operations of infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, property development and other businesses were carried out by entities owned or controlled by CRECG.

Pursuant to a reorganisation agreement dated 18 September 2007 (the "Reorganisation"), the equity interests in various subsidiaries of CRECG which carry out the principal operations and businesses of CRECG (the "Core Operations") were transferred to the Company which include:

(i) all operating assets and liabilities relating to the infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing and property development;

(ii) substantially all other core operating assets and liabilities relating to other business operations of CRECG;

(iii) contractual rights and obligations relating to the businesses, assets and equity interests transferred to the Company;

(iv) employees (including their personnel files and records and date with respect to their remuneration and other benefits and related liabilities) relating to the businesses, assets and equity interests transferred to the Company;

(v) qualifications, licenses and approvals relating to the businesses, assets and equity interests transferred to the Company;

(vi) rights to claim and set-off against third parties and other similar rights in connection with the business and assets and equity interests transferred to the Company; and

(vii) data, books and/or records relating to business, accounting, finance, technology, research and development and all other know-how relating to the business transferred to the Company.

In consideration for CRECG transferring the above Core Operations to the Company, the Company issued 12.8 billion ordinary shares of RMB1.00 per share to CRECG. After the transfer, the Company became a holding company of the Group. The shares issued to CRECG represented the then entire registered and paid share capital of the Company.

1. Group reorganisation (continued)

Certain operating assets and liabilities with a net asset value of RMB1,117 million historically associated with the Core Operations of CRECG, that were retained by CRECG, have been reflected as a distribution to CRECG on 31 December 2006. Details of the net assets distributed to CRECG are as follows:

	RMB million
Property, plant and equipment	981
Lease prepayments	21
Intangible assets	138
Inventories	23
Trade and other receivables	203
Cash and cash equivalents	4
Trade and other payables	(248)
Borrowings	(4)
Minority interests	(1)
Net assets distributed to CRECG	1,117
Net cash outflow arising on deemed distribution:	
Cash and cash equivalents disposed of	(4)

In addition, CRECG retained those dissimilar businesses and operations as compared with the Core Operations (the "Retained Operations") which mainly include the provision of community functions such as health care, education and public security. Retained Operations represent distinct and clearly identifiable activities and the accounting records were clearly identified into the results, assets and liabilities respectively of the Retained Operations.

As part of the Reorganisation, certain equity interests in the entities within the Group that were held by the Employee Share Ownership Committees ("ESOC"), with carrying value of approximately RMB1,314 million on 31 December 2006 were assigned to the Company on the same date without consideration being paid. Accordingly, the transaction was classified as capital contribution from equity participants and the amount of RMB1,314 million was dealt with in reserves. A distribution of RMB172 million in respect of distributable profits prior to 31 December 2006 of the relevant entities attributable to the ESOC was paid to ESOC upon the Reorganisation.

As part of the Reorganisation, the Company and some of its subsidiaries purchased additional interests in certain subsidiaries from the minority shareholders of the respective subsidiaries who are also the employees of the Group. These transactions were accounted for using the purchase method of accounting and resulted in a reduction of minority interests of RMB2,153 million upon the Reorganization.

2. Basis of preparation of the consolidated financial statements

All Core Operations were controlled and owned by CRECG. As a result of the Reorganisation described in Note 1, all Core Operations were transferred to the Company and are still ultimately controlled and owned by CRECG. There is no change of controlling shareholders before and after the Reorganisation and accordingly, the consolidated financial statements have been prepared as a combination of businesses under common control in a manner similar to pooling-of-interests as if the group structure after the Reorganisation had been in existence since 1 January 2006.

The financial statements of equity interests in the Retained Operations have not been included in the consolidated financial statements as they have distinct and separate management personnel, maintained separate accounting records and they are dissimilar business and operations as compared with the Core Operations and were not transferred to the Group pursuant to the Reorganisation.

The consolidated financial statements are presented in Renminbi, the functional currency of the Company and most of its subsidiaries.

In preparing the consolidated financial statements, the Company and its subsidiaries (the "Group") has not early applied the following new and revised standards and interpretations that have been issued by International Accounting Standard Board (the "IASB") or International Financial Reporting Interpretation Committee ("IFRIC") of IASB at the date of this report but are not yet effective.

International Financial Reporting Standard ("IFRS")

IFRS 2 (Amendment)	Vesting Conditions and Cancellations[4]
IFRS 3 (Revised)	Business Combinations[5]
IFRS 8	Operating Segments[4]

International Accounting Standard ("IAS")

IAS 1 (Revised)	Presentation of Financial Statements[4]
IAS 23 (Revised)	Borrowing Cost[4]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[4]

IFRIC

IFRIC 11	IFRS 2: Group and Treasury Share Transactions[1]
IFRIC 12	Service Concession Arrangements[2]
IFRIC 13	Customer Loyalty Programmes[3]
IFRIC 14	IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction[2]

1 Effective for annual periods beginning on or after 1 March 2007
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2009
5 Effective for annual periods beginning on or after 1 July 2009

2. Basis of preparation of the consolidated financial statements (continued)

The adoption of IFRIC 12 may impact on the Group's concession rights currently recognised as intangible assets in the consolidated financial statements. The Group's concession arrangement as set out in Note 19 is contractual service arrangements between the entities controlled by the government and the Group for the Group's participation in the development, financing, operation and maintenance of infrastructure for public services.

IFRIC 12 requires where the Group constructs or upgrades the infrastructure, the Group recognises revenue and costs in the same way as construction contracts (see below) during the construction phase. Construction revenue should be recognised as a financial asset if the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the government or as an intangible asset if the Group receives a right to charge users of the public services. When money is actually received, further revenue is recognised under intangible asset model. For the financial asset model, such monies received are treated as partial repayment of financial assets.

In addition, where the Group has contractual obligations to maintain the infrastructure to a specified level of serviceability or to restore the infrastructure to specified conditions before it is handed over to the government at end of the service arrangement, the best estimate of the present value of expenditure that would be required to settle this obligation at the balance sheet date will be recognised on the consolidated balance sheet as liability.

Unless the Group has recognised an intangible asset, all borrowings costs attributable to the arrangement will be recognised as an expense in the period in which they are incurred. The Directors are still in the process of quantifying the financial impact to the Group.

IAS 27 (Revised) requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

IFRS 3 (Revised) may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Other than those set out above, the directors of the Company (the "Directors") anticipate the application of the other standards and interpretations will have no material impact on the results and the financial position of the Group.

3. Principal accounting policies

The consolidated financial statements have been prepared in accordance with IFRS issued by the IASB and on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year, except for those acquired pursuant to the Reorganisation, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations involving entities under common control

Business combinations under common control are accounted for using pooling-of-interests method. In applying pooling-of-interests method, financial statement items of the combining entities or business are included in the consolidated financial statements of the consolidated entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The Group recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties when they first came under common control.

The comparative amounts in the consolidated financial statements are prepared as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control which is shorter.

Business combinations other than involving entities under common control

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisitions is measured at the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group at the date of exchange for control of the acquiree plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business combinations" are recognised at their fair value at the acquisition date.

3. Principal accounting policies (continued)

Business combinations other than involving entities under common control (continued)

Difference between the cost of acquisitions and fair value of acquiree's net assets is recognised as goodwill or discount on acquisitions in accordance with the accounting policy set out below.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is presented separately on the consolidated balance sheet and is carried at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination, after reassessment. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

Purchase of additional interests or disposal of partial interests in subsidiaries

When the Group acquires additional interests in subsidiaries, difference between any consideration paid and the relevant share of the fair value of net assets of the subsidiary attributable to the additional interests in subsidiary acquired from minority interests are recognised as goodwill or discount on acquisition in accordance with the respective accounting policies set out above. Differences between the fair value and carrying value of the relevant share of net assets of the subsidiary acquired are recorded in the equity and will be taken into account in deriving the gain or loss upon the disposal of the subsidiary.

3. Principal accounting policies (continued)

Purchase of additional interests or disposal of partial interests in subsidiaries (continued)

Gains and losses for the Group resulting from disposals of partial interests in subsidiaries to minority interests are recorded in the consolidated income statement.

Associates

Associate is an entity over which the Group has significant influence and that is neither a subsidiary nor jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decision in the investee but is not control nor joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

3. Principal accounting policies (continued)

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Construction in progress represents property, plant and equipment in the course of construction for production or for its own use. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the estimated useful lives.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

The land use rights without specified period of usage assigned by the PRC government to subsidiaries are classified as intangible assets with indefinite useful lives and are initially recognised at its fair value at the date of contribution by CRECG as deemed cost and is subsequently measured at cost less impairment.

Concession rights, non-patented technologies, patents, computer software and other intangible assets purchased with finite useful lives are recorded at cost on initial acquisition and subsequently stated at cost less accumulated amortisation and impairment. Amortisation is provided on a straight-line basis over their estimated useful lives. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

3. Principal accounting policies (continued)

Intangible assets (continued)

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Mining assets

Exploration and evaluation expenditure including topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine is capitalised as mining assets and is stated at cost less amortization (based on unit-of-production method) and impairment. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Construction contract

Where the outcome of a fixed price construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a cost plus construction contact can be estimated reliably, revenue from cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

3. Principal accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Properties held for sale/Properties under development for sale

Properties held for sale and properties under development for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of land, development expenditure, other attributable costs and borrowing costs capitalised.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the previous carrying amount of assets and fair value less costs to sell.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the following categories. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) *Held-for-trading financial assets*

At each balance sheet date subsequent to initial recognition, held-for-trading financial assets are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

3. Principal accounting policies (continued)

Financial assets (continued)

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, other loans and receivables, restricted cash and bank balances and cash as shown on the consolidated balance sheet) are carried at amortised cost, using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter into bankruptcy or financial re-organisation. The carrying amount of loans and receivables is reduced through the use of an allowance account. When a loan or receivable is considered uncollectible, it is written off against the allowance account. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost, using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter into bankruptcy or financial re-organisation. The carrying amount of held-to-maturity financial assets is reduced by the impairment loss directly. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Principal accounting policies (continued)

Financial assets (continued)

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the above categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be an objective evidence of impairment. The carrying amount of available-for-sale financial assets is reduced by the impairment loss directly. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities including bank and other borrowings and trade and other payables, obligations under finance lease and financial guarantee contracts as shown on the consolidated balance sheet are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

3. Principal accounting policies (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount determined in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently measured to their fair value at each balance sheet date and are classified as a current asset or a current liability. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Employee compensation and benefits

Pension obligations

The full time employees of the Group in the PRC excluding Hong Kong and Macau ("Mainland China") are covered by various government-sponsored state-managed retirement plans under which the employees are entitled to a monthly pension based on certain formulae. The relevant government agencies are responsible for the pension liability to these retired employees. The Group's contributions to these plans are charged as an expense when employees have rendered service entitling them to the contribution. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made.

3. Principal accounting policies (continued)

Employee compensation and benefits (continued)

Pension obligations (continued)

The Group also provided supplementary pension subsidies to retired employees in Mainland China. Such supplementary pension subsidies are considered as defined benefit plans. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date after adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions which exceed 10% of the present value of the defined benefit obligation are charged or credited to consolidated income statement over the employees' expected average remaining working lives. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. Employees who retire after 31 December 2006 will no longer be entitled to such supplementary pension subsidies. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, pus the present value of available refunds and reductions in future contributions to the plan.

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

Other post-employment obligations

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

Termination and early retirement benefits

Employee termination and early retirement benefits are recognised in the period in which the Group has entered into an agreement with the employee specifying the terms of redundancy, or after the individual employee has been advised of the specific terms. The specific terms vary among the terminated and early retired employees depending on various factors including position, length of service and district of the employee concerned. The termination benefits were recognized on an accrual basis. The early termination benefits were determined based on actuarial valuations performed by an independent firm of actuaries.

Housing funds

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to consolidated income statement over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

3. Principal accounting policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the construction contracts, sale of properties, sale of other goods and provision of services in the ordinary course of the Group's activities. Revenue is shown net of business tax, returns, rebates and discounts. Revenue is recognised as follows:

Revenue from design and consultation contracts is recognised under the percentage of completion method, when the contract has progressed to a stage where the stage of completion and expected profit on the contract can be estimated reliably and, depending on the nature of the contract, are measured mainly by reference to (a) the proportion of contract costs incurred for work performed to date bear to estimated total contract costs; (b) the amount of work certified by employers; or (c) completion of physical proportion of the contract work. Anticipated losses are fully provided on contracts when identified.

Revenue for services rendered including survey, design, consulting, research and development, feasibility study, compliance certification services with respect to infrastructure projects is recognised when services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the group entities.

Revenue from sale of properties in the ordinary course of business is recognised when the relevant properties have been completed and delivered to the purchasers pursuant to the sale agreements.

Sale of goods is recognised when goods are delivered and title has passed.

3. Principal accounting policies (continued)

Revenue recognition (continued)

Rental income under operating leases in respect of investment properties is recognised on a straight-line basis over the lease term.

Dividend income from investments is recognised when a group entity's right to receive payment has been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Upfront prepayments made for the land use rights and leasehold land with a specified period are initially recognised on the consolidated balance sheet as lease prepayments and are expensed in the consolidated income statement on a straight line basis over the periods of the respective leases.

3. Principal accounting policies (continued)

Foreign currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Nevertheless, the resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

(b) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2007, the carrying amount of goodwill is RMB779 million. Details of the recoverable amount calculation are disclosed in Note 23.

4. Key sources of estimation uncertainty (continued)

(c) Deferred income tax asset

As at 31 December 2007, deferred income tax assets of RMB1,925 million in relation to the excess of accounting depreciation over tax depreciation on property, plant and equipment, unused tax losses, impairment loss on trade and other receivables and other loans and receivables, allowance for foreseeable losses on construction contracts and inventories, change in retirement and other supplemental benefit obligations for income tax purposes and excess of tax base of lease prepayments over book value have been recognised in the consolidated balance sheet. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the consolidated income statement for the period in which such a reversal takes place.

(d) Construction and design contracts

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Group's management estimates the contract revenue, contract costs and foreseeable losses of construction and design work based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction and design businesses, management reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a material impairment loss may arise.

(e) Estimated impairment of trade and other receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the credit history of the customers and the current market condition. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Management reassesses the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, a material impairment loss may arise. The movements of the impairment recognised during the year are set out in Note 29.

(f) Retirement and other supplemental benefit obligations

The retirement and other supplemental benefit obligations are estimated based on a number of factors that are determined on an actuarial basis using a number of assumptions, as disclosed in Note 40. The accuracy of the estimate mainly depends on how the actuarial assumptions deviate from the actual. Any changes in these assumptions will have an impact on the carrying amount of retirement benefit obligations.

5. Capital risk management and financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern; to maintain the confidence of creditors; to sustain future development of the entities and to maximize the return to the equity holders of the entities through optimization of debt and equity balances. The capital structure of the Group consists of the borrowings disclosed in Notes 37 and 38, net of cash and cash equivalents and total equity of the Group. In prior years, the Group defined the owner's equity as the capital of the Group.

The Directors review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associate with each class of capital. Based on the recommendation of the Directors, the Group will balance its overall capital structure through the payment of dividends, issue of new shares, issue of new debts as well as redemption of existing debts.

The management of the Group regularly monitors and considers that the Company and its subsidiaries engaged in infrastructure construction satisfy the regulatory requirements of the minimum registered capital of an entity in this industry.

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, held-to-maturity financial assets, held-for-trading financial assets, other loans and receivables, trade and other receivables, restricted cash, cash and cash equivalents, borrowings, trade and other payables, obligations under finance leases and financial guarantee contracts. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group's overall financial risk management objectives and policies remain unchanged from prior year.

Currency risk

The functional currency of the group entities is RMB in which most of the transactions are denominated. Foreign currencies are used to collect the Group's revenue from overseas operations and to settle purchases of machinery and equipment suppliers and certain expenses. Certain bank balances and borrowings denominated in foreign currencies which expose the Group to currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
USD	**804**	768	**10,160**	776
EURO	**750**	424	**52**	70
HKD	**60**	69	**8,706**	82
Others	**701**	562	**3,175**	852

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

5. Capital risk management and financial instruments (continued)

Financial risk management objectives and policies (continued)

Currency risk (continued)

The following table details the Group's sensitivity to a reasonably possible change of 5% (2006: 1%) in exchange rate of each foreign currency against RMB while all other variables are held constant.5% (2006: 1%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% (2006: 1%) change in foreign currency rates.

	2007 **RMB million**	2006 RMB million
Increase (decrease) in profit for the year		
if RMB weakens against foreign currencies	**843**	(3)
if RMB strengthens against foreign currencies	**(843)**	3

A change of 5% (2006: 1%) in exchange rate of each foreign currency against RMB does not affect other components of equity.

Interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate bank borrowings, fixed-rate bank fixed deposits, held-to-maturity debt investments, other loans and receivables and obligations under finance lease. The cash flow interest rate risk relates primarily to floating-rate bank borrowings and bank balances. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group's sensitivity to cash flow interest rate risk is prepared assuming the amount of floating-rate financial instruments at the balance sheet date was outstanding for the whole year. A 135 (2006: 27) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates as a result of the gradual increase in interest rate during the current year.

	2007	2006
Reasonably possible change in interest rate	**135 basis points**	27 basis points

	2007 **RMB million**	2006 RMB million
Increase (decrease) in profit for the year		
as a result of increase in interest rate	**374**	9
as a result of decrease in interest rate	**(374)**	(9)

The sensitivity analysis in interest rate does not affect other components of equity.

5. Capital risk management and financial instruments (continued)

Financial risk management objectives and policies (continued)

Other price risk

The Group is exposed to equity securities price risk because the fair value of certain available-for-sale financial assets and held-for-trading financial assets are measured by reference to quoted prices. Details of the available-for-sale financial assets and held-for-trading financial assets are set out in Notes 24 and 31 respectively.

The Group currently does not have a policy to hedge the other price risk. However, the management closely monitors such risk by maintaining a portfolio of investments with different risks.

The Group's sensitivity to equity price risk on the held-for-trading financial assets and available-for-sale financial assets at balance sheet date while all other variables were held constant is as follows:

	2007	2006
Reasonably possible change in equity price	**5%**	5%

	2007 **RMB million**	2006 RMB million
Increase (decrease) in profit for the year		
as a result of increase in equity price	**7**	1
as a result of decrease in equity price	**(7)**	(1)
Increase (decrease) in other components of equity		
as a result of increase in equity price	**77**	2
as a result of decrease in equity price	**(77)**	(2)

Credit risk

At balance sheet date, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors which the Group has provided financial guarantees, is arising from the carrying amount of the respective financial assets as stated in the consolidated balance sheet and the amount of contingent liabilities as disclosed in Note 45. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. One major customer, which is a government body, contributes a significant portion of the revenue of the Group. The management considers that the credit risk in respect of this customer is minimal. Other than this customer, the Group does not have concentration of credit risk as no single customer accounted for more than 10% of the Group's total revenue during the year. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on cash and cash equivalents and bank deposits is limited because the counterparties have high credit ratings. The Directors do not expect any counterparty to fail to meet its obligations.

The Group's concentration of credit risk by geographical locations is mainly in Mainland China, where the Group's operations are located.

