中國中鐵股份有限公司

# CHINA RAILWAY GROUP LIMITED

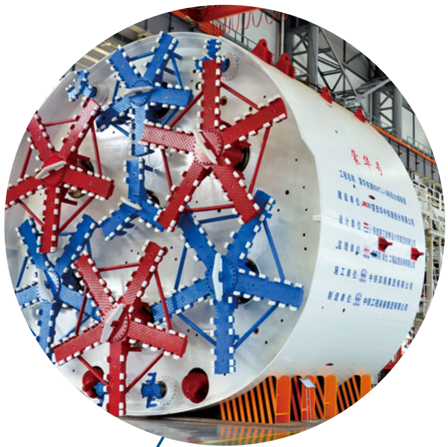
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

**Stock Code : 390**

# 2016 ANNUAL REPORT

## RAILWAY CONSTRUCTION

Completed a total track of railway main lane of 7,161 kilometers in 2016



## HIGHWAY CONSTRUCTION

Completed a total length of highway construction of 2,244 kilometers in 2016

## MUNICIPAL WORKS

Completed a total civil engineering and laying length of urban metro and light rail lines of 198 kilometers and 220 kilometers respectively in 2016

## NEW CONTRACTS

New contracts entered into 2016 reached RMB1,235.0 billion

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# • COMPANY PROFILE

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "**PRC**") under the Company Law of the PRC 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 one of largest multi-functional integrated construction group in the PRC and Asia in terms of the total revenue of the engineering contract, and rank 57th on the 2016 Fortune 500 List. 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 have outstanding advantages in the construction of infrastructure facilities such as railways, highways, municipal works and urban rails. In particular, we 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

## Summary of Consolidated Statement of Comprehensive Income

| | For the year ended 31 December 2016 | 2015 | 2014 | 2013 | 2012 | Change 2016 vs 2015 (%) |
|---|---|---|---|---|---|---|
| | RMB million | | | | | |
| **Revenue** | | | | | | |
| Infrastructure Construction | **559,223** | 544,207 | 518,022 | 456,272 | 396,906 | 2.8 |
| Survey, Design and Consulting Services | **12,312** | 10,711 | 10,265 | 9,180 | 9,069 | 14.9 |
| Engineering Equipment and Component Manufacturing | **17,063** | 15,782 | 14,519 | 13,711 | 11,464 | 8.1 |
| Property Development | **32,976** | 29,260 | 29,255 | 27,566 | 20,175 | 12.7 |
| Other Businesses | **42,671** | 40,044 | 54,963 | 68,958 | 56,432 | 6.6 |
| Inter-segment Eliminations and Adjustments | **(31,389)** | (40,062) | (36,858) | (35,293) | (28,421) | N/A |
| **Total** | **632,856** | 599,942 | 590,166 | 540,394 | 465,625 | 5.5 |
| **Gross Profit** | **49,789** | 48,686 | 48,515 | 40,340 | 35,561 | 2.3 |
| **Profit before Tax** | **18,772** | 17,017 | 16,233 | 14,819 | 11,130 | 10.3 |
| **Profit for the Year** | **12,703** | 11,786 | 10,676 | 10,075 | 8,069 | 7.8 |
| **Profit for the Year Attributable to Owners of the Company** | **11,808** | 11,675 | 10,262 | 9,374 | 7,390 | 1.1 |
| **Basic Earnings per Share *(RMB)*** | **0.517** | 0.530 | 0.482 | 0.440 | 0.347 | –2.5 |