5. Capital risk management and financial instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group has concentration of credit risk in respect of trade receivable as the Group's largest trade receivable and the five largest trade receivables amounted to RMB3,797 million (2006: RMB1,716 million) and RMB6,191 million (2006: RMB4,511 million) and represent 10% (2006: 6%) and 16% (2006: 14%) of the total trade receivables respectively.

The Group has concentration of credit risk in respect of other receivables as the Group's largest other receivable and the five largest other receivables amounted to RMB352 million (2006: RMB574 million) and RMB1,665 million (2006: RMB1,339 million) and represent 3% (2006: 5%) and 13% (2006: 12%) of the total other receivables respectively.

Liquidity risk

The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The Group relies on bank borrowings as a significant source of liquidity. At 31 December 2007, the Group has available unutilised short-term bank loan facilities of RMB70,221 million (2006: RMB12,409 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	After five years RMB million	Total undiscounted cash flows RMB million	Carrying amount RMB million
At 31 December 2007								
Trade and other payables *(Note)*	**67,560**	**953**	**672**	**124**	**67**	**31**	**69,407**	**69,326**
Borrowings	**30,648**	**3,768**	**2,462**	**510**	**500**	**7,469**	**45,357**	**38,766**
Obligations under finance lease	**47**	**44**	**41**	**—**	**—**	**—**	**132**	**113**
	98,255	**4,765**	**3,175**	**634**	**567**	**7,500**	**114,896**	**108,205**
At 31 December 2006								
Trade and other payables *(Note)*	61,306	577	224	45	16	41	62,209	62,155
Borrowings	31,015	1,583	1,851	248	461	1,972	37,130	34,189
	92,321	2,160	2,075	293	477	2,013	99,339	96,344

Note: The difference between total undiscounted cash flows and the carrying amount of trade and other payables represents the imputed interest expenses on interest-free retention payables.

5. Capital risk management and financial instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

At 31 December 2007 and 2006, it was not probable that the counterparties to the financial guarantee contracts will claim under the contracts. Consequently, the carrying amount of financial guarantee contracts of RMB87 million (2006: RMB43 million) has not been presented above.

The contractual expiry periods of financial guarantees are as follows:

	2007 RMB million	**2007 Expiry period**	2006 RMB million	2006 Expiry period
Guarantees given to banks in respect of banking facilities utilised by:				
Jointly controlled entity and associate	**5,150**	**2008-2027**	900	2008-2009
A former jointly controlled entity	**—**	**—**	800	2007-2008
A fellow subsidiary	**—**	**—**	8	2008
Other state-owned enterprises	**808**	**2008-2011**	318	2007-2008
Property purchasers	**1,001**	**2008-2010**	172	2007-2009
Other independent parties	**1,382**	**2008-2016**	1,184	2007-2014
	8,341		3,382	

The following table details the Group's remaining contractual maturity for its non-derivative financial assets other than those classified as available-for-sale and held-for-trading financial assets. The table has been drawn up based on the undiscounted cash flows of financial assets including interest that will be earned on those assets.

	Within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	After five years RMB million	Total undiscounted cash flows RMB million	Carrying amount RMB million
At 31 December 2007								
Trade and other receivables *(Note)*	**44,154**	**3,770**	**1,730**	**419**	**126**	**348**	**50,547**	**49,990**
Other loans and receivables	**401**	**559**	**418**	**11**	**54**	**204**	**1,647**	**1,261**
Restricted cash	**2,170**	**—**	**—**	**—**	**—**	**—**	**2,170**	**2,170**
Cash and cash equivalents	**56,726**	**—**	**—**	**—**	**—**	**—**	**56,726**	**56,726**
	103,451	**4,329**	**2,148**	**430**	**180**	**552**	**111,090**	**110,147**
At 31 December 2006								
Trade and other receivables *(Note)*	35,961	2,017	1,945	446	74	109	40,552	40,180
Held-to-maturity financial assets	81	3	24	20	23	53	204	180
Other loans and receivables	1,127	299	338	7	207	—	1,978	1,604
Restricted cash	1,523	—	—	—	—	—	1,523	1,523
Cash and cash equivalents	29,721	—	—	—	—	—	29,721	29,721
	68,413	2,319	2,307	473	304	162	73,978	73,208

Note: The difference between total undiscounted cash flows of trade and other receivables represent the imputed interest income on interest-free retention receivables.

5. Capital risk management and financial instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's liquidity analysis for its derivative financial assets, interest rate swaps. The table has been drawn up based on the undiscounted net cash inflows and outflows on the interest rate swaps that settle on a net basis. Since the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the balance sheet dates.

	Within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	After five years RMB million	Total undiscounted cash flows RMB million	Carrying amount RMB million
At 31 December 2007								
Net cash inflows of interest rate swaps	**27**	**28**	**28**	**28**	**27**	**119**	**257**	**45**

Categories and fair value of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities are set out as follows:

	2007 RMB million	2006 RMB million
Financial assets at fair value through profit and loss:		
Held-for-trading financial assets	**166**	10
Loans and receivables:		
Other loans and receivables	**1,261**	1,604
Trade and other receivables	**49,990**	40,180
Restricted cash	**2,170**	1,523
Cash and cash equivalents	**56,726**	29,721
	110,147	73,028
Held-to-maturity financial assets	**—**	180
Available-for-sale financial assets	**2,908**	864
Financial liabilities measured at amortised costs:		
Trade and other payables	**69,326**	62,155
Borrowings	**38,766**	34,189
Financial guarantee contracts	**87**	43
	108,179	96,387

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities traded on active liquid markets is determined with reference to quoted market bid prices and ask prices respectively;

5. Capital risk management and financial instruments (continued)

Categories and fair value of financial instruments (continued)

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input; and

- The fair value of non-optional derivative instrument is calculated using quoted prices or where quoted prices are not available, the fair value is estimated using discounted cash flow analysis and the applicable curve for the duration of the instruments.

Included in available-for-sale financial assets at 31 December 2007 are amounts of RMB953 million (2006: RMB827 million) which are stated at cost less impairment. As the ranges of reasonable fair value estimates are significant, the Directors are of the opinion that their fair values cannot be measured reliably.

Except as detailed in the following table and certain available-for-sale financial assets as described above, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	2007 Carrying amount RMB million	**2007 Fair value RMB million**	2006 Carrying amount RMB million	2006 Fair value RMB million
Held-to-maturity financial assets	**—**	**—**	180	166
Other loans and receivables	**1,261**	**1,222**	1,604	1,590
Fixed-rate bank borrowings	**509**	**449**	584	513
Fixed-rate other borrowings	**228**	**215**	—	—

6. Revenue

An analysis of the Group's revenue for the year is as follows:

	2007 RMB million	2006 RMB million
Revenue from:		
Rendering of services		
— Construction contracts	**156,530**	137,535
— Other services	**4,833**	8,129
Sale of properties	**2,880**	1,879
Sale of goods	**9,508**	6,025
	173,751	153,568

7. Segment information

(a) Business segments (Primary segment)

The Group is organised into the following business segments:

(i) Construction of railways, highways, bridges, tunnels, metropolitan railways (including subways and light railways), buildings, irrigation works, hydroelectricity projects, ports, docks, airports and other municipal works ("Infrastructure construction");

(ii) Survey, design, consulting, research and development, feasibility study and compliance certification services with respect to infrastructure construction projects ("Survey, design and consulting services");

(iii) Design, research and development, manufacture and sale of turnouts and other railway related equipment and materials, steel structures and engineering machinery ("Engineering equipment and component manufacturing");

(iv) Development, sale and management of residential and commercial properties ("Property development"); and

(v) Railway and road investment and operation projects, mining, raw material trading and other ancillary business ("Other businesses").

Inter-segment revenue are charged at cost plus a percentage of mark up.

The segment information about these business segments is presented below.

7. Segment information (continued)

(a) Business Segments (Primary segment) (continued)

Consolidated results

	Infrastructure construction RMB million	Survey, design and consulting services RMB million	Engineering equipment and component manufacturing RMB million	Property development RMB million	Other businesses RMB million	Elimination RMB million	Consolidated RMB million
Year ended 31 December 2007							
External revenue	**156,530**	**3,388**	**3,954**	**2,880**	**6,999**	**—**	**173,751**
Inter-segment revenue	**8,429**	**6**	**1,239**	**402**	**1,086**	**(11,162)**	**—**
Segment revenue	**164,959**	**3,394**	**5,193**	**3,282**	**8,085**	**(11,162)**	**173,751**
Segment results	**1,889**	**234**	**168**	**502**	**611**	**(306)**	**3,098**
Unallocated corporate income							**951**
Unallocated corporate expenses							**(496)**
Unallocated interest income							**790**
Unallocated interest expenses							**(1,678)**
Share of (losses) profits of jointly controlled entities	**(9)**	**—**	**4**	**1**	**1**	**—**	**(3)**
Share of profits (losses) of associates	**—**	**17**	**7**	**(11)**	**(2)**	**—**	**11**
Gain on disposal of interests in subsidiaries	**518**	**—**	**—**	**98**	**—**	**—**	**616**
Profit before taxation							**3,289**
Income tax expense							**(529)**
Profit for the year							**2,760**

	Infrastructure construction RMB million	Survey, design and consulting services RMB million	Engineering equipment and component manufacturing RMB million	Property development RMB million	Other businesses RMB million	Elimination RMB million	Consolidated RMB million
Year ended 31 December 2006							
External revenue	137,535	4,108	3,772	1,879	6,274	—	153,568
Inter-segment revenue	2,864	16	323	—	4	(3,207)	—
Segment revenue	140,399	4,124	4,095	1,879	6,278	(3,207)	153,568
Segment results	2,227	351	445	426	181	(267)	3,363
Unallocated corporate income							392
Unallocated corporate expenses							(114)
Unallocated interest income							548
Unallocated interest expenses							(1,113)
Share of (losses) profits of jointly controlled entities	(37)	—	1	(14)	—	—	(50)
Share of (losses) profits of associates	(4)	—	9	7	(14)	—	(2)
Gain on disposal of interests in subsidiaries	—	281	—	82	—	—	363
Profit before taxation							3,387
Income tax expense							(648)
Profit for the year							2,739

7. Segment information (continued)

(a) Business Segments (Primary segment) (continued)

Consolidated assets and liabilities

	Infrastructure construction RMB million	Survey, design and consulting services RMB million	Engineering equipment and component manufacturing RMB million	Property development RMB million	Other businesses RMB million	Elimination RMB million	Consolidated RMB million
At 31 December 2007							
ASSETS							
Segment assets	**148,462**	**2,720**	**6,953**	**15,300**	**24,683**	**(51,493)**	**146,625**
Interests in jointly controlled entities	**238**	**—**	**102**	**94**	**217**	**—**	**651**
Interests in associates	**1,980**	**123**	**43**	**376**	**69**	**—**	**2,591**
Other assets	**58,885**	**1,222**	**434**	**1,174**	**1,516**	**—**	**63,231**
Other unallocated corporate assets							**1,925**
Consolidated total assets							**215,023**
LIABILITIES							
Segment liabilities	**104,079**	**1,574**	**5,146**	**12,924**	**15,128**	**(22,392)**	**116,459**
Other liabilities	**32,266**	**1,042**	**518**	**721**	**5,121**	**(166)**	**39,502**
Other unallocated corporate liabilities							**315**
Consolidated total liabilities							**156,276**

	Infrastructure construction RMB million	Survey, design and consulting services RMB million	Engineering equipment and component manufacturing RMB million	Property development RMB million	Other businesses RMB million	Elimination RMB million	Consolidated RMB million
At 31 December 2006							
ASSETS							
Segment assets	98,659	1,397	3,985	5,573	4,122	(7,821)	105,915
Interests in jointly controlled entities	253	—	3	112	146	—	514
Interests in associates	514	106	85	37	137	—	879
Other assets	31,888	665	489	57	803	—	33,902
Other unallocated corporate assets							1,883
Consolidated total assets							143,093
LIABILITIES							
Segment liabilities	95,701	902	2,738	4,186	2,077	(7,830)	97,774
Other liabilities	32,635	277	391	195	1,334	(213)	34,619
Other unallocated corporate liabilities							187
Consolidated total liabilities							132,580

7. Segment information (continued)

(a) Business Segments (Primary segment) (continued)

Other information

	Infrastructure construction RMB million	Survey, design and consulting services RMB million	Engineering equipment and component manufacturing RMB million	Property development RMB million	Other businesses RMB million	Consolidated RMB million
Year ended 31 December 2007						
Capital expenditure:						
Property, plant and equipment	5,035	186	441	122	486	6,270
Investment properties	—	—	—	—	63	63
Intangible assets	404	93	12	—	3,112	3,621
Acquisition of subsidiaries	1	—	—	5	2,343	2,349
Total	5,440	279	453	127	6,004	12,303
Depreciation and amortisation:						
Property, plant and equipment	2,411	104	138	16	163	2,832
Investment properties	—	—	—	—	13	13
Intangible assets	15	—	—	—	19	34
Mining assets	—	—	—	—	3	3
	2,426	104	138	16	198	2,882
Loss (profit) on disposal and write-off of property, plant and equipment	19	5	8	—	(1)	31
Impairment loss on property, plant and equipment	9	—	5	—	—	14
Allowance for foreseeable loss on construction contracts	301	—	—	—	—	301
Impairment loss on trade and other receivables	140	—	14	6	3	163
Lease prepayments released to income statement	65	2	10	—	—	77

	Infrastructure construction RMB million	Survey, design and consulting services RMB million	Engineering equipment and component manufacturing RMB million	Property development RMB million	Other businesses RMB million	Consolidated RMB million
Year ended 31 December 2006						
Capital expenditure:						
Property, plant and equipment	4,635	231	83	—	356	5,305
Investment properties	—	—	—	—	1	1
Intangible assets	36	—	—	—	1,400	1,436
Acquisition of subsidiaries	—	—	—	4	103	107
Total	4,671	231	83	4	1,860	6,849
Depreciation and amortisation:						
Property, plant and equipment	2,198	131	89	—	7	2,425
Investment properties	—	—	—	—	9	9
Intangible assets	11	—	2	—	—	13
	2,209	131	91	—	16	2,447
Loss on disposal and write-off of property, plant and equipment	14	7	3	—	—	24
Allowance for foreseeable loss on construction contracts	111	—	—	—	—	111
Impairment loss on trade and other receivables	213	2	14	—	—	229
Allowance on properties held for sale	—	—	—	2	—	2
Lease prepayments released to income statement	34	1	4	—	—	39

7. Segment information (continued)

(b) Geographical segments

More than 90% of the Group's turnover, profit before taxation, assets and liabilities were derived from and located in the Mainland China and, therefore, no information relating to geographical segments is presented.

8. Other income

	2007 RMB million	2006 RMB million
Dividend income	**9**	5
Government subsidies	**79**	29
Compensation income *(Note (a))*	**61**	49
Relocation compensation from government	**73**	72
Gains on disposal of:		
Lease prepayments	**—**	66
Non-current assets held for sale	**31**	—
Available-for-sale financial assets	**22**	49
Held-for-trading financial assets	**142**	—
Gain on early redemption of receivables *(Note 26)*	**136**	—
Discount on acquisition of a subsidiary	**34**	9
Discount on acquisition of additional interests in subsidiaries	**58**	—
Amortisation of financial guarantee contracts	**47**	1
Financial guarantee released to income upon cancellation of a guarantee	**3**	—
Fair value increase on held-for-trading financial assets	**24**	12
Income from sundry operations *(Note (b))*	**275**	169
Waiver of trade and other payables	**75**	11
Others	**114**	109
	1,183	581

Notes:

(a) Compensation income represents the amount received or receivable from the counter-parties in connection with termination of certain property development projects in the PRC.

(b) The balances include profits from sundry operations incidental to the main revenue-generating activities of the Group including sales of materials.

9. Gains on disposal of interests in subsidiaries

	2007 RMB million	2006 RMB million
Gain on disposal of subsidiaries *(Note 43)*	**98**	363
Gain on disposal of partial interests in subsidiaries *(Note)*	**518**	—
	616	363

Note: During the year ended 31 December 2007,

(a) the Group's interest in 中鐵二局股份有限公司 was diluted by a placement of shares in this subsidiary and resulted in a gain on deemed disposal of RMB94 million;

(b) the Group disposed of 2.01% interest in 中鐵二局股份有限公司 for an aggregate consideration of RMB494 million and it resulted in a gain on disposal of partial interests in subsidiary of RMB424 million.

10. Interest income and expenses

	2007 RMB million	2006 RMB million
Interest income from:		
Cash and cash equivalents and restricted cash	**555**	404
Proceeds arising from global offering of the Company's shares	**73**	—
Imputed interest on retention receivables	**191**	99
Held-to-maturity financial assets	**—**	27
Other loans and receivables	**158**	117
Available-for-sale financial assets	**4**	—
Total interest income	**981**	647
Interest expense on:		
Bank borrowings:		
Wholly repayable within five years	**1,888**	1,245
Not wholly repayable within five years	**175**	9
Short term debentures	**61**	53
Other long term loans	**25**	—
Other short term loans	**30**	1
	2,179	1,308
Imputed interest expense on retention payables	**28**	25
Other finance costs	**144**	115
Total borrowing costs	**2,351**	1,448
Less: Amount capitalised	**(501)**	(195)
Total interest expenses	**1,850**	1,253

Borrowing costs capitalised arose on the general borrowing pool and are calculated by applying the following capitalisation rates to expenditure on qualifying assets:

	2007	2006
Capitalisation rate	**5.00% to 7.47%**	3.57% to 6.58%

11. Income tax expense

	2007 RMB million	2006 RMB million
Current tax		
Enterprise Income Tax ("EIT") in Mainland China	**670**	470
Land Appreciation Tax ("LAT")	**23**	—
Deferred tax	**(164)**	178
	529	648

Pursuant to the relevant laws and regulations in Mainland China, the statutory EIT rate of 33% is applied to the Group except for certain subsidiaries which were either exempted from EIT or entitled to different preferential tax rates of 15% or 16.5% during both years.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January 2008. Subsidiaries which were either exempt from EIT or entitled to different preferential tax rates due to their status as involvement in projects that were supported by the government and development projects in the western part of China will still enjoy the preferential tax treatment. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Pursuant to the relevant tax rules and regulations, certain subsidiaries of the Company can claim EIT tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the Mainland China, to the extent of the EIT expense for the current year in excess of that for the previous year. Such EIT tax credits are allowed as a deduction of current income tax expenses upon relevant conditions were fulfilled and relevant tax approval was obtained from the relevant tax bureau.

No provision for Hong Kong Profits Tax for the Company's subsidiaries incorporated in Hong Kong as these subsidiaries had no assessable profits subject to Hong Kong Profits Tax during the year.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable exemptions and deductions.