## Summary of Consolidated Statement of Financial Position

| | As at 31 December 2016 | 2015 | 2014 | 2013 | 2012 | Change 2016 vs 2015 (%) |
|---|---|---|---|---|---|---|
| | RMB million | | | | | |
| **Assets** | | | | | | |
| Current Assets | **595,147** | 565,601 | 545,525 | 503,090 | 434,855 | 5.2 |
| Non-current Assets | **159,198** | 147,904 | 137,353 | 124,940 | 115,806 | 7.6 |
| **Total Assets** | **754,345** | 713,505 | 682,878 | 628,030 | 550,661 | 5.7 |
| **Liabilities** | | | | | | |
| Current Liabilities | **506,603** | 470,447 | 471,140 | 420,242 | 366,119 | 7.7 |
| Non-current Liabilities | **98,746** | 103,820 | 102,844 | 111,158 | 96,552 | –4.9 |
| **Total Liabilities** | **605,349** | 574,267 | 573,984 | 531,400 | 462,671 | 5.4 |
| **Total Equity** | **148,996** | 139,238 | 108,894 | 96,630 | 87,990 | 7.0 |
| **Total Equity and Liabilities** | **754,345** | 713,505 | 682,878 | 628,030 | 550,661 | 5.7 |

# STRIVE TO CHALLENGE LIMITS AND ACHIEVE EXCELLENCE

As one of the largest integrated construction groups 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

**LI Changjin**

*Chairman and Executive Director*

Dear Shareholders,

With the passing of time, we have completed another challenging year. For the Company, 2016 has been an extraordinary year. In the face of the new normal in the economic development, new trends in market competition, new mission of reforms of state-owned enterprises and new requirements on tightening Party discipline, we overcame all difficulties and challenges vigorously and achieved our targets for the year by focusing on development, optimization and expansion of the Company's operations. We achieved new heights in key economic indicators with the value of new contracts breaking through the RMB1 trillion mark. We jumped to the 57th place on the Fortune Global 500 list setting us up for a good start for the period of "13th Five-Year Plan".

During the year, we forged ahead with reforms, improved our structure and optimized supply-and-demand structure to facilitate transformation and upgrading. We optimized our corporate governance structure and refined the overall layout of our industry chains by making concerted efforts to raise total factor productivity and improve the quality of products and services at the supply end. In terms of corporate development, we facilitated the restructuring, swapping and listing of our industrial sectors and reformed our diversified mixed ownership with the employee stock ownership plan as a pilot scheme. All these generated renewed energy in the Company. In response to the macroeconomic environment, we captured opportunities to innovate our business and cooperation models through the coordination of our contractor operation and investment operation. Apart from consolidating and expanding our traditional market, we actively explored emerging markets of national strategic interest, while continuing development of the overseas market. These efforts have resulted in our ever-increasing competitiveness and ever-expanding market share. We strengthened management fundamentals and went all out to improve quality and increase efficiency by firmly focusing on our five goals of cutting industrial capacity, lowering corporate costs, reducing property inventories, deleveraging, and improving weak links. We continued to refine project management of our laboratory activities, and to enhance the quality of economic operations and risk control capabilities by remaining focused on our direction of intensive internal development. By strengthening our capital operation, promoting the integration of production and finance, enhancing capital market valuation and improving international credit rating, we fully utilized domestic and international financing channels to obtain funding for our corporate development, which helped to create value for the Company. We optimized resource allocation, vitalized essential production factors and enhanced quality of our products and services by driving innovation in our operations. Several important large-scale projects were completed at home and abroad, including the Shanghai-Kunming High Speed Railway, Huangling-Yan'an Expressway, Shenzhen Metro Line 11, Addis Ababa-Djibouti Railway and Angren-Pap Railway Line in Uzbekistan, thereby setting an excellent example to industry peers and demonstrating our commitment as a responsible central enterprise.

To realize our future dreams, it is now the time for toil and progress. As a backbone enterprise in the national economy and a pioneer of implementation of the Belt and Road Initiative, our prospects are interwoven with the development of the country. In the forthcoming year, upholding the "Five Major Development Concepts", the "Four Awarenesses" and the strategic deployment of "Four Comprehensives", we will take a more active role in contributing to the three core national strategies of the Belt and Road Initiative, the co-development of Beijing-Tianjin-Hebei and the Yangtze River Economic Belt. Undaunted by the challenges, we will proceed at a steady pace and reach far with our unyielding courage and strong willpower. We will spare no effort in maintaining our growth, pushing forward our reforms, facilitating transformation, and enhancing efficiency and risk control. We will forge ahead with our vision to become a world leading construction company, fulfill our mission by achieving our development plans and goals and share the fruits of our development with shareholders and employees. Finally, I would like to take this opportunity to extend my sincere gratitude to our shareholders for their support of the Company's reform and development, to our community for their concern and support, and to our employees for sharing the Company's journey.

**Li Changjin**
*Chairman*

Beijing, China
30 March 2017

# • CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

## I. Changes in Share Capital

### 1. Changes in Shares

**(1) Changes in shares**

During the reporting period, total number of shares and share capital of the Company remained unchanged.

**(2) Explanation for the changes in shares**

Not applicable

**(3) Impacts of changes in share on the financial indicators of earnings per share, net assets per share for the most recent year and the most recent period**

Not applicable

**(4) Other contents that the Company deems necessary or required by the securities regulatory authority**

Not applicable

### 2. Changes in Shares with Selling Restrictions

*Unit: Shares*

| Name of shareholder | Number of shares with selling restrictions at the beginning of the reporting period | Number of shares released from selling restrictions during the reporting period | Increase in the number of shares with selling restrictions during the reporting period | Number of shares with selling restrictions at the end of the reporting period | Reasons for selling restrictions | Date of releasing selling restrictions |
|---|---|---|---|---|---|---|
| CRECG | 308,880,308 | – | – | 308,880,308 | Selling restrictions imposed by non-public issuance of A shares | 2018/07/14 |
| Beijing Zhong Shang Rong Sheng Trading Company Limited | 141,570,141 | 141,570,141 | – | – | Selling restrictions imposed by non-public issuance of A shares | 2016/07/14 |
| Nanjing An Ci Investment Management Company Limited | 141,570,141 | 141,570,141 | – | – | Selling restrictions imposed by non-public issuance of A shares | 2016/07/14 |
| Ping An UOB Fund Management Co. Ltd. | 643,500,643 | 643,500,643 | – | – | Selling restrictions imposed by non-public issuance of A shares | 2016/07/14 |
| China Merchants Wealth Asset Management Limited | 137,323,037 | 137,323,037 | – | – | Selling restrictions imposed by non-public issuance of A shares | 2016/07/14 |
| Cai Tong Fund Management Co. Ltd. | 167,696,256 | 167,696,256 | – | – | Selling restrictions imposed by non-public issuance of A shares | 2016/07/14 |
| CIB Wealth Asset Management Company Limited | 3,861,017 | 3,861,017 | – | – | Selling restrictions imposed by non-public issuance of A shares | 2016/07/14 |
| **Total** | **1,544,401,543** | **1,235,521,235** | **–** | **308,880,308** | | |

## II. Information of Shareholders and Ultimate Controller

### 1. Number of Shareholders

| | |
|---|---|
| The total number of shareholders of ordinary shares as at the end of the reporting period | 777,756 |
| The total number of shareholders of ordinary shares at the end of the month preceding the disclosure date of the annual report | 775,605 |
| The total number of shareholders of preference shares with reinstated voting rights as at the end of the reporting period | 0 |
| The total number of shareholders of preference shares with reinstated voting rights at the end of the month preceding the disclosure date of the annual report | 0 |

### 2. Shareholdings of the Top Ten Shareholders, Top Ten Shareholders of Tradable Shares (or Shareholders without Selling Restrictions)