11. Income tax expenses (continued)

The tax charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2007 RMB million	2006 RMB million
Profit before taxation	**3,289**	3,387
Tax at domestic income tax rate of 33%	**1,085**	1,118
Tax effect of:		
Non-deductible expenses	**81**	155
Non-taxable income	**(356)**	(342)
Tax losses not recognised as deferred tax assets	**73**	28
Utilisation of tax losses not previously recognised	**(60)**	(4)
Preferential tax rates on income of group companies	**(233)**	(356)
Deferred tax changes resulting from changes in applicable tax rates	**81**	—
LAT	**23**	—
Tax effect of LAT	**(8)**	—
Income tax credits granted to subsidiaries on acquisition of certain qualified equipment	**(129)**	—
Others	**(28)**	49
	529	648

12. Profit for the year

Profit for the year has been arrived at after charging (crediting):

	2007 RMB million	2006 RMB million
Depreciation and amortisation of:		
Property, plant and equipment	**2,832**	2,425
Lease prepayments	**77**	39
Investment properties	**13**	9
Intangible assets	**34**	13
Mining assets	**3**	—
Total depreciation and amortisation	**2,959**	2,486
Auditor's remuneration	**34**	28
Loss on disposal and write-off of property, plant and equipment	**31**	24
Loss on disposals of interest in associates	**4**	—
Foreign exchange losses, net (included in administrative expenses)	**245**	16
Impairment loss recognised (reversed) on:		
Property, plant and equipment	**14**	—
Interests in associates	**6**	—
Available-for-sale financial assets	**9**	(4)
Trade and other receivables	**163**	229
Other loans and receivables	**3**	—
Allowance on properties held for sale	**—**	2
Operating lease rentals in respect of		
Rented premises	**287**	29
Plant and machinery	**2,169**	2,105
Rental income from investment properties		
Gross rental	**(50)**	(28)
Direct operating expenses (including depreciation of investment properties)	**29**	12
Net rental	**(21)**	(16)
Research and development expenditure (included in administrative expenses)	**306**	330
Cost of raw materials and consumables	**89,434**	82,060
Goodwill written off	**6**	—

13. Emoluments of directors, supervisors and employees

Directors' and Supervisors' Emoluments

Name of director or supervisor	Fees RMB'000	Salaries and other benefits-in-kind RMB'000	Contribution to retirement benefit scheme RMB'000	Discretionary bonus (note) RMB'000	Total RMB'000
Year ended 31 December 2007					
Director					
Shi Dahua	—	205	54	369	628
Li Changjin	—	205	64	369	638
Bai Zhongren	—	174	63	313	550
Wang Qiuming	—	174	58	313	545
He Gong	—	—	—	—	—
Zhang Qinglin	—	—	—	—	—
Wang Taiwen	—	—	—	—	—
Gong Huazhang	—	—	—	—	—
Sun Patrick	—	—	—	—	—
Directors' remunerations	—	758	239	1,364	2,361
Supervisor					
Gao Shutang	—	174	65	313	552
Zhang Xixue	—	146	57	76	279
Zhou Yuqing	—	146	57	76	279
Lin Longbiao	—	146	57	70	273
Ji Zhihua	—	151	57	78	286
Total	—	1,521	532	1,977	4,030

13. Emoluments of directors, supervisors and employees (continued)

Directors' and Supervisors' Emoluments (continued)

Name of director or supervisor	Fees	Salaries and other benefits-in-kind	Contribution to retirement benefit scheme	Discretionary bonus (note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2006					
Director					
Shi Dahua	—	205	54	369	628
Li Changjin	—	187	65	337	589
Bai Zhongren	—	164	64	295	523
Wang Qiuming	—	95	52	119	266
He Gong	—	—	—	—	—
Zhang Qinglin	—	—	—	—	—
Wang Taiwen	—	—	—	—	—
Gong Huazhang	—	—	—	—	—
Sun Patrick	—	—	—	—	—
Directors' remunerations	—	651	235	1,120	2,006
Supervisor					
Gao Shutang	—	178	65	321	564
Zhang Xixue	—	147	6	58	211
Zhou Yuqing	—	146	6	54	206
Lin Longbiao	—	140	5	55	200
Ji Zhihua	—	151	6	56	213
Total	—	1,413	323	1,664	3,400

During both years, no directors or supervisors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

Five Highest-paid Individuals

The emoluments of the five highest-paid individuals were as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other benefits-in-kind	**3,694**	899
Contribution to retirement benefit scheme	**120**	312
Discretionary bonus *(Note)*	**11,460**	1,618
	15,274	2,829

13. Emoluments of directors, supervisors and employees (continued)

Five Highest-paid Individuals (continued)

Their emoluments were within the following band:

	2007	2006
Nil to HK$1,000,000	—	5
HK$1,500,001 to HK$2,000,000	1	—
HK$2,500,001 to HK$3,000,000	1	—
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	1	—
HK$4,500,001 to HK$5,000,000	1	—

Of the five individuals with the highest emoluments in the Group, the number of Directors whose emoluments are included in the disclosure under "Directors' and Supervisors' Emoluments" above are as follows:

	2007	2006
Number of Directors included in the five-highest paid individuals	—	3

Note: The discretionary bonus is determined by the remuneration committee in accordance with the relevant human resources policies.

Employee's Compensation and Welfare

	2007 RMB million	2006 RMB million
Salaries, wages and bonuses	9,741	8,514
Contribution to pension plans *(Note 40)*	1,234	1,243
Retirement and supplemental pension benefit obligations — interest costs *(Note 40)*	312	349
Housing benefits *(Note)*	619	436
Welfare, medical and other benefit-in-kinds	1,449	1,074
Compensation for termination of employment	34	60
	13,389	11,676

Note: These represent contributions to the government-sponsored housing funds (at rates ranging from 8% to 20% of the employee's basic salary) in Mainland China.

14. Dividend/distributions

No dividend was paid or proposed since the date of incorporation nor has any dividend been proposed up to the date of this report.

The amount presented as distributions for the year ended 31 December 2006 represents the aggregate carrying amounts of the operating assets and liabilities historically associated with the Core Operations of the Group that were retained by CRECG. 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.

15. Earnings per share

Basic earnings per share for the year ended 31 December 2007 is calculated by dividing the profit attributable to equity holders of the Company of RMB2,423 million (2006: RMB2,046 million) by the weighted average number of 13,406,030,000 shares (2006: 12,800,000,000 shares) deemed in issue during the year, and determined on the assumption that the 12,800,000,000 ordinary shares issued upon the incorporation of the Company in connection with the Reorganisation had been in issue since 1 January 2006.

No diluted earnings per share are presented as there are no potential dilutive ordinary shares outstanding during both years.

16. Property, plant and equipment

	Buildings RMB million	Infrastructure construction equipment RMB million	Trans-portation equipment RMB million	Manu-facturing equipment RMB million	Testing equipment and instruments RMB million	Other equipment RMB million	Construction in progress RMB million	Total RMB million
COST								
At 1 January 2007	6,298	9,963	3,826	1,932	695	2,072	865	25,651
Additions	260	2,664	802	328	147	504	1,565	6,270
Transfers from properties held for sale	74	—	—	—	—	—	214	288
Transfers within property, plant and equipment	716	275	108	89	3	27	(1,218)	—
Transfers from investment properties	13	—	—	—	—	—	—	13
Acquisition of subsidiaries	6	—	6	—	—	3	—	15
Disposal of subsidiaries	(81)	(9)	(3)	—	(4)	(5)	(11)	(113)
Write-offs/other disposals	(255)	(478)	(373)	(166)	(32)	(273)	(91)	(1,668)
Transfers to investment properties	(199)	—	—	—	—	—	—	(199)
At 31 December 2007	6,832	12,415	4,366	2,183	809	2,328	1,324	30,257
DEPRECIATION AND IMPAIRMENT								
At 1 January 2007	1,659	4,412	2,040	946	312	953	3	10,325
Provided for the year	287	1,430	503	219	90	303	—	2,832
Transfer from investment properties	4	—	—	—	—	—	—	4
Impairment loss recognised	—	2	1	4	1	—	6	14
Eliminated on disposal of subsidiaries	(4)	(1)	(1)	—	(2)	(1)	—	(9)
Eliminated on write-offs/other disposals	(81)	(443)	(296)	(140)	(30)	(171)	(4)	(1,165)
Transfers to investment properties	(32)	—	—	—	—	—	—	(32)
At 31 December 2007	1,833	5,400	2,247	1,029	371	1,084	5	11,969
CARRYING VALUES								
At 31 December 2007	4,999	7,015	2,119	1,154	438	1,244	1,319	18,288

16. Property, plant and equipment (continued)

	Buildings RMB million	Infrastructure construction equipment RMB million	Trans-portation equipment RMB million	Manu-facturing equipment RMB million	Testing equipment and instruments RMB million	Other equipment RMB million	Construction in progress RMB million	Total RMB million
COST								
At 1 January 2006	7,339	8,002	3,448	1,698	758	1,945	1,110	24,300
Additions	339	2,521	735	338	166	392	814	5,305
Transfers within property, plant and equipment	435	169	49	88	2	6	(749)	—
Transfers from investment properties	1	—	—	—	—	—	—	1
Acquisition of subsidiaries	78	6	6	—	—	3	14	107
Disposal of subsidiaries	(228)	—	(87)	(4)	(164)	(45)	—	(528)
Distribution to CRECG *(Note 1)*	(1,348)	—	—	—	—	—	—	(1,348)
Write-offs/other disposals	(318)	(735)	(325)	(188)	(67)	(229)	(324)	(2,186)
At 31 December 2006	6,298	9,963	3,826	1,932	695	2,072	865	25,651
DEPRECIATION AND IMPAIRMENT								
At 1 January 2006	2,023	3,823	1,897	922	351	889	16	9,921
Provided for the year	326	1,144	443	180	97	235	—	2,425
Transfer from investment properties	1	—	—	—	—	—	—	1
Eliminated on disposal of subsidiaries	(70)	—	(46)	(3)	(75)	(21)	—	(215)
Eliminated on distribution to CRECG *(Note 1)*	(367)	—	—	—	—	—	—	(367)
Eliminated on write-offs/other disposals	(254)	(555)	(254)	(153)	(61)	(150)	(13)	(1,440)
At 31 December 2006	1,659	4,412	2,040	946	312	953	3	10,325
CARRYING VALUES								
At 31 December 2006	4,639	5,551	1,786	986	383	1,119	862	15,326

Category	Estimated useful lives
Buildings	15–50 years
Infrastructure construction equipment	8–15 years
Transportation equipment	5–12 years
Manufacturing equipment	8–18 years
Testing equipment and instruments	5–10 years
Other equipment	5–10 years

During the year, the Directors conducted a review of the property, plant and equipment and determined that certain property, plant and equipment were fully impaired due to physical damage and technical obsolescence. Accordingly, an impairment loss of RMB14 million has been recognised in the consolidated income statement as disclosed in Note 12.

The carrying values of infrastructure construction equipment include amounts of RMB115 million (2006: Nil) in respect of assets held under finance leases.

Bank borrowings are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB591 million (2006: RMB557 million).

17. Lease prepayments

Movements in the lease prepayments, which represent land use rights in Mainland China, during the year are analysed as follows:

	2007 **RMB million**	2006 RMB million
At beginning of the year	**2,059**	1,821
Acquisition of subsidiaries	**94**	53
Additions	**920**	417
Reclassified from intangible assets *(Note 19 (a))*	**3,532**	—
Transfer from properties held for sale	**42**	—
Disposal of subsidiaries *(Note 43)*	**(66)**	—
Distribution to CRECG *(Note 1)*	**—**	(21)
Transfers to properties under development for sale	**(244)**	—
Disposals	**(63)**	(172)
Released to consolidated income statement as expenses	**(77)**	(39)
At end of the year	**6,197**	2,059
Analysed for reporting purpose as:		
— Non-current	**6,091**	2,020
— Current	**106**	39
At end of the year	**6,197**	2,059
Analysis of periods of land use rights in Mainland China:		
Under long lease	**861**	118
Under medium-term lease	**5,336**	1,941
	6,197	2,059

The underlying land use rights of lease prepayments with carrying amounts of RMB575 million (2006: RMB325 million) were pledged against bank borrowings of the Group.

The Group is in the process of applying for or changing registration of the title certificates for certain of its land use rights with an aggregate carrying value of RMB491 million at 31 December 2007. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.

18. Investment properties

	2007 **RMB million**	2006 RMB million
COST		
At beginning of the year	**177**	207
Additions	**63**	1
Acquisition of subsidiaries	**406**	—
Transferred from property, plant and equipment	**199**	—
Transferred from properties held for sale	**28**	13
Transferred to property, plant and equipment	**(13)**	(1)
Disposal	**(3)**	(43)
At end of the year	**857**	177
DEPRECIATION AND IMPAIRMENT		
At beginning of the year	**25**	23
Provided for the year	**13**	9
Transfer from property, plant and equipment	**32**	—
Transferred to property, plant and equipment	**(4)**	(1)
Eliminated on disposals	**(3)**	(6)
At end of the year	**63**	25
CARRYING VALUES		
At end of the year	**794**	152

The fair value of the investment properties with carrying amount of RMB794 million (2006: RMB144 million) is RMB808 million (2006: RMB124 million). The fair value disclosed is based on the valuation performed by Sallmanns (Far East) Limited, an independent firm of professionally qualified valuers, based on the depreciated replacement cost method, which the Directors are of the view that it is the best estimate of the fair value of these investment properties.

The investment properties are depreciated on a straight-line basis at the annual rates over the shorter of the term of the lease and 25–50 years.

Bank borrowings are secured by certain investment properties with an aggregate carrying value of approximately RMB395 million (2006: nil).

19. Intangible assets

	Allocated land RMB million (Note a)	Concession rights RMB million (Note b)	Non-patented technologies RMB million	Patents RMB million	Computer software RMB million	Others RMB million	Total RMB million
COST							
At 1 January 2007	**751**	**1,516**	**6**	**33**	**24**	**49**	**2,379**
Additions	**—**	**3,547**	**57**	**4**	**9**	**4**	**3,621**
Consideration for conversion to land use right	**2,787**	**—**	**—**	**—**	**—**	**—**	**2,787**
Acquisition of subsidiaries	**—**	**1,928**	**—**	**—**	**—**	**—**	**1,928**
Reclassified to lease prepayments	**(3,532)**	**—**	**—**	**—**	**—**	**—**	**(3,532)**
Disposal of subsidiaries	**—**	**—**	**—**	**—**	**—**	**(1)**	**(1)**
Write-offs/other disposals	**—**	**—**	**(1)**	**(32)**	**(4)**	**(2)**	**(39)**
At 31 December 2007	**6**	**6,991**	**62**	**5**	**29**	**50**	**7,143**
AMORTISATION AND IMPAIRMENT							
At 1 January 2007	**—**	**—**	**6**	**8**	**9**	**27**	**50**
Provided for the year	**—**	**—**	**19**	**3**	**8**	**4**	**34**
Eliminated on disposal of subsidiaries	**—**	**—**	**—**	**—**	**—**	**(1)**	**(1)**
Eliminated on write-offs/other disposals	**—**	**—**	**(1)**	**(8)**	**(3)**	**(2)**	**(14)**
At 31 December 2007	**—**	**—**	**24**	**3**	**14**	**28**	**69**
CARRYING VALUES							
At 31 December 2007	**6**	**6,991**	**38**	**2**	**15**	**22**	**7,074**
COST							
At 1 January 2006	967	116	9	22	15	50	1,179
Additions	7	1,400	5	11	11	2	1,436
Disposal of subsidiaries	(15)	—	(8)	—	—	—	(23)
Distribution to CRECG *(Note 1)*	(138)	—	—	—	—	—	(138)
Write-offs/other disposals	(70)	—	—	—	(2)	(3)	(75)
At 31 December 2006	751	1,516	6	33	24	49	2,379
AMORTISATION AND IMPAIRMENT							
At 1 January 2006	—	—	8	6	7	23	44
Provided for the year	—	—	3	2	4	4	13
Eliminated on disposal of subsidiaries	—	—	(5)	—	—	—	(5)
Eliminated on write-offs/other disposals	—	—	—	—	(2)	—	(2)
At 31 December 2006	—	—	6	8	9	27	50
CARRYING VALUES							
At 31 December 2006	751	1,516	—	25	15	22	2,329

Notes:

(a) *Allocated land is the right to use certain land injected by the PRC government in prior years as capital contribution and the cost of the land at the date of contribution was determined in accordance with the prevailing government rules and regulations. These land use rights are with land use right certificates which do not have defined period of usage. After the PRC Administration of Urban Real Property Law has come into effect in 1995, the Group can assign, lease or mortgage the allocated land. In September 2007, upon the incorporation of the Company as part of the Reorganisation, certain allocated land held by the Group was transformed, pursuant to directive of the PRC Government, as state-capital-injection land for specified tenure terms and new land use right certificates with defined period of usage have been issued to the Group. The fair value of the land with new certificates is determined by reference to the valuation report prepared by* 中聯資產評估有限公司, 北京中地華夏不動產評估有限公司 *and* 中保信資產評估事務所, *independent firms of professional qualified valuers, based on open market basis and amounts to RMB3,532 million. The fair value increase of RMB2,787 million was recognized as a capital contribution from equity participants as the relevant subsidiaries were still wholly owned by CRECG then, and was credited to capital reserve in equity.*

19. Intangible assets (continued)

(b) *The concession rights represent the construction cost and other obligations paid or payable by the Group under certain concession agreements with local governments in various locations in the PRC. Under these concession agreements, the Group is responsible for the construction, operation and maintenance of certain toll roads for specific concession periods set out in the respective concession agreements. The toll fee will be proposed by the Group and is subject to approval from local governments, and the Group is entitled to all the toll revenue from the operation of the toll roads. At the end of the concession period, the toll road will be transferred to the local governments without consideration. At 31 Decemebr 2007, the concession periods under the respective concession agreements have not yet commenced.*

The rights in respect of toll road income under three (2006: two) concession agreements with an aggregate carrying amount of RMB5,220 million (2006: RMB894 million) are pledged against certain banking facilities of the Group.

The intangible assets, other than the allocated land which does not have finite lease period and is stated at cost less impairment, are amortised on straight-line basis based on the estimated useful lives as follows:

Category	Estimated useful lives
Concession rights	the shorter of the concession period or 30 years
Non-patented technologies	1 to 8 years
Patents	3 years
Computer software	1 to 8 years
Others	3 to 49 years

20. Mining assets

	2007 RMB million	2006 RMB million
Exploration and evaluation costs, at cost	**49**	48
Less: amortisation	**(3)**	—
	46	48

The amounts represent the expenditure on exploration and evaluation of a gold project at Inner Mongolia. The Group did not have any attributable liabilities, income and expense for the year. The investing cash outflows used in the exploration for and evaluation of mineral resources during the year are as follows:

	2007 RMB million	2006 RMB million
Investing cash outflow	**(1)**	(48)

21. Interests in jointly controlled entities

	2007 RMB million	2006 RMB million
Cost of unlisted investments	545	472
Share of post-acquisition profits (losses), net of dividends received	(85)	(84)
Accumulated impairment loss recognised	(3)	(3)
	457	385
Additional investments in jointly controlled entities *(Note)*	194	129
	651	514

Note: *Pursuant to the joint venture agreements relating to certain jointly controlled entities engaged in the mining business, in addition to the committed capital contribution by the Group to the established jointly controlled entities, the Group has committed to bear the preliminary cost of jointly controlled entities including but not limited to the cost of feasibility study, cost of exploration and cost of the development plant, at predetermined limits, as investments in these jointly controlled entities. Any excess of the actual preliminary cost over the predetermined limits will be borne by the respective jointly controlled entities.*

These additional investments to the jointly controlled entities are capitalised and amortised using unit of production method by reference to the estimated proved developed reserves of the related mines when the development is commenced. As at 31 December 2007, all related mines are still at the exploration stage and no development of the mine has been commenced yet.

Details of the Group's additional commitments are set out in Note 46.

Details of Group's principal jointly controlled entities at 31 December 2007 are set out in Note 49.

The summarised unaudited consolidated financial statements in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2007 RMB million	2006 RMB million
Assets and Liabilities		
Total assets	2,577	2,302
Total liabilities	1,679	1,580
Net assets	898	722
Group's share of net assets of jointly controlled entities	460	388
Results		
Revenue	550	237
Loss before taxation	(4)	(142)
Income tax expense	(3)	—
Loss for the year	(7)	(142)
Group's share:		
Loss before taxation	(2)	(50)
Income tax expense	(1)	—
Loss for the year	(3)	(50)

22. Interests in associates

	2007 RMB million	2006 RMB million
Cost of unlisted investments	**2,606**	887
Share of post-acquisition profits (losses), net of dividends received	**(9)**	(6)
Accumulated impairment loss recognised	**(6)**	(2)
	2,591	879

Details of Group's principal associates at 31 December 2007 are set out in Note 50.

The summarised unaudited consolidated financial statements in respect of the Group's associates which are accounted for using the equity method is set out below:

	2007 RMB million	2006 RMB million
Assets and Liabilities		
Total assets	**19,289**	6,815
Total liabilities	**7,173**	4,777
Net assets	**12,116**	2,038
Group's share of net assets of associates	**2,597**	881
Results		
Revenue	**3,198**	1,000
Profit before taxation	**87**	43
Income tax expense	**(35)**	(19)
Profit for the year	**52**	24
Group's share:		
Profit before taxation	**22**	3
Income tax expense	**(11)**	(5)
Profit (loss) for the year	**11**	(2)

23. Goodwill

	2007 RMB million	2006 RMB million
At beginning of year	**189**	163
Acquisition of additional interests in subsidiaries	**589**	—
Acquisition of subsidiaries *(Note 42)*	**7**	26
Write off on cessation of business of subsidiaries	**(6)**	—
At end of year	**779**	189

Goodwill arising from acquisition of additional interests in subsidiaries of RMB588 million arose from acquisition of additional interests from the minority shareholders of the respective subsidiaries who are also the employees of the Group during the year as set out in Note 1.

23. Goodwill (continued)

The carrying amount of goodwill at the balance sheet date is attributable to acquisition of subsidiaries and additional interests in the following subsidiaries (whose principal activities are disclosed in Note 48) and sub-groups headed by these subsidiaries:

	2007 RMB million	2006 RMB million
China Railway NO.1 Engineering Group Co., Ltd.	**64**	—
China Railway NO.3 Engineering Group Co., Ltd.	**51**	—
China Railway NO.4 Engineering Group Co., Ltd.	**95**	—
China Railway NO.5 Engineering Group Co., Ltd.	**84**	14
China Railway NO.8 Engineering Group Co., Ltd.	**48**	—
China Railway NO.9 Engineering Group Co., Ltd.	**61**	—
China Railway NO.10 Engineering Group Co., Ltd.	**26**	—
China Railway Major Bridge Engineering Group Co., Ltd.	**28**	—
China Railway Electrification Engineering Group Co., Ltd.	**41**	—
China Railway Construction Group (CRCG) Co., Ltd.	**88**	26
China Railway Tunnel Group Co., Ltd.	**19**	1
Equity Trust Co., Ltd.	**146**	146
Other subsidiaries	**28**	2
	779	189

The basis of the recoverable amounts of the above subsidiaries and their major underlying assumptions are summarised below:

Equity Trust Co., Ltd is principally engaged in financial trust management. The recoverable amount in respect of this subsidiary has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11%. One major assumption is the growth rate in revenue which is decreasing over the budgeted period. This growth rate is based on expected growth rate for the industry. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this subsidiary to exceed its recoverable amount.

The recoverable amounts in respect of subsidiaries (other than Equity Trust Co., Ltd.) has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates ranging from 7% to 10%, depending on the industries in which the subsidiaries operate. One major assumption is annual growth rates in revenue which vary among different subsidiaries. The growth rates are based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each subsidiary to exceed its recoverable amount.

24. Available-for-sale financial assets

	2007 RMB million	2006 RMB million
Unlisted PRC government bonds, at quoted prices	**4**	—
Unlisted equity-mutual funds, at quoted prices	**159**	16
Listed equity investments in the PRC at market prices	**1,792**	21
Unlisted equity investments, at cost less impairment	**953**	827
	2,908	864

The interest rates of the PRC government bonds range from 2.5% to 10% per annum.

The unlisted equity investments are equity securities issued by private entities established in the Mainland China. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

Details of the unlisted available-for-sale financial assets disposed of during the year are as follows:

	2007 RMB million	2006 RMB million
Carrying amount on disposal through:		
Disposal of subsidiaries	**1**	17
Other disposals	**151**	67
Gain on disposal excluding those through disposal of subsidiaries	**22**	49

25. Held-to-maturity financial assets

	2007 RMB million	2006 RMB million
PRC government bonds	**—**	180
Less: Amount due within one year included in current assets	**—**	(74)
Amount due after one year	**—**	106

The PRC government bonds at 31 December 2006 carried interest at fixed rates ranging from 3% to 12% per annum. Their maturity dates are in various years up to 2017.

During the year ended 31 December 2007, the Group reclassified its held-to-maturity financial assets to available-for-sale financial assets as a result of change in investment intention.

26. Other loans and receivables

	2007 RMB million	2006 RMB million
Short-term loans and receivables	**286**	881
Long-term loans and receivables	**1,013**	845
	1,299	1,726
Less: Impairment on receivables	**(38)**	(122)
Total other loans and receivables	**1,261**	1,604
Less: Amount due within one year included in current assets	**(272)**	(948)
Amount due after one year	**989**	656

Included in the above are receivables due from Beijing Gaosheng Real Estate Company Limited ("Gaosheng") as follows:

	2007 RMB million	2006 RMB million
Short-term loans and receivables	**—**	200
Long-term loans and receivables	**—**	192
	—	392
Less: Amount due within one year included in current assets	**—**	(250)
	—	142

Gaosheng is a former jointly controlled entity in which the Group had a 50% equity interest since 2004. In 2006, the Group entered into agreements with the other joint venture partner whereby the Group ceased to have any joint control nor exercise any significant influence in Gaosheng. In return, the Group's investment with carrying amount of RMB251 million would be recovered by instalments (including fixed amounts of returns on capital), of which the last instalment is receivable in 2009. No gain was recognised in 2006 in respect of the deemed disposal of the jointly controlled entity in view of the uncertainties concerning the returns on capital.

During the year ended 31 December 2007, the borrower and the Group reached an agreement for the early settlement of the receivables and the Group recognised a gain of RMB136 million.

The remaining other loans and receivables carry fixed-rate interests within a range of 4% to 20% per annum.

Movements in impairment on receivables are as follows:

	2007 RMB million	2006 RMB million
At beginning of the year	**122**	154
Impairment loss recognised during the year	**3**	—
Release through write-off	**(87)**	(32)
At end of the year	**38**	122

27. Properties held for sale/properties under development for sale

Properties held for sale amounting to nil (2006: RMB284 million) have been pledged to secure the banking facilities.

Properties under development for sale amounting to RMB935 million (2006: Nil) have been pledged to secure the banking facilities.

The Group's properties held for sale and properties under development for sale at each balance sheet date are stated at cost.

28. Inventories

	2007 RMB million	2006 RMB million
Raw materials and consumables	**7,241**	6,015
Work in progress	**1,062**	1,002
Finished goods	**2,104**	1,595
	10,407	8,612

29. Trade and other receivables

The majority of the Group's revenue is generated through construction projects and settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. For sales of products, a credit period normally at 180 days may be granted to large or long-established customers with good repayment history. Revenue from small, new or short-term customers is normally expected to be settled shortly after provision of services or delivery of goods.

	2007 RMB million	2006 RMB million
Trade and bills receivables	**41,388**	32,061
Less: impairment	**(939)**	(785)
	40,449	31,276
Other receivables (net of impairment)	**12,408**	11,400
Advance to suppliers	**10,540**	9,557
	63,397	52,233
Less: Amount due after one year included in non-current assets	**(79)**	—
Amount due within one year included in current assets	**63,318**	52,233

Included in trade and bills receivables are retention receivable of RMB10,395 million (2006: RMB6,970 million). Retention receivables are interest-free and recoverable at end of the retention period of individual construction contract, the Group's normal operating cycle, which is usually more than one year.

29. Trade and other receivables (continued)

The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts at the reporting date, based on invoice date:

	2007 RMB million	2006 RMB million
Less than six months	**17,814**	17,488
Six months to one year	**15,585**	9,112
One year to two years	**5,296**	3,012
Two years to three years	**1,157**	1,098
More than three years	**597**	566
	40,449	31,276

The Group's major customers are PRC Government agencies and other state-owned enterprises. Trade receivables due from PRC state-owned enterprises are disclosed in Note 47.

Aged analysis of trade and other receivables which are past due but not impaired:

	2007 RMB million	2006 RMB million
Six months to one year	**678**	119
One year to two years	**—**	5
	678	124

The Directors consider that there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Movements in allowance for doubtful debts of individually impaired trade and bills receivables and other receivables during the year are as follows:

	2007 RMB million	2006 RMB million
At beginning of the year	**1,279**	1,054
Impairment loss recognised during the year	**163**	229
Release through write-off	**(128)**	(1)
Decrease through disposal of subsidiaries	**(7)**	(3)
At end of the year	**1,307**	1,279
Attributable to:		
Trade and bills receivables	**939**	785
Other receivables	**368**	494
At end of the year	**1,307**	1,279

Trade and bills receivables of RMB386 million (2006: RMB287 million) were pledged against bank borrowings of the Group.

30. Amounts due from (to) customers for contract work

	2007 RMB million	2006 RMB million
Contract costs incurred plus recognised profits less recognised losses	**492,291**	351,225
Less: Progress billings	**(476,414)**	(340,348)
	15,877	10,877
Analysed for reporting purpose:		
Amounts due from customers for contract work	**27,021**	20,099
Amounts due to customers for contract work	**(11,144)**	(9,222)
	15,877	10,877

31. Held-for-trading financial assets

	2007 RMB million	2006 RMB million
Equity securities listed in Mainland China, at market prices	**5**	5
Equity securities listed in Hong Kong, at market prices	**89**	—
Mutual funds, at quoted prices	**22**	—
PRC government bonds, at quoted prices	**5**	5
Derivative financial instruments — interest rate swaps *(Note)*	**45**	—
	166	10

Note: The Group entered into five interest rate swap contracts with a total notional amount of Euro16.9 million and RMB2,540 million. One Euro interest rate swap will mature in 2011, the other Euro interest rate swap will mature in 2021 and three RMB interest rate swaps will mature in 2017.

Under the Euro contracts, the Group will receive interest at fixed rates and pay interest at floating rates.

Under the RMB contracts, the Group will receive interest at fixed rates up to certain dates between June 2009 to November 2009 and then at floating rates and pay interest at fixed rates.

32. Restricted cash

	2007 RMB million	2006 RMB million
Restricted cash denominated in:		
RMB	**2,129**	1,523
USD	**37**	—
Other currencies	**4**	—
	2,170	1,523

The restricted cash held in dedicated bank accounts under the names of the Group's companies are for the issue of performance bonds to customers or the pledge to banks to secure other short-term banking facilities granted to the Group and are therefore classified as current assets.

33. Cash and cash equivalents

	2007 **RMB million**	2006 RMB million
Bank balances and cash denominated in:		
RMB	**35,843**	28,764
USD	**9,899**	532
Other currencies	**10,984**	425
	56,726	29,721

Bank balances carry interest at market rates which range from 0.7% to 3.8% (2006: 0.7% to 2.2%) per annum. The bank balances denominated in RMB are deposited with banks in Mainland China and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government. Included in bank balances and cash are money market funds of RMB4,383 million (2006: nil), which are short-term, highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, placed with a financial institution.

34. Non-current assets held for sale

The balance at 31 December 2006 represented investment in 穆索諾伊礦業私營有限責任公司 ("Musonoie").

In 2005, the Group established Musonoie with another joint venture partner for certain exploration and mining activities in Democratic Republic of Congo. The Group has an equity interest of 73% in Musonoie but under the joint venture agreement, the Group can only have joint control with the other partner over Musonoie. This investment is belonged to other businesses segment.

On 30 March 2006, the Group entered into a disposal agreement with a third party for the disposal of the Group's entire interest in the Musonoie for a consideration of approximately RMB156 million and the disposal was expected to be completed within twelve months. Accordingly, the interest in Musonoie is classified as a non-current asset held for sale in the consolidated balance sheets at 31 December 2006. The disposal was completed during the year ended 31 December 2007 and resulted in a gain of RMB31 million.

35. Share capital

	2007 **Number of shares** '000	**2007** **Nominal value** RMB million
Registered Capital		
A Shares of RMB1.00 each	17,092,510	17,093
H Shares of RMB1.00 each	4,207,390	4,207
	21,299,900	21,300
Issued and fully paid		
A Shares of RMB1.00 each	17,092,510	17,093
H Shares of RMB1.00 each	4,207,390	4,207
	21,299,900	21,300

35. Share capital (continued)

The A Shares and H Shares in issue are the ordinary shares in the share capital of the Company. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. A Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, or qualified foreign institutional investors and must be traded in Renminbi. All cash dividends in respect of the H Shares are to be declared in Renminbi and paid by the Company in Hong Kong dollars whereas all cash dividends in respect of A Shares are to be paid by the Company in Renminbi.

In addition, A Shares and H Shares are regarded as different classes of shares under the Company's Articles of Association. The differences between the two classes of shares, including provisions on class rights, the dispatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different branches of the registers of shareholders, the method of share transfer and appointment of dividend receiving agents are set out the Company's Articles of Association.

A Shares and H Shares however rank pari passu with each other in all the other respects.

Movements in the number of the Company's share capital from the date of incorporation to 31 December 2007 are as follows:

	State-owned Shares '000	A Shares '000	H Shares '000	Total '000
Shares issued or converted upon:				
Reorganisation *(Note (a))*	**12,800,000**	**—**	**—**	**12,800,000**
Listing of A Shares *(Note (b))*	**(12,417,510)**	**17,092,510**	**—**	**4,675,000**
Listing of H Shares *(Note (c))*	**(382,490)**	**—**	**4,207,390**	**3,824,900**
	—	**17,092,510**	**4,207,390**	**21,299,900**

Notes:

(a) *The Company was established on 12 September 2007 with an initial registered capital of 12,800,000,000 ordinary shares of RMB1.00 each ("State-owned Shares"). Upon the completion of the Reorganisaton as set out in Note 1, the registered capital has been fully paid up by the injection of Core Operations by CRECG. Details of the Reorganisation are set out in Note 1.*

(b) *As part of the listing of the Company's A Shares on the Shanghai Stock Exchange on 3 December 2007, 4,675,000,000 A Shares were issued for cash at a price of RMB4.80 per share with the net proceeds amounting to RMB21,905 million. In addition, 12,417,510,000 State-owned Shares held by CRECG were converted into A Shares.*

(c) *As part of the listing of the Company's H Shares on the HKSE on 7 December 2007, 3,326,000,000 H Shares were issued for cash at a price of HK$5.78 (equivalent to RMB5.49 on 7 December 2007) per share. The net proceeds amounting to HK$18,521 million (equivalent to RMB17,602 million on 7 December 2007) were planned to finance the additions in equipment, the exploration, additions in the Group's overseas mining operations, repayment of bank borrowings and the general working capital of the Group. In addition, 332,600,000 State-owned Shares held by CRECG were converted into H Shares and transferred to the National Council for Social Security Fund (the "NSSF").*

On 10 December 2007, the Company issued additional 498,900,000 H Shares for cash at HK$5.78 (equivalent to RMB5.48 on 10 December 2007) per share upon issuance of over-allotment shares pursuant to the underwriting agreement with the net proceeds amounting to HK$2,783 million (equivalent to RMB2,640 million on 10 December 2007). In addition, 49,890,000 State-owned Shares held by CRECG were converted into H Shares and transferred to NSSF.

36. Trade and other payables

	2007 RMB million	2006 RMB million
Trade and bills payables	**54,120**	44,150
Advance from customers	**22,145**	16,158
Accrued payroll and welfare	**1,982**	1,800
Other taxes	**3,030**	2,390
Other payables	**14,794**	14,186
	96,071	78,684
Analysed for reporting purposes as:		
Non-current	**233**	207
Current	**95,838**	78,477
	96,071	78,684

The credit period on purchases of goods ranges from 180 days to 360 days. Included in trade and bills payable are retention payable of RMB3,117 million (2006: RMB2,088 million). Retention payables are interest-free and payable at the end of the retention period of individual construction contract, the Group's normal operating cycle, which is usually more than one year.

The following is an aged analysis of trade and bills payables at the reporting date:

	2007 RMB million	2006 RMB million
Less than one year	**47,821**	40,898
One year to two years	**4,730**	2,230
Two years to three years	**964**	625
More than three years	**605**	397
	54,120	44,150

37. Borrowings

	2007 RMB million	2006 RMB million
Bank loans:		
Secured	**6,599**	2,800
Unsecured	**28,158**	27,564
	34,757	30,364
Short-term debentures, unsecured	**2,657**	3,772
Other short-term loans, unsecured	**680**	53
Other long-term loans, unsecured	**672**	—
	38,766	34,189
Analysed for reporting purposes:		
Non-current	**10,239**	5,100
Current	**28,527**	29,089
	38,766	34,189

37. Borrowings (continued)

The exposure of the fixed-rate and floating-rate bank loans and the contractual maturity dates (or repricing dates) are as follows:

	2007 RMB million	2006 RMB million
Fixed-rate bank loans repayable		
On demand or within one year	**52**	78
More than one year, but within two years	**66**	62
More than two years but within three years	**66**	62
More than three years but within four years	**178**	62
More than four years but within five years	**21**	148
More than five years	**126**	172
	509	584

	2007 RMB million	2006 RMB million
Floating-rate bank loans repayable		
On demand or within one year	**25,138**	25,186
More than one year, but within two years	**2,781**	1,420
More than two years but within three years	**1,767**	1,600
More than three years but within four years	**42**	90
More than four years but within five years	**141**	281
More than five years	**4,379**	1,203
	34,248	29,780

The exposure of the fixed-rate and floating-rate other long-term loans and the contractual maturity dates (or repricing dates) are as follows:

	2007 RMB million	2006 RMB million
Fixed rate other long-term loans repayable after two years, but within three years	**228**	—
Floating-rate other long-term loans repayable		
More than one year, but within two years	**341**	—
More than two years, but within three years	**4**	—
More than three years, but within four years	**4**	—
More than four years, but within five years	**41**	—
More than five years	**54**	—
	444	—

37. Borrowings (continued)

Bank loans carry interest at rates which range from 5.0% to 7.4% (2006: 2.6% to 7.4%) per annum during the year.

Short-term debentures are either zero-coupon debentures issued at a discount or carry fixed rates ranging from 3.0% to 7.0% (2006:3.4% to 3.8%) per annum.

Other short-term loans carry interest at rates which ranged from 4.1% to 10.9% (2006: 4.1% to 10.9% per annum.