*Unit: Shares*

| | | Shareholdings of the top ten shareholders | | | | | | |
|---|---|---|---|---|---|---|---|---|
| No. | Name of shareholder | Increase/ decrease during the reporting period | Total number of shares held at the end of the period | Shareholding percentage *(%)* | Number of shares with selling restrictions | Number of pledged or frozen shares: Condition of shares | Number of pledged or frozen shares: Number | Nature of shareholder |
| 1 | CRECG *(Note 1)* | +164,394,000 | 12,424,784,308 | 54.39 | 308,880,308 | Nil | – | State-owned |
| 2 | HKSCC Nominees Limited *(Note 2)* | +321,000 | 4,003,990,909 | 17.53 | – | Nil | – | Other |
| 3 | China Securities Finance Corporation Limited | +69,717,604 | 634,794,585 | 2.78 | – | Nil | – | Other |
| 4 | Ping An UOB Fund – Ping An Bank – China Universal Capital Management Co., Ltd. | –20,000,000 | 623,500,643 | 2.73 | – | Nil | – | Other |
| 5 | Anbang Asset Management – China Merchants Bank – Anbang Asset – China Merchants Bank – Anbang Asset – No.3 Win-Win Collective Asset Management Products | +468,805,172 | 468,805,172 | 2.05 | – | Nil | – | Other |
| 6 | Central Huijin Asset Management Ltd. | – | 235,455,300 | 1.03 | – | Nil | – | Other |
| 7 | Hexie Health Insurance Co., Ltd. – Classic – Ordinary Insurance Products | +201,448,116 | 201,448,116 | 0.88 | – | Nil | – | Other |
| 8 | China Merchants Wealth – China Merchants Bank – No.1 Guo Xin Jin Kong Specific Asset Management Plan | –37,320,000 | 100,003,037 | 0.44 | – | Nil | – | Other |
| 9 | Anbang Pension Insurance Co., Ltd. – Group Universal Products | +65,046,237 | 65,046,237 | 0.28 | – | Nil | – | Other |
| 10 | Hong Kong Securities Clearing Company Limited *(Note 3)* | +12,021,892 | 56,348,280 | 0.25 | – | Nil | – | Other |

| Shareholdings of the top ten shareholders of shares without selling restrictions | | | | |
|---|---|---|---|---|
| No. | Name of shareholder | Number of shares held without selling restrictions | Type and number of shares<br>Type | Number |
| 1 | CRECG | 11,951,510,000 | RMB-denominated ordinary shares | 11,951,510,000 |
| | | 164,394,000 | Overseas listed foreign shares | 164,394,000 |
| 2 | HKSCC Nominees Limited *(Note 2)* | 4,003,990,909 | Overseas listed foreign shares | 4,003,990,909 |
| 3 | China Securities Finance Corporation Limited | 634,794,585 | RMB-denominated ordinary shares | 634,794,585 |
| 4 | Ping An UOB Fund – Ping An Bank – China Universal Capital Management Co., Ltd. | 623,500,643 | RMB-denominated ordinary shares | 623,500,643 |
| 5 | Anbang Asset Management – China Merchants Bank – Anbang Asset – China Merchants Bank – Anbang Asset – No.3 Win-Win Collective Asset Management Products | 468,805,172 | RMB-denominated ordinary shares | 468,805,172 |
| 6 | Central Huijin Asset Management Ltd. | 235,455,300 | RMB-denominated ordinary shares | 235,455,300 |
| 7 | Hexie Health Insurance Co., Ltd. – Classic – Ordinary Insurance Products | 201,448,116 | RMB-denominated ordinary shares | 201,448,116 |
| 8 | China Merchants Wealth – China Merchants Bank – No.1 Guo Xin Jin Kong Specific Asset Management Plan | 100,003,037 | RMB-denominated ordinary shares | 100,003,037 |
| 9 | Anbang Pension Insurance Co., Ltd. – Group Universal Products | 65,046,237 | RMB-denominated ordinary shares | 65,046,237 |
| 10 | Hong Kong Securities Clearing Company Limited *(Note 3)* | 56,348,280 | RMB-denominated ordinary shares | 56,348,280 |
| Statement on the related relations and concerted actions between the shareholders above | | CRECG, the controlling shareholder, does not have related relations or perform concerted actions with the above other shareholders. The Company is not aware of any related relationships or concerted action relationships between the above shareholders. | | |
| Statement on shareholders of preference shares with reinstated voting rights and their shareholdings | | Not applicable | | |

*Note 1: CRECG held 12,424,784,308 shares of the Company, including 12,260,390,308 A shares (including 308,880,308 shares with selling restrictions) and 164,394,000 H shares of the Company.*

*Note 2: H shares held by HKSCC Nominees Limited are held on behalf of its various clients, and the number of H shares held by CRECG is already deducted.*

*Note 3: A shares held by Hong Kong Securities Clearing Company Limited are held on behalf of northbound investors of the Company through the Shanghai – Hong Kong Stock Connect.*

*Note 4: The data shown in the table is based on the register of members of the Company as at 31 December 2016.*

### 3. Shareholdings of Top Ten Shareholders of Shares with Selling Restrictions and Terms of Selling Restrictions

*Unit: Shares*

| No. | Name of shareholder | Number of shares held with selling retrictions | Permission for public trading for shares with selling restrictions: Permitted timing for public trading | Permission for public trading for shares with selling restrictions: Number of new shares permitted for public trading | Terms of selling restrictions |
|---|---|---|---|---|---|
| 1 | CGECG | 308,880,308 | 2018/07/14 | – | 36 months from the date of completion of the non-public issuance |
| Statement on the related relations and concerted actions between the shareholders above | | | | Nil | |

### 4. Strategic Investors or General Legal Persons Becoming the Top Ten Shareholders by Placing New Shares

Not applicable

## III. Information on Controlling Shareholder and Ultimate Controller

### 1. Details of Controlling Shareholder

**(1) Legal person**

| | |
|---|---|
| Name of controlling shareholder | China Railway Engineering Corporation |
| Legal representative | Li Changjin |
| Date of establishment | 7 March 1990 |
| Principal business | Construction works, related engineering technological research, survey, design, services, manufacturing of specialized equipment and development and operation of real estates. |
| Details of controlling interests and investments in other domestic and overseas-listed companies during the reporting period | Nil |
| Other information | Nil |

**(2) Natural person**

Not applicable

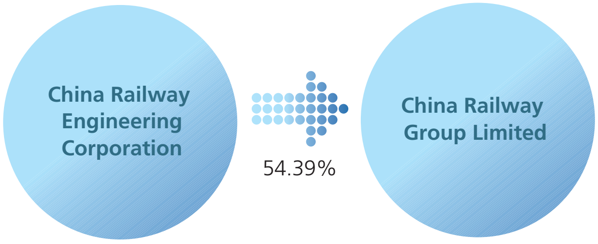
**(3) Special explanation that the Company does not have any controlling shareholder**

Not applicable

**(4) Details of the index and the date of changes of the controlling shareholder during the reporting period**

Not applicable

**(5) The diagram of the interests and controlling relationships between the Company and the ultimate controller**




## 2. Details of Ultimate Controller

**(1) Legal person**

Ultimate controller – State-owned Assets Supervision and Administration Commission of the State Council, which is the ministry level institution directly under the State Council, and was set up in accordance with the institutional reform plan of the State Council and the Notice of the State Council on Establishment of Institutions passed at the First Session of the 10th National People's Congress. The SASAC is authorised by the State Council to perform its duties as an investor on behalf of the State. The scope of supervision of the SASAC extends to the state-owned assets of central government owned enterprises (excluding financial enterprises). Currently, the SASAC is holding 100% of the shares of CRECG.