Other long-term loans carry interest at rates which ranged from 4.0% to 8.0% (2006: Nil) per annum.

The borrowings denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	In USD RMB million	In EURO RMB million	In other currencies RMB million
At 31 December 2007	**645**	**750**	**68**
At 31 December 2006	325	424	53

The overdue short-term bank borrowings at 31 December 2006 amounted to RMB26 million and the overdue positions were rectified during the year.

38. Obligations under finance lease

It is the Group's policy to lease certain of its equipment under finance leases. The lease term is 3 years from 28 December 2007 to 27 December 2010. Interest rate underlying the obligations under finance lease is fixed at contract date at 8.26%. At the end of the lease period, the Group is entitled to acquire the leased assets at a nominal consideration.

	Minimum lease payments		**Present value of minimum lease payments**	
	2007 RMB million	2006 RMB million	**2007 RMB million**	2006 RMB million
Amounts payable under finance lease				
Within one year	**47**	—	**44**	—
In more than one year but not more than two years	**44**	—	**38**	—
In more than two years but not more than five years	**41**	—	**31**	—
	132	—	**113**	—
Less: future finance charges	**(19)**	—	**—**	—
Present value of lease obligations	**113**	—	**113**	—
Less: Amount due for settlement within twelve months (shown under current liabilities)			**(44)**	—
Amount due for settlement after twelve months			**69**	—

The Group's obligations under finance lease are secured by the lessor's charge over the leased assets.

39. Financial guarantee contracts

	2007 RMB million	2006 RMB million
At beginning of the year	**43**	13
Issue of new financial guarantees	**94**	31
Amortisation for the year	**(47)**	(1)
Release to income upon cancellation of a guarantee	**(3)**	—
At end of the year	**87**	43
Analysed for reporting purpose as:		
Non-current	**77**	21
Current	**10**	22
	87	43

The balances represent the unamortized fair value of financial guarantees, the details of which are disclosed in note 45.

40. Retirement and other supplemental benefit obligations

State-managed retirement plans

The employees of the companies now comprising the Group and established in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. These PRC companies are required to contribute 20% of payroll costs, depending on the applicable local regulations, to the state-managed retirement plans. The only obligation of these PRC companies with respect to the state-managed retirement plans is to make the specified contributions.

The total cost charged to consolidated income statement during the year is RMB1,234 million (2006: RMB1,243 million).

At 31 December 2007, the amounts due in respect of the reporting period not yet paid to the state-managed retirement plans included in trade and other payables are RMB219 million (2006: RMB310 million).

Retirement and supplemental benefit obligations

The Group paid supplementary pension subsidies and other post-employment obligations to its retired employees in the PRC. In addition, the Group was committed to make periodic benefits payments to certain former employees who were terminated or early retired and the dependents of deceased employees in accordance with various employee benefit schemes adopted by the Group. These benefits were only applicable to the employees who retired on or before 31 December 2006.

40. Retirement and other supplemental benefit obligations (continued)

Retirement and supplemental benefit obligations (continued)

The amount of retirement and supplemental benefit obligations recognised in the consolidated balance sheet are determined as follows:

	2007 RMB million	2006 RMB million
Present value of unfunded defined benefit obligations	**9,054**	10,092
Net actuarial losses not recognised	**(19)**	(331)
Net liability arising from defined benefit obligations	**9,035**	9,761
Less: Amount due within one year	**(385)**	(312)
Amount due after one year	**8,650**	9,449

Movements in the present value of the retirement and supplemental benefit obligations during the year were as follows:

	2007 RMB million	2006 RMB million
At beginning of the year	**10,092**	10,411
Interest cost	**312**	349
Benefits paid	**(1,038)**	(898)
Actuarial (gains) losses	**(312)**	230
At end of the year	**9,054**	10,092

The above obligations were determined based on actuarial valuations performed by an independent firm of actuaries, Towers Perrin, Hong Kong, using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2007	2006
Discount rate	**4.50%**	3.25%
Early-retiree's salary and supplemental benefit inflation rate	**4.50%**	4.50%
Medical cost trend rates	**8.00%**	8.00%

Mortality is assumed to be the average life of expectancy of residents in the Mainland China and the medical costs paid to early retirees are assumed to continue until the death of the retirees.

The effect of an increase of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs amounted to RMB2 million (2006: RMB2 million).

(ii) the accumulated post-employment benefit obligation for medical costs amounted to RMB43 million (2006: RMB46 million).

41. Deferred taxation

The following are the major deferred income tax (liabilities) assets recognised and movements thereon during the year:

	Tax losses RMB million	Impairment of assets RMB million	Excess of accounting depreciation over tax depreciation RMB million	Retirement and other supplemental benefit obligations RMB million	Fair value changes of available-for-sale financial assets RMB million	Provision for staff welfare fund RMB million	Excess of tax base of lease prepayments over book value RMB million	Others RMB million	Total RMB million
At 1 Januanry 2006	217	365	9	1,546	(1)	(311)	—	61	1,886
(Charge) credit to income statement	(75)	(38)	5	(82)	—	(11)	—	23	(178)
Acqusition of subsidiaries	—	—	—	—	—	—	—	(12)	(12)
At 31 December 2006	142	327	14	1,464	(1)	(322)	—	72	1,696
Effect of change in tax rate charged to income statement	(28)	(35)	(2)	—	—	—	—	(16)	(81)
Acqusition of subsidiaries	1	—	—	—	—	—	—	(33)	(32)
(Charge) credit to income statement	41	(69)	1	(109)	—	322	—	59	245
Deferred tax arising from Group Reorganisation	—	—	—	—	—	—	32	—	32
Charge to equity	—	—	—	—	(261)	—	—	—	(261)
Disposal of subsidiaries	—	—	—	—	—	—	—	11	11
At 31 December 2007	156	223	13	1,355	(262)	—	32	93	1,610

Note: Impairment of assets is mainly attributable to impairment loss on trade and other loans and receivables, loan receivables, property, plant and equipment, allowances for foreseeable losses on construction contracts and inventories.

41. Deferred taxation (continued)

For the purpose of balance sheet presentation, certain deferred income tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2007 RMB million	2006 RMB million
Deferred income tax assets	**1,925**	1,883
Deferred income tax liabilities	**(315)**	(187)
	1,610	1,696

Details of the Group's unused tax losses and other deductible temporary differences are as follows:

	2007 RMB million	2006 RMB million
Tax losses recognised for deferred income tax assets	**752**	444
Tax losses unrecognised for deferred income tax assets	**770**	737
Total tax losses	**1,522**	1,181
Other deductible temporary differences unrecognised for deferred income tax assets	**317**	559
Tax losses unrecognised for deferred income tax assets that will expire in		
2007	**—**	9
2008	**29**	29
2009	**117**	168
2010	**204**	204
2011	**194**	327
2012	**226**	—
Total	**770**	737

No deferred income tax asset is recognised in relation to such tax losses and other deductible temporary differences due to the unpredictability of future profit streams.

42. Acquisition of subsidiaries

(a) Acquisition of subsidiaries

During the year, the Group acquired a 85% interest in 成都中鐵錦華置業有限公司 for a consideration of RMB20 million and 67% interest in 淄博魯鐵爆破工程有限公司 for a consideration of RMB1 million, a 100% interest in 成都全興大廈有限公司 for a consideration of RMB201 million, a 60% interest in 湖南青竹湖置業有限公司 for a consideration of RMB20 million, a 83.2% interest in 廣西梧州岑梧高速公路有限公司 for a consideration of RMB100 million, a 100% interest in 安慶市建築工程聯合開發公司 for a consideration of RMB1 million, an additional 60% interest in an associate, 貴州錦隆房地產開發有限公司, for a consideration of RMB9 million and it becomes a wholly owned subsidiary of the Company. Further, as a result of change in articles of association, a 50%-owned-jointly controlled entity, 達縣翠屏山房地產綜合開發有限責任公司, becomes a subsidiary of the Group as the Group can control the board of directors of this entity.

The carrying amounts and fair value of net assets acquired in the transactions, and the goodwill and discount on acquisition arising, are as follows:

	Acquiree's carrying amount before combination RMB million	Fair value adjustments RMB million	Fair value RMB million
Fair value of net assets acquired:			
Property, plant and equipment	12	2	14
Investment properties	369	37	406
Lease prepayments	22	72	94
Intangible assets	1,928	—	1,928
Inventories	83	—	83
Properties under development for sale	299	21	320
Trade and other receivables	504	(2)	502
Deferred income tax assets	1	—	1
Cash and cash equivalents	137	—	137
Trade and other payables	(1,044)	—	(1,044)
Deferred income tax liabilities	—	(33)	(33)
Borrowings	(1,937)	—	(1,937)
Net assets acquired	374	97	471
Minority interests			(66)
Interest in jointly controlled entity			(23)
Interests in associates			(3)
Discount on acquisition			(34)
Goodwill			7
Total consideration, satisfied by cash			352
Net cash (outflow) inflow arising on acquisition:			
Cash consideration paid			(352)
Cash and cash equivalents acquired			137
			(215)

42. Acquisition of subsidiaries (continued)

(a) Acquisition of subsidiaries (continued)

The fair value increase of the property, plant and equipment, investment properties, lease prepayments, and properties under development for sale were determined based on valuation reports prepared by independent firms of professional valuers registered in the PRC.

In 2006, the Group acquired a 100% interest in 廣州番禺里仁房地產公司 for a consideration of RMB26 million and a 51 % interest in 葫蘆島濱海區投資有限公司 for a consideration of RMB5 million.

The carrying amounts and the fair value of net assets acquired in the transactions during the year ended 31 December 2006, and the goodwill and discount on acquisition arising, are as follows:

	Acquirees' carrying amount before combination RMB million	Fair value adjustments RMB million	Fair value RMB million
Fair value of net assets acquired:			
Property, plant and equipment	107	—	107
Lease prepayments	16	37	53
Inventories	3	—	3
Properties held for sale	12	—	12
Properties under development for sale	198	22	220
Trade and other receivables	78	—	78
Cash and cash equivalents	21	—	21
Trade and other payables	(183)	—	(183)
Deferred income tax liabilities	—	(12)	(12)
Borrowings	(271)	—	(271)
Net (liabilities) assets acquired	(19)	47	28
Minority interests			(14)
Discount on acquisition			(9)
Goodwill			26
Total consideration, satisfied by cash			31
Net cash outflow arising on acquisition:			
Cash consideration paid			(31)
Cash and cash equivalents acquired			21
			(10)

The fair value increase of the underlying land use rights of the lease prepayments and the properties under development for sale were determined based on a valuation report prepared by an independent firm of professional valuers registered in the PRC.

42. Acquisition of subsidiaries (continued)

(a) Acquisition of subsidiaries (continued)

The contribution to the Group's revenue and profit by the above subsidiaries in the year of acquisition is as follows:

	2007 RMB million	2006 RMB million
Revenue	**234**	154
Loss for the year	**(41)**	(11)

If the above acquisitions have been completed at the beginning of the year of acquisition, the contribution to the Group's revenue and profit in the year of acquisition will be as follows:

	2007 RMB million	2006 RMB million
Revenue	**251**	156
Loss for the year	**(54)**	(15)

The pro forma information disclosed above is only for illustrative purpose and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of respective years, nor is it intended to be a projection of future results.

(b) Acquisition of assets through acquisition of subsidiaries

During the year, the Group acquired certain assets through acquisition of a 51% interest in 四川星慧投資置業有限公司 for a consideration of RMB25 million, a 67% interest in 武漢三方置業有限公司 for a consideration of RMB348 million and a 70% interest in 貴陽立新公司 for a nominal consideration, a 51% interest in 廣州盛德房地產開發有限公司 for a consideration of RMB5 million, a 100% interest in 成都融泰地產有限公司for a consideration of RMB87 million. The acquisitions are accounted for as acquisition of assets and liabilities as the subsidiaries are not business. The carrying amounts of net assets acquired are as follows:

	RMB million
Fair value of net assets acquired	
Property, plant and equipment	1
Inventories	2
Properties under development for sale	2,402
Trade and other receivables	352
Cash and cash equivalents	25
Trade and other payables	(981)
Borrowings	(1,133)
Net assets acquired	668
Minority interests	(203)
Total consideration, satisfied by cash	465
Net cash outflow arising from acquisition:	
Cash consideration paid	(465)
Cash and cash equivalents acquired	25
	(440)

43. Disposal of subsidiaries

In 2006,

(a) the Group disposed of 70% interest in 鐵道第三勘測察設計院 for a consideration of RMB528 million, which is settled by offsetting a payable due to the holding company of the buyer. The Group has been retaining this entity as an associate after the disposal of the 70% interest in this entity.

(b) The Group disposed of a 80% interest in 成都天泉置業有限公司 for a cash consideration of RMB93 million.

During the year ended 31 December 2007, both the Group and the minority interests made additional capital contribution to 葫蘆島濱海區投資有限公司 but the Group's interest therein has been diluted from 51% to 25.5% which resulted in loss of control over the entity. Further, the Group disposed of 60% interest in 鞍山鋼管有限公司 for a cash consideration of RMB7 million, 75% interest in 成都市鐵鴻源汽車服務有限責任公司 for a cash consideration of RMB3 million, 100% interest in 貴陽合縱置業有限公司for a consideration of RMB121 million, of which RMB60 million has been received at 31 December 2007 and the remaining was received in January 2008.

The net assets of these subsidiaries at the date of disposal were as follows:

	2007 RMB million	2006 RMB million
Net assets disposed of:		
Property, plant and equipment	**104**	313
Lease prepayments	**66**	—
Intangible assets	**—**	18
Interests in associates	**—**	17
Available-for-sale financial assets	**1**	17
Properties held for sale	**—**	27
Properties under development for sale	**159**	375
Inventories	**8**	2
Trade and other receivables	**84**	77
Cash and cash equivalents	**5**	716
Trade and other payables	**(222)**	(1,128)
Current tax liabilities	**—**	(9)
Deferred income tax liabilities	**(11)**	—
Borrowings	**(84)**	(56)
	110	369
Minority interests	**(58)**	(4)
Transfer to interest in an associate	**(19)**	(107)
Gain on disposal of subsidiaries	**98**	363
Total consideration	**131**	621
Satisfied by:		
Cash	**70**	37
Other receivables	**61**	56
Offset trade and other payables	**—**	528
Total consideration	**131**	621
Net cash outflow arising on disposal:		
Cash received	**70**	37
Cash and cash equivalents disposed of	**(5)**	(716)
	65	(679)

44. Non-cash transactions

Details of significant non-cash transactions during the year ended 31 December 2006 are as follows:

(a) As disclosed in Note 26, interest in a jointly controlled entity amounting to RMB251 million was transferred into other loans and receivables as the Group ceased to have joint control over this entity pursuant to an agreement with the joint venture partner.

(b) As disclosed in note 43(a), the Group disposed of 70% interest in a subsidiary to a third party for a consideration of RMB528 million which was satisfied by a waiver of trade and other payables.

45. Contingent liabilities

	2007 RMB million	2006 RMB million
Pending lawsuit *(Note)*	**220**	220

Note: *A subsidiary (the "Guarantor") has provided a guarantee to a bank for a bank loan of RMB220 million to an independent party (the "Borrower"). The bank has brought a lawsuit against the Borrower for the repayment of the outstanding principal and the attributable interest (including penalty interest) and against the Guarantor for the fulfilment of its responsibility under the guarantee. In March 2008. The Guarantor received a judgement from the court in favour of the bank, which demanded the Guarantor to fulfil its responsibility under the guarantee to pay the outstanding principal, interest and penalty to the bank. Then the Guarantor lodged an appeal to the court to overrule the previous court judgement. On the other hand, the bank and two independent parties have entered into a debt restructuring agreement so that the two independent parties undertake to repay the outstanding bank loan of RMB220 million and the attributable interest. Based on a legal opinion and the debt restructuring agreement, the Directors consider that the Guarantor is not liable for paying any compensation and the litigation has no impact on the Group's state of affairs at the balance sheet date and the results for the year.*

The Group has been named in a number of lawsuits arising in the ordinary course of business. Provision has been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account of the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the probability of loss is remote.

In addition to above, the Group has provided guarantees to banks in respect of banking facilities utilised by certain related companies and third parties. These financial guarantees have been stated at the higher of (i) the amount determined in accordance with IAS 37 and (ii) the unamortised fair value of these financial guarantees. The financial impact of the financial guarantees is disclosed in Note 39. The maximum exposure of these financial guarantees to the Group is as follows.

	2007 RMB million	**2007 Expiry period**	2006 RMB million	2006 Expiry period
Guarantees given to banks in respect of banking facilities utilised by:				
Jointly controlled entity and associate	**5,150**	**2008–2027**	900	2008–2009
A former jointly controlled entity	**—**	**—**	800	2007–2008
A fellow subsidiary	**—**	**—**	8	2008
Other state-owned enterprises	**808**	**2008–2011**	318	2007–2008
Property purchasers	**1,001**	**2008–2010**	172	2007–2009
Other independent parties	**1,382**	**2008–2016**	1,184	2007–2014
	8,341		3,382	

46. Commitments

Capital expenditure

	2007 RMB million	2006 RMB million
Acquisition of property, plant and equipment contracted but not provided for	**11,722**	6,356

Investment commitment

According to relevant agreements, the Group has the following commitments:

	2007 RMB million	2006 RMB million
Capital contribution to jointly controlled entities	**1,973**	195

In addition to above, the Group has additional commitments to invest on the preliminary cost of certain jointly controlled entities not exceeding certain predetermined limits as set out in note 21. Details of the Group's additional commitments are as follows:

	2007 RMB million	2006 RMB million
The predetermined limits of the commitment to the preliminary costs of jointly controlled entities	**1,964**	1,964
Less: Accumulated amount contributed by the Group	**(194)**	(129)
	1,770	1,835

Operating lease commitments

The Group as lessor

Rental income earned in respect of investment properties was set out in Note 12. The investment properties held for rental purposes are expected to generate rental yields of 5%-8% on an ongoing basis. The tenancy periods are for a term of one to ten years. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007 RMB million	2006 RMB million
Within one year	**70**	6
In the second to fifth year inclusive	**136**	17
After five years	**158**	5
	364	28

The Group as lessee

The Group leases various offices, warehouses, residential properties and machinery under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

46. Commitments (continued)

Operating lease commitments (continued)

The Group as lessee (continued)

At the balance sheet date, the future minimum lease payments under non-cancellable operating leases are as follows:

	2007 RMB million	2006 RMB million
Within one year	**506**	253
In the second to fifth year inclusive	**134**	368
	640	621

47. Related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises").

In accordance with IAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group ("other state-owned enterprises"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to significant related party transactions has been adequately disclosed.

The following is a summary of significant related party transactions between the Group and its related parties, including other state-owned enterprises, during the year and balances arising from related party transactions at the balance sheet date.

47. Related party transactions (continued)

Significant related party transactions

The Group had the following significant transactions with related parties:

	2007 RMB million	2006 RMB million
Transactions with the CRECG and its subsidiaries not comprising the Group ("CRECG Group")		
Service expenses paid	99	37
Rental fee	39	—
Transactions with jointly controlled entities		
Revenue from construction contracts	135	120
Revenue from consulting service	10	—
Transactions with associates		
Revenue from construction contracts	3,532	277
Purchases	16	2
Transactions with minority shareholders of subsidiaries		
Purchases	66	—
Transactions with other state-owned enterprises		
Revenue from construction contracts	91,690	85,097
Revenue from design and other services	17,039	779
Purchases	10,461	2,161
Interest income on bank balances	364	223
Interest expenses on bank borrowings	852	820

47. Related party transactions (continued)

Significant related party transactions (continued)

Balances with related parties

	2007 RMB million	2006 RMB million
Balances with the CRECG Group		
Other receivables	**80**	—
Trade payables	**6**	10
Other payables	**103**	7
Balances with jointly controlled entities		
Trade receivables	**6**	—
Other receivables	**47**	140
Other payables	**43**	—
Advance from customers	**18**	—
Balances with associates		
Trade receivables	**383**	75
Other receivables	**530**	471
Advance to suppliers	**18**	—
Trade payables	**12**	11
Other payables	**288**	8
Advance from customers	**855**	—
Balances with other state-owned enterprises		
Trade receivables	**18,360**	5,230
Other receivables	**2,583**	1,121
Bank balances	**39,385**	14,699
Trade payables	**3,963**	252
Other payables	**917**	87
Bank borrowings	**16,217**	13,122
Other borrowings	**320**	—
Balances with minority shareholders of subsidiaries		
Trade receivables	**—**	13
Other receivables	**113**	20
Trade payables	**298**	—
Advance to suppliers	**24**	—
Other payables	**186**	51
Other borrowing	**23**	—
Other loans and receivables	**30**	—
Balance with joint venture partner of jointly controlled entities		
Other loans and receivables	**129**	—

In addition, the Group provided guarantees to banks in respect of banking facilities utilized by a jointly controlled entity, an associate, a fellow subsidiary and other state-owned enterprises, the maximum exposure of which are disclosed in Note 45.

47. Related party transactions (continued)

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year were as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries, allowances and other benefits-in-kind	**2,051**	1,403
Contributions to pension plans	**717**	539
Discretionary bonus	**3,742**	2,363
	6,510	4,305

Key management represents the Directors and other senior management personnel disclosed in the annual report. The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

48. Particulars of principal subsidiaries

As at 31 December 2007, the Company had the following principal subsidiaries:

Name of subsidiary	Country/ place of incorporation and operation	Issued or paid in capital '000	Class of capital	Attributable equity interests held by the Group %	Principal activities
中國海外工程有限責任公司 China Overseas Engineering Group Co., Ltd.	PRC	RMB478,537	Registered	98	Infrastructure construction
中鐵一局集團有限公司 China Railway NO.1 Engineering Group Co., Ltd.	PRC	RMB1,436,223	Registered	100	Infrastructure construction
中鐵二局集團有限公司 China Railway NO.2 Engineering Group Co., Ltd.	PRC	RMB1,643,820	Registered	100	Infrastructure construction
中鐵三局集團有限公司 China Railway NO.3 Engineering Group Co., Ltd.	PRC	RMB1,553,690	Registered	100	Infrastructure construction
中鐵四局集團有限公司 China Railway NO.4 Engineering Group Co., Ltd.	PRC	RMB1,574,586	Registered	100	Infrastructure construction
中鐵五局集團有限公司 China Railway NO.5 Engineering (Group) Co., Ltd.	PRC	RMB1,731,587	Registered	100	Infrastructure construction
中鐵六局集團有限公司 China Railway NO.6 Engineering Group Co., Ltd.	PRC	RMB1,387,500	Registered	100	Infrastructure construction

48. Particulars of principal subsidiaries (continued)

Name of subsidiary	Country/ place of incorporation and operation	Issued or paid in capital '000	Class of capital	Attributable equity interests held by the Group %	Principal activities
中鐵七局集團有限公司 China Railway NO.7 Engineering Group Co., Ltd.	PRC	RMB949,200	Registered	100	Infrastructure construction
中鐵八局集團有限公司 China Railway NO.8 Engineering Group Co., Ltd.	PRC	RMB1,033,285	Registered	100	Infrastructure construction
中鐵九局集團有限公司 China Railway NO.9 Engineering Group Co., Ltd.	PRC	RMB937,797	Registered	100	Infrastructure construction
中鐵十局集團有限公司 China Railway NO.10 Engineering Group Co., Ltd.	PRC	RMB1,050,943	Registered	100	Infrastructure construction
中鐵大橋局集團有限公司 China Railway Major Bridge Engineering Group Co., Ltd.	PRC	RMB1,548,906	Registered	100	Infrastructure construction
中鐵電氣化局集團有限公司 China Railway Electrification Engineering Group Co., Ltd.	PRC	RMB1,290,932	Registered	100	Infrastructure construction
中鐵建工集團有限公司 China Railway Construction Group (CRCG) Co., Ltd.	PRC	RMB1,053,613	Registered	100	Infrastructure construction
中鐵隧道集團有限公司 China Railway Tunnel Group Co., Ltd.	PRC	RMB1,109,347	Registered	100	Infrastructure construction
中鐵二院工程集團有限責任公司 China Railway Eryuan Engineering Group Co. Ltd. (Formerly known as 鐵道第二勘察院)	PRC	RMB554,208	Registered	100	Survey and design
中鐵工程設計諮詢集團有限公司 China Railway Engineering Consulting Group Co., Ltd.	PRC	RMB169,860	Registered	91	Engineering consulting
中鐵大橋勘察設計院有限公司 China Railway Major Bridge Reconnaissance & Design Institute Co., Ltd.	PRC	RMB28,404	Registered	100	Survey and design
中鐵西北科學研究院有限公司 China Railway Northwest Research Institute Co., Ltd.	PRC	RMB30,795	Registered	97	Construction and survey supervision

48. Particulars of principal subsidiaries (continued)

Name of subsidiary	Country/ place of incorporation and operation	Issued or paid in capital '000	Class of capital	Attributable equity interests held by the Group %	Principal activities
中鐵西南科學研究院有限公司 China Railway Southwest Research Institute Co., Ltd.	PRC	RMB24,318	Registered	96	Construction and survey supervision
中鐵工程設計機械研究設計院有限公司 China Railway Engineering Machinery Research & Design Institute Co., Ltd.	PRC	RMB46,553	Registered	98	Automation of construction equipment
中鐵山橋集團有限公司 China Railway Shanhaiguan Bridge Group Co., Ltd.	PRC	RMB412,103	Registered	100	Bridge steel structure manufacturing
中鐵寶橋股份有限公司 China Railway Turnout & Bridge Co., Ltd.	PRC	RMB200,000	Registered	97	Railway specialised equipment manufacturing
寶雞中鐵寶橋實業發展有限公司 Baoji China Railway Turnout & Bridge Development Co., Ltd.	PRC	RMB60,000	Registered	100	Social services
中鐵寶工有限責任公司 China Railway Bus Co., Ltd. manufacturing	PRC	RMB120,717	Registered	100	Railway equipment
中鐵重工有限公司 China Railway Heavy Machinery Co., Ltd. (formerly known as 武漢中鐵工程機械廠 Wuhan China Railway Engineering Machinery)	PRC	RMB50,000	Registered	100	Railway specialised equipment manufacturing
中鐵荷澤德商高速公路建設發展有限公司 China Railway Heze Deshang Expressway Development Co., Ltd.	PRC	RMB100,000	Registered	100	Investment and management
廣西岑興高速公路發展有限公司 Guangxi Cenxing Expressway Development Co., Ltd.	PRC	RMB100,000	Registered	85	Investment and management
廣西全興高速公路發展有限公司 Guangxi Quanxing Expressway Development Co., Ltd.	PRC	RMB100,000	Registered	75	Investment and management
北京中鐵工投資管理有限公司 China Railway Engineering and Construction Investment (Beijing) Co., Ltd.	PRC	RMB384,000	Registered	100	Investment and management
衡平信託有限責任公司 Equity Trust Co., Ltd.	PRC	RMB600,000	Registered	86	Financial trust management
青海中鐵礦業發展有限公司 China Railway Qinghai Mining Development Co., Ltd.	PRC	RMB30,000	Registered	100	Mining

48. Particulars of principal subsidiaries (continued)

Name of subsidiary	Country/ place of incorporation and operation	Issued or paid in capital '000	Class of capital	Attributable equity interests held by the Group %	Principal activities
華鐵工程咨詢有限責任公司 Huatie Engineering Consulting Co., Ltd. (formerly known as 華鐵工程咨詢公司)	PRC	RMB20,000	Registered	100	Construction management
中鐵程誠源財務服務有限責任公司 China Railway Chengchengyuan Financial Service Co., Ltd.	PRC	RMB50,000	Registered	100	Financial training and software development
中鐵置業集團有限公司 China Railway Real Estate Group	PRC	RMB977,000	Registered	100	Property development
中鐵西南投資管理有限公司 China Railway Xi Nan Investment & Management Co., Ltd.	PRC	RMB50,000	Registered	100	Investment and management
中鐵工程蘇尼特鐵路有限責任公司 China Railway Sunnit Engineering Co., Ltd.	PRC	RMB200,000	Registered	51	Railway construction and operations

All above subsidiaries were incorporated as limited liability companies in the PRC which have similar characteristics of limited liability company incorporated under Hong Kong Companies Ordinance.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At 31 December 2007, the following subsidiaries had outstanding issued debt securities:

Name of subsidiary	Face value of debt securities	Maturity date
China Railway NO.1 Engineering Group Co., Ltd.	RMB500 million	25 July 2008
China Railway NO.2 Engineering Group Co., Ltd.	RMB400 million	5 February 2008
	RMB300 million	20 March 2008
China Railway NO.3 Engineering Group Co., Ltd.	RMB490 million	7 December 2008
China Railway NO.5 Engineering Group Co., Ltd.	RMB490 million	4 March 2008
China Railway Major Bridge Engineering Group Co., Ltd.	RMB490 million	12 November 2008

48. Particulars of principal subsidiaries (continued)

At 31 December 2006, the following subsidiaries had outstanding issued debt securities:

Name of subsidiary	Face value of debt securities	Maturity date
China Railway NO.2 Engineering Group Co., Ltd.	RMB300 million	13 February 2007
China Railway NO.3 Engineering Group Co., Ltd.	RMB500 million	14 August 2007
China Railway NO.4 Engineering Group Co., Ltd.	RMB600 million	13 April 2007
China Railway Major Bridge Engineering Group Co., Ltd.	RMB490 million	19 June 2007

49. Particulars of principal jointly controlled entities

At 31 December 2007, the particulars of the Group's principal jointly controlled entities, incorporated with limited liability, are as follows:

Name of company	Place/ country of incorporation/ operations	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
綠砂礦業有限責任公司 Luisha Ming Co., Ltd.	Democratic Republic of Congo	72 *(Note)*	Mining and exploration
重慶渝鄰高速公路有限公司 Chongqing Yuling Expressway Co., Ltd.	PRC	50	Build-operate-transfer service concession arrangement

Note: Pursuant to contractual agreement between the shareholders, the Group does not have the control of 綠砂礦業有限責任公司 but is in a position to exercise control over this entity jointly with another joint venture partner.

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

50. Particulars of principal associates

At 31 December 2007, the particulars of the Group's principal associates, incorporated with limited liability, are as follows:

Name of company	Place/ country of incorporation/ operations	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
雲南富硯高速公路有限公司 Yunnan Fuyan Expressway Co.,Ltd.	PRC	70 *(Note)*	Build-operate-transfer service concession arrangement
臨策鐵路有限責任公司 Lince Railway. Co., Ltd.	PRC	29	Railway construction, operations and maintenance.
鐵道第三勘測院工程勘查設計院 The Third Railway Survey and Design Institute Group Corporation	PRC	30	Engineering survey and design
重慶墊忠高速公路有限公司 Chongqing Dianzhong Expressway Co., Ltd.	PRC	80	Build-operate-transfer service concession arrangement

Note: Pursuant to contractual agreements between the shareholders, the Group does not have the control of 雲南富硯高速公路有限公司 and 重慶墊忠高速公路有限公司 but still retain the significant influences in these entities.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

51. Post balance sheet events

On 15 January 2008, the Group acquired a 50% equity interest in an entity, 福建天成瑞源房地產股份有限公司, through making a capital contribution of RMB49 million to this entity, which becomes a jointly controlled entity of the Group with a registered capital of RMB98 million. This subsidiary is engaged in property development.

On 22 January 2008, the Group acquired a 70% equity interest in an entity, 赤峰中鐵資源有限公司, through making a capital contribution of RMB35 million to this entity, which becomes a subsidiary of the Company with a registered capital of RMB50 million. This subsidiary is engaged in mining business.

On 22 January 2008, the Group established a wholly-owned subsidiary, 中鐵南方投資發展有限公司, with a registered capital of RMB400 million pursuant to a resolution passed at a meeting of directors of the Company. This subsidiary is engaged in infrastructure construction.

51. Post balance sheet events (continued)

In January 2008, the Group acquired an additional 63% equity interest in 成都市盈庭置業有限公司, in which the Group held a 37% equity interest at 31 December 2007, for a consideration of RMB16 million and it becomes a wholly owned subsidiary of the Company. This subsidiary is engaged in property development. In addition, the Group acquired a 63% equity interest in 成都市金馬瑞城投資有限公司, through making a capital contribution of RMB60 million to this entity. This subsidiary is engaged in property development.

In January 2008, as a result of change in articles of association, a 50%-owned jointly controlled entity, 廣廈重慶一建房地產開發有限公司, becomes a subsidiary of the Group as the Group can control the board of directors of this entity. This jointly controlled entity is engaged in property development.

On 31 January 2008, the Group entered into an agreement with two persons which hold 1% and 99% interest in an entity, 千層浪房地產公司, so that the Group would acquire 1% equity interest in this entity from the minority equity holder of this entity and committed to advance a loan of RMB186 million to this entity. This loan is used to finance the settlement of all the liabilities of this entity and is secured on the land and buildings of this entity and the 99% equity interest in this entity held by the major equity holder. When all the liabilities of this entity have been settled, the major equity holder will transfer the 99% equity interest in this entity to the Group.

On 26 February 2008, the Group established a wholly-owned subsidiary, 中鐵國際經濟合作有限公司, with a registered capital of RMB500 million pursuant to a resolution passed at a meeting of directors of the Company. This subsidiary is engaged in infrastructure construction.

Pursuant to a resolution passed in a meeting of board of directors of a subsidiary on 28 March 2008, the Group has resolved to establish a 51%-owned jointly controlled entity with a registered capital of USD41 million. This jointly controlled entity will be principally engaged in property development, infrastructure construction, provision of investment consultancy and management services. The establishment of this jointly controlled entity is subject to approval from relevant government authorities.

On 22 April 2008, the Company, Sinohydro International Engineering Co., Ltd. and the Government of the Republic of Congo entered into a cooperation agreement for the establishment of a joint venture company which is engaged in development of copper and cobalt mines and facilities construction in the Republic of Congo. The Group estimates to invest USD1,833 million in the form of capital contribution and loan advances to this joint venture company. The establishment of this jointly venture company is subject to approval from relevant government authorities.

On 31 December 2007, the listed equity securities held-for trading financial assets and listed equity available-for-sale financial assets of the Group amounted to RMB94 million and RMB1,792 million respectively. As a result of the downturn in the securities markets after the balance sheet date, the Group has suffered a decrease in the fair value of its equity securities financial assets listed on the stock markets.

1. Material Litigation and Arbitration

Details of material litigation and arbitration which have been disclosed in the Company's prospectus are set out as below:

The plaintiff, Shenzhen Development Bank Co., Ltd., Shenzhen Bao'an Sub-branch, lent RMB220 million to Shenzhen Wanghai Yikang Industry Development Co., Ltd. ("Wanghai Yikang"), and China Railway Construction Group (CRCG) Co., Ltd. ("China Railway Construction"), a subsidiary of the Company, and 4 other legal persons/ natural persons had provided suretyship of joint and several liabilities for the above loan. As Wanghai Yikang defaulted in the repayment of the loan, the plaintiff commenced court proceedings against Wanghai Yikang and the 5 guarantors (including China Railway Construction) on 23 November 2004. Subsequently, Wanghai Yikang has filed a bankruptcy petition, and accordingly, the court suspended the litigation for the case. China Railway Construction had reported its rights over the debts to the court as a result of it also being the main contractor of one of the properties invested and constructed by Wanghai Yikang, being the Zheng Xie Lian Yi Building (政協聯誼大廈).

In August 2007, China Lvgem Co., Ltd. ("Lvgem Group") applied for a debt restructuring to the Intermediate People's Court of Shenzhen, and it was decided by the Intermediate People's Court of Shenzhen that Lvgem Group shall commence the restructuring procedure. Each major creditor, including China Railway Construction, had entered into a Debt Transfer Agreement with Lvgem Group, respectively, pursuant to which China Railway Construction transferred all its debts, which had been reported to the manager of Wanghai Yikang, to Lvgem Group at the transfer price based on the debt amount confirmed by the court's final judgment. In view of China Railway Construction was also the guarantor of Wanghai Yikang, upon the signing of the agreement, Lvgem Group immediately commenced negotiation with Shenzhen Development Bank Co., Ltd., Shenzhen Bao'an Sub-branch regarding the release China Railway Construction from all its obligations and responsibilities as a guarantor or the repayment of all such debts by Lvgem Group on behalf of the guarantor, so as to resolve the issues arising from the guarantee provided by China Railway Construction by replacing the guarantor or in a manner approved by China Railway Construction and the bank. As of 31 December 2007, Lvgem Group paid a total of RMB17.98 million as the consideration of the above debt transfer.

On 22 December 2007, Guangdong Provincial High People's Court made a judgment based on the "Civil Written Order (2004) Yue Gao Fa Min Er Chu Zi No. 35". The main judgments were as follows: (1) the defendant, Wanghai Yikang, should fully repay the loan of a principal amount of RMB220,000,000 and related interests to the plaintiff, Shenzhen Development Bank Co., Ltd., Shenzhen Bao'an Sub-branch within 30 days from the effective date of the judgment; (2) the defendant, China Railway Construction, should undertake the joint and several responsibility for the repayment of the debts confirmed in the aforesaid judgment. Upon full repayment of the debts, China Railway Construction shall be entitled to claim for the recovery from the defendant, Wanghai Yikang or to require other guarantors undertaking such joint and several responsibility to fully repay their respective share of the debt pursuant to Rule 12 of the "Security Law of the People's Republic of China". Although the judgment was dated 22 December 2007, China Railway Construction was only summoned by the court on 10 March 2008 notifying it to attend to the court for the pronouncing of the judgment at 15:00 on 18 March 2008. China Railway Construction has already filed an appeal.

Apart from the material litigation and arbitration disclosed in the prospectus, the Group has no further material litigation and arbitration during the reporting period.

2. Events regarding Bankruptcy and Restructuring of the Group during the Reporting Period

During the reporting period, there was no event regarding bankruptcy and restructuring of the Group.

3. Shares issued by Other Listed Companies and Financial Institutions including Commercial Banks, Securities Companies, Insurance Companies, Trust Companies and Futures Companies, held by the Group

(i) Securities Investments

No.	Type of securities	Stock code	Simplified stock name	Amount of initial investment (RMB)	Number of securities held	Carrying value at the end of the year (RMB)	Percentage of total securities investment at the end of the year (%)	Gain/loss in the reporting period
1.	Stock	601088	China Shenhua	406,890.00	11,000.00	721,710.00	0.77	314,820.00
2.	Stock	601939	China Construction Bank	393,450.00	61,000.00	600,850.00	0.64	207,400.00
3.	Stock	601857	PetroChina	267,200.00	16,000.00	495,360.00	0.53	228,160.00
4.	Stock	600050	China Unicom	242,777.70	35,000.00	422,800.00	0.45	180,022.30
5.	Stock	601398	Industrial and Commercial Bank of China	267,992.01	50,000.00	406,500.00	0.43	138,507.99
6.	Stock	601601	China Pacific Insurance	150,000.00	5,000.00	247,250.00	0.26	97,250.00
7.	Stock	002049	Jingyuan Electronics	199,089.00	15,000.00	231,300.00	0.25	32,211.00
8.	Stock	600202	Harbin Air Conditioning	129,399.74	10,000.00	220,000.00	0.24	90,600.26
9.	Stock	601169	Bank of Beijing	112,500.00	9,000.00	183,240.00	0.20	70,740.00
10.	Stock	601866	China Shipping	72,820.00	11,000.00	133,650.00	0.14	60,830.00
Other securities investments held at the end of the year				10,855,880.00		89,937,344.70	96.09	-12,980,541.55
Gain on disposal of securities investments in the reporting period								133,426,000.00
Total				13,097,998.45		93,600,004.70	100.00	121,866,000.00

Notes:

(1) Securities investments listed above includes stocks, warrants and convertible bonds, of which stock investments only include the items accounted for as tradable financial assets.

(2) Other securities investments refer to other securities investments other than the top 10 securities stated above.

(3) Gain or loss in the reporting period consists of gains and losses derived from bonus and changes in fair values.

3. Shares issued by Other Listed Companies and Financial Institutions including Commercial Banks, Securities Companies, Insurance Companies, Trust Companies and Futures Companies, held by the Group (continued)

(ii) Top 10 Holding of Shares issued by Other Listed Companies

Stock code	Simplified stock name	Amount of initial investment (RMB)	Percentage of interests in the investee company	Number of shares held	Carrying value as at the end of the year (RMB)	Gain/loss in the reporting period (RMB)	Accounting item	Source of shares
601328	Bank of Communications	51,981,795.40	0.02%	28,608,403	446,863,254.86	1,848,540.00	Available-for-sale financial assets	Purchase from market
601099	Pacific Securities	7,644,000.00	0.14%	6,000,000	296,700,000.00		Available-for-sale financial assets	Purchase from market
000050	Shenzhen Tianma	186,390,000.00	5.72%	19,000,000	186,390,000.00		Available-for-sale financial assets	Purchase from market
600100	Tsinghua Tongfang	180,000,000.00	1.18%	7,758,620	180,000,000.00		Available-for-sale financial assets	Purchase from market
000518	Sihuan Bioengineering	7,937,897.00	1.34%	13,793,880	91,867,240.80		Available-for-sale financial assets	Purchase from market
600978	Yihua Timber	72,600,000.00	1.29%	6,000,000	72,600,000.00		Available-for-sale financial assets	Purchase from market
601088	China Shenhua	6,209,881.20	0.06%	167,880	11,014,606.80		Available-for-sale financial assets	Purchase from market
601857	PetroChina	4,814,309.40	0.01%	288,282	8,925,210.72		Available-for-sale financial assets	Purchase from market
002191	Jinjia Group	2,331,224.70		131,115	4,353,018.00		Available-for-sale financial assets	Purchase from market
601601	China Pacific Insurance	2,491,080.00		83,036	4,106,130.20		Available-for-sale financial assets	Purchase from market
Total		522,400,187.70		81,831,216	1,302,819,461.38	1,848,540.00		

Notes:

(1) Holding of shares issued by other listed companies listed above include the shares held by the Company and its subsidiaries which were accounted for as available-for-sale financial assets.

(2) Gain or loss in the reporting period consists of the gain derived from the bonus received from the investments during the reporting period.

(3) The percentage of interests in the investee company is calculated based on the total issued share capital of such investee company.

3. Shares issued by Other Listed Companies and Financial Institutions including Commercial Banks, Securities Companies, Insurance Companies, Trust Companies and Futures Companies, held by the Group (continued)

(iii) Holding of Shares issued by Unlisted Financial Institutions

Name of institution	Amount of initial investment RMB	Percentage of interests in the investee companies	Carrying value as at the end of the period RMB	Gain/loss in the reporting period RMB	Accounting item	Source of shares
Sinolink Securities Co. Ltd.	30,390,000	6%	—	30,390,000	Long-term equity investment	External investment
Western Securities Co., Ltd.	10,000,000	1%	10,000,000	—	Long-term equity investment	External investment
Greatwall Securities Co., Ltd.	102,000,000	Less than 1%	102,000,000	—	Long-term equity investment	External investment

Apart from the shares held in the above unlisted financial institutions, the Company also invested RMB359.94 million in its subsidiary, Equity Trust Co. Ltd., representing 86% of the total issued share capital of the subsidiary.

(iv) Details of Dealings in Shares of Other Listed Companies

Number of shares held at the beginning of the year	Number of shares purchased in 2007	Number of shares sold in 2007	Number of shares held as at the end of the year	Total funds spent RMB	Gain on investment RMB
19,604,895	38,677,600	25,488,875	32,758,620	552,180,990	523,456,334

During the reporting period, the investment gain from disposal of the stocks acquired from initial public offers amounted to RMB18,209,470.59.

4. Significant Acquisition and Disposal of Assets and Merger Transaction during the Reporting Period

During the reporting period, there was no significant acquisition and disposal of assets and merger transaction.

5. Implementation of the Group's Share Incentive Scheme

Currently, the Group has not implemented any share incentive scheme.

6. Significant Related Party Transactions during the Reporting Period

(i) Related parties having a controlling interest in the Company:

Name of related party	Institution code	Place of registration	Nature of business	Registered capital RMB'000	Percentage of shareholding (%)
CRECG	10201654-8	Beijing	Engineering and Construction	10,814,925	58.30

CRECG is the ultimate controlling shareholder of the Group.

(ii) Other related parties having transactions with but no controlling relationship in the Group are as follows:

Name of related party	Relationship with the related party
China Railway Hongda Asset Management Center	Fellow subsidiary
China Railway Xianyang Management Cadres Institute *(Note 1)*	Fellow subsidiary
Party School of China Railway Engineering Corporation *(Note 1)*	Fellow subsidiary
China Railway No. 3 Engineering Group Luzhou Cement Co., Ltd. *(Note 1)*	Fellow subsidiary
Sunit Zuoqi Mang Lai Mining Company Ltd.	Fellow subsidiary
Joint venture of China State Construction and China Railway — Sha Tian Ling Project	Joint venture
Joint venture of China State Construction and China Railway — Bao Shan Dao Project	Joint venture
Joint venture of Paul Y.and China Railway — Garbage Processing Project	Joint venture
Daxian Cuipingshan Property Development Co., Ltd *(Note 2)*	Joint venture
Chengdu China Railway Celebrity Industry Development Co., Ltd.	Joint venture
Guangsha Chongqing Yijian Property Development Co., Ltd.	Joint venture
Chongqing Yulin Expressway Co., Ltd.	Joint venture
Lvsha Mining Co., Ltd.	Joint venture
MKM Mining Co., Ltd.	Joint venture
CNTT Chinese New Turnout Technologies Co., Ltd.	Joint venture
Chengdu Huaxindazu Property Development Co., Ltd.	Associate
Shanghai Tierun Construction Engineering Co., Ltd.	Associate
Chengdu Longquanyi District Land Recondition Co., Ltd.	Associate
Guiyang Xinglong Afforestation Engineering Co., Ltd.	Associate
Shaanxi Beichen Property Development Co., Ltd.	Associate
Shenzhen Gangchuang Building Materials Co. Ltd.	Associate
Tong Chuan Hua Long Co., Ltd.	Associate
China Railway No.2 Group Yongjingtang Printing Co., Ltd.	Associate
Yunnan Fuyan Expressway Co., Ltd.	Associate
The Third Railway Survey and Design Institute Group Corporation	Associate
Lince Railway. Co., Ltd.	Associate
Chongqing Dianzhong Expressway Co., Ltd.	Associate
Jiangsu Zhongtai Steel Structure Co., Ltd.	Associate

6. Significant Related Party Transactions during the Reporting Period (continued)

(ii) Other related parties having transactions with but no controlling relationship in the Group are as follows: (continued)

Name of related party	Relationship with the related party
Guiyang Changqingteng Property Development Co., Ltd.	Associate
Chengdu Yingting Real Estate Development Company	Associate
Sichuan Chuangyu Investment Co., Ltd.	Associate
Chengdu Yuantong Railway Engineering Co., Ltd.	Associate
Chengdu Jinmaruicheng Investment Co., Ltd.	Associate
Shenzhen Huazhihui Investment Co., Ltd.	Minority shareholder of subsidiaries
Shenzhen Meili Group Co., Ltd.	Minority shareholder of subsidiaries
Shanghai North Industrial New Zone Investment & Management Co., Ltd.	Minority shareholder of subsidiaries
Fengtai Comprehensive Investment Co., Ltd.	Minority shareholder of subsidiaries
Shuhe Investment Management Co., Ltd.	Minority shareholder of subsidiaries
Hunan Qifansheng Real Estate Co., Ltd.	Minority shareholder of subsidiaries
Guangxi Communications Infrastructure Construction Administration Bureau	Minority shareholder of subsidiaries
BWG Gesellschaft mbH & Co. KG	Minority shareholder of subsidiaries
Neijiang Hongchen Property Development Co., Ltd.	Minority shareholder of subsidiaries
Exploitations Artisanales Au Congo	Shareholder of joint venture companies

Note 1: China Railway Xianyang Management Cadres Institute, The Party School of China Railway Engineering Corporation and China Railway No. 3 Engineering Group Luzhou Cement Co., Ltd. had been subordinated to China Railway Hongda Asset Management Center since 2007.

Note 2: China Railway Erju Co., Ltd held 50% equity interests of Daxian Cuipingshan Property Development Co., Ltd served and such interests were recognized as a joint venture company for auditing purpose. Given the amendment to the articles of association of Daxian Cuipingshan Property Development Co., Ltd, it fell into the category of consolidated companies.

6. Significant Related Party Transactions during the Reporting Period (continued)

(iii) Substantial transactions between the Group and the above related parties during the year are as follows:

(1) *Sales and Procurement*

Details of the sales and procurement of goods between the Group and related parties are as follows:

	For the year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Sales		
Yunnan Fuyan Expressway Co., Ltd.	**1,944,658**	111,873
Chongqing Dianzhong Expressway Co., Ltd.	**472,898**	—
Lince Railway Co., Ltd.	**814,887**	62,507
Chengdu Huaxindazu Property Development Co., Ltd.	**279,510**	79,390
CNTT Chinese New Turnout Technologies Co., Ltd.	**69,819**	—
Chengdu China Railway Celebrity Industry Development Co., Ltd.	**60,243**	10,009
Chengdu Longquanyi District Land Recondition Co., Ltd.	**20,038**	22,670
Guangsha Chongqing Yijian Property Development Co., Ltd.	**4,673**	—
	3,666,726	286,449
Procurement		
BWG Gesellschaft mbH & CoKG	**66,053**	—
The Third Railway Survey and Design Institute Group Corporation	**16,000**	—
Shenzhen Gangchuang Building Materials Co. Ltd.	**—**	1,820
	82,053	1,820
Expenses paid to Non-operating Units		
CRECG	**1,245**	32,429
China Railway Xianyang Management Cadres Institute	**—**	1,500
The Party School of China Railway Engineering Corporation	**—**	2,900
	1,245	36,829
Integrated Services		
China Railway Hongda Asset Management Center	**97,305**	—
Property Lease		
China Railway Hongda Asset Management Center	**38,754**	—
Consultancy Income		
Daxian Cuipingshan Property Development Co., Ltd	**9,646**	—

(2) *Guarantee*

	For the year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Yunnan Fuyan Expressway Co., Ltd.	**5,150,000**	750,000
Daxian Cuipingshan Property Development Co., Ltd	**—**	150,000
China Railway No. 3 Engineering Group Luzhou Cement Co., Ltd.	**—**	8,000
	5,150,000	908,000

6. Significant Related Party Transactions during the Reporting Period (continued)

(iii) Substantial transactions between the Group and the above related parties during the year are as follows: (continued)

(3) *Balance of Receivables and Payables*

Items	Related Party	2007 RMB'000	2006 RMB'000
Account receivables	Chengdu Huaxindazu Property Development Co., Ltd.	**105,716**	33,159
	Lince Railway. Co., Ltd.	**230,919**	42,367
	Chengdu Longquanyi District Land Recondition Co., Ltd.	**24,621**	—
	Chongqing Dianzhong Expressway Co., Ltd.	**22,055**	—
	Chongqing Yulin Expressway Co., Ltd	**6,026**	6,026
	Shenzhen Meili Group Co., Ltd.	**—**	12,509
		389,337	94,061
Other receivables	Chengdu Yingting Real Estate Development Company	**351,908**	—
	Hunan Qifansheng Real Estate Co., Ltd.	**113,509**	—
	China Railway Hongda Asset Management Center	**74,394**	—
	Chongqing Dianzhong Expressway Co., Ltd.	**51,408**	—
	Sichuan Chuangyu Investment Co., Ltd.	**38,564**	—
	Guiyang Changqingteng Property Development Co., Ltd.	**33,000**	—
	Chengdu Jinmaruicheng Investment Co., Ltd.	**24,922**	—
	Guangsha Chongqing Yijian Property Development Co., Ltd.	**23,017**	60,063
	Shaanxi Beichen Property Development Co., Ltd.	**17,440**	17,440
	Joint venture of Paul Y. and China Railway–Garbage Processing Project	**11,237**	—
	MKM Mining Co., Ltd.	**12,977**	—
	Tong Chuan Hua Long Co., Ltd.	**8,448**	—
	Sunit Zuoqi Mang Lai Mining Company Ltd.	**5,490**	—
	China Railway No. 2 Group Yongjingtang Printing Co., Ltd.	**3,600**	3,600
	Guiyang Xinglong Afforestation Engineering Co., Ltd.	**—**	2,911
	Daxian Cuipingshan Property Development Co., Ltd	**—**	20,293
	Chengdu China Railway Celebrity Industry Development Co., Ltd.	**—**	60,000
	Chengdu Huaxindazu Property Development Co., Ltd.	**—**	200,000
	Shenzhen Huazhihui Investment Co., Ltd.	**—**	20,000
	Chongqing Yulin Expressway Co., Ltd.	**—**	334
	Yunnan Fuyan Expressway Co., Ltd.	**—**	247,372
		769,914	632,013

6. Significant Related Party Transactions during the Reporting Period (continued)

(iii) Substantial transactions between the Group and the above related parties during the year are as follows: (continued)

(3) *Balance of Receivables and Payables (continued)*

Items	Related Party	2007 RMB'000	2006 RMB'000
Loans and receivables	Exploitations Artisanales Au Congo	**128,811**	—
	Shanghai North Industrial New Zone Investment & Management Co., Ltd.	**30,000**	—
		158,811	—
Prepayments	BWG Gesellschaft mbH & Co KG	**23,948**	—
	Chengdu Yuantong Railway Engineering Co. Ltd	**10,786**	—
	Jiangsu Zhongtai Steel Structure Co., Ltd.	**7,000**	—
		41,734	—
Receipts in advance	Yunnan Fuyan Expressway Co., Ltd.	**838,228**	—
	Chongqing Dianzhong Expressway Co., Ltd.	**17,005**	—
	Chengdu China Railway Celebrity Industry Development Co., Ltd.	**13,213**	—
	CNTT Chinese New Turnout Technologies Co., Ltd.	**4,680**	—
		873,126	—
Account payables	Shanghai North Industrial New Zone Investment & Management Co., Ltd	**297,868**	—
	The Third Railway Survey and Design Institute Group Corporation	**12,250**	9,353
	China Railway Hongda Asset Management Center	**5,978**	—
	CRECG	**—**	9,589
	Shenzhen Gangchuang Building Materials Co. Ltd.	**—**	1,069
		316,096	20,011

6. Significant Related Party Transactions during the Reporting Period (continued)

(iii) Substantial transactions between the Group and the above related parties during the year are as follows: (continued)

(3) *Balance of Receivables and Payables (continued)*

Items	Related Party	2007 RMB'000	2006 RMB'000
Other payables	Chengdu Yingting Real Estate Development Company	**270,946**	—
	Guangxi Communications Infrastructure Construction Administration Bureau	**175,735**	—
	China Railway Hongda Asset Management Center	**88,690**	—
	CNTT Chinese New Turnout Technologies Co., Ltd.	**30,261**	—
	CRECG	**14,463**	7,220
	Luisha Mining Co., Ltd.	**12,071**	—
	Chengdu Huaxindazu Property Development Co., Ltd.	**10,508**	—
	Hunan Qifansheng Real Estate Co., Ltd.	**10,000**	—
	Chengdu Longquanyi District Land Recondition Co., Ltd.	**7,000**	—
	Neijiang Hongchen Property Development Co., Ltd.	**572**	14,254
	Shanghai Tierun Construction Engineering Co., Ltd.	**—**	8,206
	Shenzhen Meili Group Co., Ltd.	**—**	36,780
		620,246	66,460
Long-term borrowings	Fengtai Comprehensive Investment Co., Ltd.	**18,000**	—
	Shuhe Investment Management Co., Ltd.	**4,500**	—
		22,500	—

(4) *Remuneration of key management personnel*

	For the year ended 31 December 2007 RMB'000	2006 RMB'000
Remuneration of key management personnel	**6,510**	5,779

7. Material Contracts and Their Performance during the Reporting Period

(i) Trusteeship

During the reporting period, the Group had no trusteeship.

(ii) Contracting

During the reporting period, there was no contracting by the Group.

(iii) Leasing

During the reporting period, there was no leasing by the Group.

(iv) Guarantee

Guarantees provided by the Company (except for guarantees to subsidiaries)						
Names of guaranteed parties	Date (Execution date of agreements)	Guaranteed amount (RMB thousand)	Type of guarantee	Term of Guarantee	Fully Fulfilled	Guarantee provided to the related parties
China International Water & Electric Corp.	2004-4-20	53,380.26	Suretyship of joint and several liability	2008-6-30	No	No
Shanghai Rong Lian Leasing Co., Ltd.	2007-12-28	114,940.92	Suretyship of joint and several liability	2010-12-28	No	No
Sinorail Bohai Train Ferry Co., Ltd.	2004-12-24	170,000.00	Suretyship of joint and several liability	2016-12-24	No	No
Beijing Gaosheng Real Estate Development Co., Ltd.	2006-7-7	300,000.00	Suretyship of joint and several liability	2008-10-6	No	No
Yunnan Fuyan Expressway Co., Ltd.	2005-6-7	650,000.00	Suretyship of joint and several liability	2008-6-7	No	Yes
Yunnan Fuyan Expressway Co., Ltd.	2007-4-5	3,500,000.00	Suretyship of joint and several liability	2027-4-4	No	Yes
Yunnan Fuyan Expressway Co., Ltd.	2006/8	1,000,000.00	Suretyship of joint and several liability	2022/8	No	Yes
Yunnan Da Jian Road and Bridge Co., Ltd.	2005-12-23	45,000.00	Suretyship of joint and several liability	2008-12-22	No	No
Shanxi Local Coal Industry Co., Ltd.	2006-12-5	1,740.23	Suretyship of joint and several liability	Open	No	No
Yankuang Group Co., Ltd	2004.07.15	63,397.99	Suretyship of joint and several liability	2 years	No	No
Zhong Tie Major Bridge (Zhengzhou) Cable Co Ltd	2007-5-28	3,500.00	Suretyship of joint and several liability	2008-5-27	No	No
China Railway Wuhan Bridge Industries Limited	2007-3-22	30,000.00	Suretyship of joint and several liability	2008-3-22	No	No
China Railway Wuhan Bridge Industries Limited	2007-7-12	6,000.00	Suretyship of joint and several liability	2008-7-12	No	No
Xinhua Bookstore Head Office	2003-12-30	30,000.00	Suretyship of joint and several liability	2008-3-30	No	No
Shenzhen Wanghai Yikang Industry Development Co., Ltd.	2003-12-29	220,000.00	Suretyship of joint and several liability	2008-12-29	No	No
Shenzhen Huahan Pipeline Science and Technology Company Limited	2004-10-27	200,000.00	Suretyship of joint and several liability	2009-10-27	No	No
Nanchang Railway Tian Ji Property Development Co., Ltd.	2007-3-30	80,000.00	Suretyship of joint and several liability	2008-3-29	No	No
Luoyang Fang Da Industry Co., Ltd.	2004-9-23	8,000.00	Suretyship of joint and several liability	2005-9-23	No	No
Luoyang Fang Da Industry Co., Ltd.	2004-12-18	10,000.00	Suretyship of joint and several liability	2005-12-17	No	No

7. Material Contracts and Its Performance during the Reporting Period (continued)

(iv) Guarantee (continued)

Names of guaranteed parties	Date (Execution date of agreements)	Guaranteed amount (RMB thousand)	Type of guarantee	Term of Guarantee	Fully Fulfilled	Guarantee provided to the related parties
Guarantees provided by the Company (except for guarantees to subsidiaries)						
Luoyang Fang Da Industry Co., Ltd.	2007-3-1	20,000.00	Suretyship of joint and several liability	2008-3-1	No	No
Luoyang Fang Da Industry Co., Ltd.	2007-11-18	20,000.00	Suretyship of joint and several liability	2008-5-17	No	No
China SFECO Group	2006-12-30	241,051.80	Suretyship of joint and several liability	2011-12-29	No	No
China SFECO Group	2007-1-1	144,631.08	Suretyship of joint and several liability	Prepayment recovered	No	No
Shenyang Heavy Machinery Group Co., Ltd.	2006-1-23	15,610.30	Suretyship of joint and several liability	Payment fulfilled	No	No
China Railway 15th Construction Bureau Co., Ltd.	2004-5-9	170,355.73	Suretyship of joint and several liability	2009-5-9	No	No
Shanhaiguan Lubao Beer Co., Ltd.	1995-12-22	4,000.00	Suretyship of joint and several liability	1996-10-22	No	No
Shanhaiguan Lubao Beer Co., Ltd.	1996-3-13	5,000.00	Suretyship of joint and several liability	1996-11-13	No	No
Shanhaiguan Lubao Beer Co., Ltd	1995-11-21	8,000.00	Suretyship of joint and several liability	1996-7-21	No	No
Henan International Cooperation Group Co., Ltd	2007-2-16	215,680.00	Suretyship of joint and several liability	Open	No	No
Jinan City Construction Investment Co., Ltd.	2007-8-21	10,000.00	Suretyship of joint and several liability	2008-2-21	No	No
Owners of Huayang Nianhua in Jinan	2007	3,008.00	Suretyship of joint and several liability	2008.06	No	No
Owners of Shujun	2007	242,320.00	Suretyship of joint and several liability	2008	No	No
Owners of Longjun	2007	44,583.00	Suretyship of joint and several liability	2009	No	No
Owners of Xinjie	2007	82,511.00	Suretyship of joint and several liability	2009	No	No
Owners of Xicheng	2007	176,801.80	Suretyship of joint and several liability	2009	No	No
Owners of Hengshi Xincheng	2007	7,470.00	Suretyship of joint and several liability	2009	No	No
Owners of Huainan Yangguangcheng	2007	86,835.00	Suretyship of joint and several liability	2009	No	No
Owners of Zhujiang Wan Pan	2007	15,800.00	Suretyship of joint and several liability	2009	No	No
Owners of Xinglong Phase II	2007	16,260.00	Suretyship of joint and several liability	2009	No	No
Owners of Fengdan Bailu	2007	11,790.00	Suretyship of joint and several liability	2009	No	No
Owners of Bei'an Gongguan in Lanzhou	2007	57,630.00	Suretyship of joint and several liability	2008.09	No	No

7. Material Contracts and Its Performance during the Reporting Period (continued)

(iv) Guarantee (continued)

Names of guaranteed parties	Date (Execution date of agreements)	Guaranteed amount (RMB thousand)	Type of guarantee	Term of Guarantee	Fully Fulfilled	Guarantee provided to the related parties
	Guarantees provided by the Company (except for guarantees to subsidiaries)					
Owners of Zhongjing Lixiangjia	2007.03	75,930.00	Suretyship of joint and several liability	2009.03	No	No
Owners of Zhongjing Shengshi Chang'an	2007.07	179,858.00	Suretyship of joint and several liability	2010.01	No	No
Total guarantee incurred during the reporting period						4,041,719.80
Total balance of guarantee as at the end of the reporting period						8,341,085.11
Guarantee provided by the Company to its subsidiaries						
Total guarantee to subsidiaries incurred during the reporting period						2,190,000.00
Total balance of guarantee to subsidiaries as at the end of the reporting period						3,246,417.13
Aggregate guarantee of the Company (including guarantee to subsidiaries)						
Aggregate guarantee						11,587,502.24
Percentage of aggregate guarantee to net assets of the Group						19.67%
Representing:						
Amount of guarantee provided for shareholders, ultimate controlling parties and related parties						630,906.40
Balance of debts guarantee directly or indirectly provided to guaranteed parties with gearing ratio over 70%						859,664.51
Excess amount of aggregate guarantee over 50% of net assets						—
Aggregate amount of the above three categories						1,490,570.91

Note: All such amounts are stated in thousands. USD is translated into RMB based on the exchange rate of USD 1 to RMB7.

(v) Financial Trust Management

Principal	Trustee	Entrusted amount RMB	Start date and end date of trust	Period of trust	Determination of remuneration	Actual amount of gain RMB	Actual amount recovered RMB
China Railway NO.7 Engineering Group Co., Ltd.	Equity Trust Investment Co., Ltd.	100,000,000.00	From 15 June 2007 to 23 August 2007	12 months	Based on time of trust	1,757,397.23	101,757,397.23

As at the end of the reporting period, there was no outstanding overdue amount of the entrusted amount and gain.

7. Material Contracts and Their Performance during the Reporting Period (continued)

(vi) Other Major Contracts

(i) *Major contracts signed before the reporting period but remain effective during the reporting period:*

(a) Infrastructure Construction Business

In January 2006, the consortium comprising China Railway No. 3 Engineering Group Co., Ltd., China Railway No. 5 Engineering Group Co., Ltd., China Railway Tunnel Group Co., Ltd., and China Railway No. 5 Group No. 6 Engineering Co., Ltd., all being subsidiaries of the Company, signed the "Master Contract of Civil Construction Phase 4 (XXTJIV) of the Wulongquan-Huadu Section of the New Wuhan-Guangzhou Passenger Railway Line" with Wuhan-Guangzhou Passenger Railway Line Co., Ltd. (武廣鐵路客運專線有限責任公司). The contract sum was RMB9,233,127,930 and the construction period was from 1 February 2006 to 28 February 2009.

In January 2006, the consortium comprising China Railway No. 4 Engineering Group Co., Ltd., China Railway No. 4 Bridge Construction Co., Ltd., China Railway No. 1 Engineering Group Co., Ltd., China Railway No. 1 Bridge Construction Engineering Co., Ltd. and China Railway Major Bridge Engineering Group Co., Ltd., all being subsidiaries of the Company, signed the "Master Contract and Supplemental Contract of Civil Construction Phase 2 (XXTJII) of the Wulongquan-Huadu Section of the New Wuhan-Guangzhou Passenger Railway Line" with Wuhan-Guangzhou Passenger Railway Line Co., Ltd. (武廣鐵路客運專線有限責任公司). The contract sum was RMB9,183,757,600 and the construction period was 36.5 months commencing from 1 February 2006.

On 22 January 2006, China Railway No.3 Engineering Group Co., Ltd., a subsidiary of the Company, signed the "Master Contract of Civil Construction Phase 2 (ZQ2) of the Mianchi-Lingbao section of the New Zhengzhou-Xi'an Passenger Railway Line" with Zhengxi Passenger Railway Line Co., Ltd. (鄭西鐵路客運專線有限責任公司). The contract sum was RMB3,866,507,400 and the construction period was 37.5 months starting from delivery of instruction to commence construction.

On 14 July 2006, China Railway Major Bridge Engineering Co., Ltd signed the "Construction Contract of Dashengguan Yangtze River Bridge and Nanjing South Station of the New Nanjing Hub" with the Construction Headquarter of Nanjing Dashengguan Yangtze River Bridge and Nanjing South Station of MOR. The contract sum was RMB3,864,360,000 and the construction period was from 18 July 2006 to 30 November 2009.

(b) Survey and Design Business

On 27 January 2005, China Railway Eryuan Engineering Group Co., Ltd. signed the "Master Construction Survey and Design Contract of Shenzhen Metro Line 3" with Shenzhen Metro Line 3 Investments Ltd. The contract sum was RMB219,882,000 and the construction period was from 27 January 2005 to December 2009.

In January 2006, Huatie Engineering Consulting Co., Ltd. signed the "Supervisory Contract of Phase 2 of the Wuhan-Huadu Section of the New Wuhan-Guangzhou Passenger Railway Line" with Wuhan-Guangzhou Passenger Railway Line Co., Ltd. (武廣鐵路客運專線有限責任公司). The contract sum was RMB175,845,700 and the construction period was from 5 January 2006 to 4 June 2011.

7. Material Contracts and Their Performance during the Reporting Period (continued)

(vi) Other Major Contracts (continued)

(i) *Major contracts signed before the reporting period but remain effective during the reporting period: (continued)*

(c) Property Development Business

On 16 September 2005, China Railway No. 4 Engineering Group Co., Ltd. signed the "Letter of Intent and Framework Agreement for the Joint Development and Construction of Shannan New District in Huainan City" with Anhui Provincial Huainan Municipal People's Government, pursuant to which China Railway No. 4 would be responsible for construction projects such as municipal and utility infrastructure (included land tunnels) in Shannan New District, Huainan City. The total investment of the project is approximately RMB15 billion.

On 13 March 2006, China Railway No. 2 Engineering Group Co., Ltd. signed the "Cooperation Agreement for Daxian Cuipingshan Integrated Development Project" with Sichuan Hongyuanxing Property Development Co., Ltd. for the capital organization of the project company to engage in the integrated development of the Longjun project in Cuipingshan, Daxian. The estimated total investment of is project amounted to RMB790,260,000.

(d) Engineering Equipment and Component Manufacturing Business

On 20 December 2005, China Railway Shanhaiguan Bridge Group Co., Ltd. signed the "Sales Contract" with Chongqing Zhonggang Chaotianmen Yangtze River Bridge Project Construction Co., Ltd. (重慶中港朝天門長江大橋項目建設有限公司). The contract sum was RMB245,710,000, and the contract term was 33 months.

(ii) *Major contracts signed during the reporting period:*

On 3 September 2007, the Company signed the "Construction Contract of Civil Works of Section TJ-1 of the New Harbin-Dalian Passenger Railway Line" with Harbin-Dalian Passenger Railway Line Co., Ltd. (哈大鐵路客運專線有限責任公司). The contract sum was RMB21,871,035,166 and the construction period under the contract was 1979 days.

On 1 March 2007, the consortium comprising China Railway Electrification Engineering Group Co., Ltd. and China Railway No. 6 Engineering Group Co., Ltd., both being subsidiaries of the Company, signed the "Master Contract of Construction Works for Improving Electrification of Datong-Baotou section of the Beijing-Baotou Railway" with the construction headquarter of the electrification improvement work. The contract sum was RMB3,094,463,250 and the construction period under the contract was from 1 March 2007 to 30 November 2008.

On 17 August 2007, the consortium comprising China Railway Electrification Engineering Group Co., Ltd. and China Railway Construction Engineering Group Co., Ltd., both being subsidiaries of the Company, signed the "Master Contract of Construction of the Beijing section of the New Railway Line" with the Beijing Ministry of Railway Construction (headquarter of the construction work of Ministry of Railway). The contract sum was RMB2,466,938,016 and the construction period under the contract was from 1 September 2007 to 30 June 2009.

7. Material Contracts and Their Performance during the Reporting Period (continued)

(vi) Other Major Contracts (continued)

(ii) *Major contracts signed during the reporting period: (continued)*

In 2007, the consortium comprising China Railway Major Bridge Engineering Co., Ltd. and China Railway No. 7 Engineering Group Co., Ltd., both being subsidiaries of the Company, and CCCC First Highway Engineering Co., Ltd., signed the "Construction Contract of Section QL-1 of Zhengzhou-Yellow River Railway and Highway Dual-Purpose Bridge" with Jingguang Passenger Railway Henan Co., Ltd (京廣鐵路客運專線河南有限公司) and Henan Zhongyuan Huanghe Road and Bridge Co., Ltd. (河南中原黃河公路大橋有限責任公司). The contract sum was RMB2,300,758,700.

8. Performance of Undertaking

During the reporting period, CRECG, the controlling shareholder of the Company, gave an undertaking that it will not transfer or engage others to manage the Company's A shares held by it within 36 months since the listing of A shares of the Company on the Shanghai Stock Exchange. Once the period of undertaking expires, the aforesaid shares may be traded in the market and transferred. However, if the H shares of the Company is successfully issued, the conversion of the Company's shares held by CRECG into H shares for placing or for trading in the market after undergoing the relevant procedures is not subject to the lock-up period mentioned above. CRECG has strictly complied with the above undertaking.

9. Penalty and Rectification Order against the Group and its Directors, Supervisors, Senior Management and the Company's Shareholders and Ultimate Controller

During the Reporting Period, the Group and its directors, supervisors, senior management and the Company's shareholders and ultimate controller are not subject to any penalty and rectification order.

10. Other Significant Events

During the reporting period, the Group had no other significant events.

Information on Major Properties

Properties held for investment

Location	Use	Tenure	Interest of the Group (%)
Quanxing Plaza, No. 68 2nd Part of Renminzhong Road, Chengdu, Sichuan	Commercial and hotel	Medium term lease	100
Tianyu Shopping Center, No. 17 North Part of Yanta Road, Xi'an	Shopping Mall	Medium term lease	100
Beijing Badaling Jinyuanlong Hotel, West to Quan Zhou Cinema, Gun Tian Gou Kou, Badaling Special District, Yanqing, Beijing	Hotel	Medium term lease	100

Properties held for development and/or for sale

Location	Existing Use	Approx. site area (sq.m.)	Approx. floor area (sq.m.)	Stage of completion	Expected completion date	Interest of the Group (%)
No. 3 Yiduzhong Street, Longquan Town, Longquanyi District, Chengdu — East Mountain International New Town	Residential	300,000	830,000	Under construction	2011	35
Houba, Yunyan District, Guiyang, Guizhou — Xinglong • Fengdan Bailu	Residential	220,000	380,000	Under construction	2008	100
Lirendong Village, Yinbin Road, Panyu District, Guangzhou — Easy City Garden	Residential	200,000	353,650	Under construction	2010	85
No.113 Hepingdong Road, Changan District, Shijiazhuang, Hebei — Zhongjing • Four Seasons Garden City	Residential	120,000	390,000	Under construction	2010	100
No. 869 Deshuizhong Road, Hedong New District, Suining, Sichuan — China Railway • Dragon City	Commercial	84,000	150,000	Completed	2007	100

In the opinion of the Board, the disclosure of all investment properties and those held for development and/or for sale are tedious. Therefore, only the major properties are listed above.

Definition and Glossary of Technical Terms

the Company	China Railway Group Limited
the Group	the Company and its subsidiaries
CRECG	China Railway Engineering Corporation
Main lane	track connecting and passing through the stations
Dual-track	railway with two main lanes, namely upper lane and lower lane
Plot ratio	the ratio of the gross floor area of a property development project on a plot to its site area
Reinforced rod steel truss bridge	parallel truss girder which increases the truss height upon the fulcrum
BT	"Build-Transfer" mode
BOT	"Build-Operate-Transfer" mode
TOT	"Transfer-Operate-Transfer" mode

Company Information

Directors

Executive Directors

SHI Dahua *(Chairman)*
LI Changjin
BAI Zhongren

Non-executive Directors

WANG Qiuming

Independent Non-executive Directors

HE Gong
ZHANG Qinglin
WANG Taiwen
GONG Huazhang
SUN Patrick

Supervisors

GAO Shutang *(Chairman)*
JI Zhihua
ZHANG Xixue
ZHOU Yuqing
LIN Longbiao

Joint Company Secretaries

YU Tengqun
TAM Chun Chung, *CPA, FCCA*

Qualified Accountant

TAM Chun Chung, *CPA, FCCA*

Authorized Representatives

BAI Zhongren
TAM Chun Chung, *CPA, FCCA*

Audit Committee

GONG Huazhang *(Chairman of the Audit Committee)*
SUN Patrick
WANG Qiuming

Remuneration Committee

ZHANG Qinglin *(Chairman of the Remuneration Committee)*
HE Gong
SUN Patrick
BAI Zhongren
WANG Qiuming

Strategy Committee

SHI Dahua *(Chairman of the Strategy Committee)*
GONG Huazhang
WANG Taiwen
LI Changjin
BAI Zhongren

Nomination Committee

HE Gong *(Chairman of the Nomination Committee)*
ZHANG Qinglin
WANG Taiwen
WANG Qiuming
LI Changjin

Safety, Health and Environmental Protection Committee

LI Changjin *(Chairman of the Safety, Health and Environmental Protection Committee)*
ZHANG Qinglin
HE Gong
WANG Taiwen
BAI Zhongren

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Chater Road,
Hong Kong

For PRC Law
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PRC

Shares Registrars

A Shares
China Securities Depository and Clearing Corporation Limited
Shanghai Branch
36/F, China Insurance Building
No.166, Lu Jia Zui Road East, Pudong New District,
Shanghai

H Shares
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

Listing Information

A Shares
Place of listing: Shanghai Stock Exchange
Stock name: China Railway
Stock code: 601390

H Shares
Place of listing: The Stock Exchange of Hong Kong Limited
Stock name: China Railway
Stock code: 00390

Principal Bankers

China Development Bank
The Export-Import Bank Of China
Industrial and Commercial Bank of China
China Construction Bank
Agricultural Bank of China
Bank of China
Bank of Communications
China Minsheng Bank
China Merchants Bank

Company Website

http://www.crec.cn

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