**(2) Natural person**

Not applicable

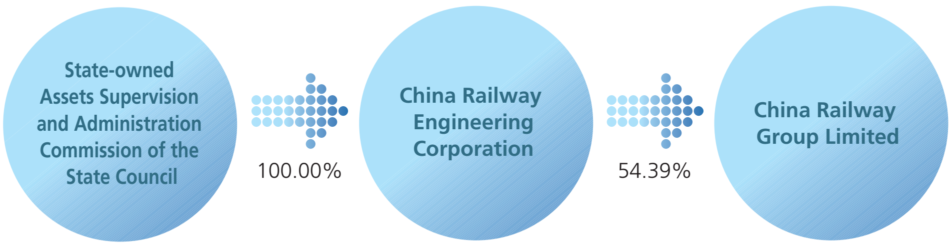
**(3) Special explanation that the Company does not have any controlling shareholder**

Not applicable

**(4) Details of the index and the date of changes of the controlling shareholder during the reporting period**

Not applicable

**(5) The diagram of the interests and controlling relationships between the Company and the ultimate controller**




**(6) Ultimate Controller control the Company through trust or other asset management methods**

Not applicable

## IV. Other Legal Person Shareholders with Shareholding of over 10%

As at the end of the reporting period, save for HKSCC Nominees Limited, there were no other legal person shareholders of the Company with shareholding of over 10%.

## V. Information on the Restrictions on Reduction of Shareholdings

Not applicable

# • BUSINESS OVERVIEW

**ZHANG Zongyan**

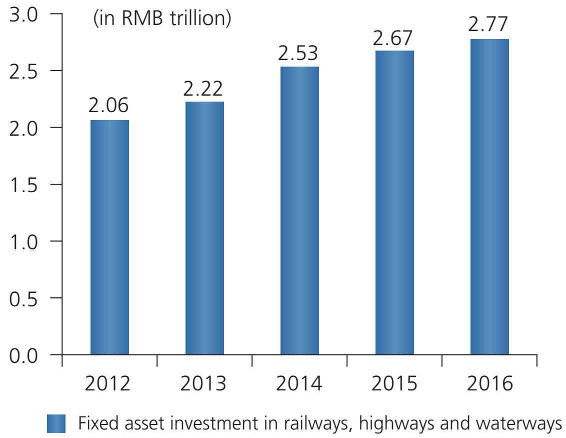
*Executive Director and President*

The Group is one of the largest multi-functional integrated construction groups in the PRC and even the world, which enables us to offer a full range of construction and industrial products and related services to our customers. The Group holds an industrial leading position in fields such as infrastructure construction, survey, design and consulting services, specialised engineering equipment and component manufacturing. The Group also diversifies its operations and expands its value-added services by exploiting into other businesses such as property development, merchandise trading, toll road operation, mining development and finance. After years of practice and development, the Group's business segments have established a close upstream-downstream relationship among themselves, with the property development, infrastructure investment and mining development businesses supporting the survey, design and consulting services and infrastructure construction operations; survey, design and consulting services supporting the infrastructure construction operation; engineering equipment and component manufacturing business providing construction equipment (such as bridge girder erection machine and shield) and the necessary components (such as turnout and bridge steel structure) for infrastructure construction; merchandise trading business supplying materials (such as steel and cement) for infrastructure construction; and finance business offering financing services for property development and infrastructure investment. All these have gradually formed a vertically integrated construction industry chain with outstanding principal operations supplemented by diversified relevant operations horizontally.

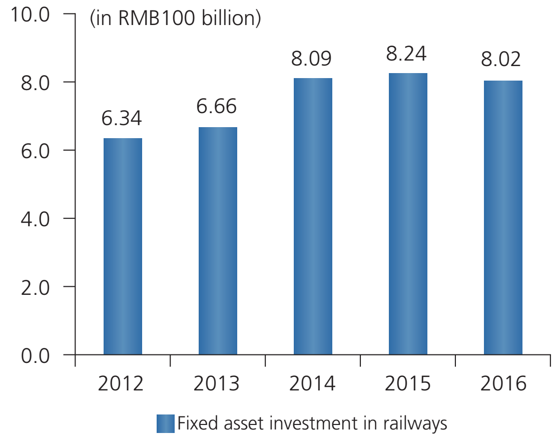
# I. Industry Development Overview

## 1. Infrastructure Construction Business

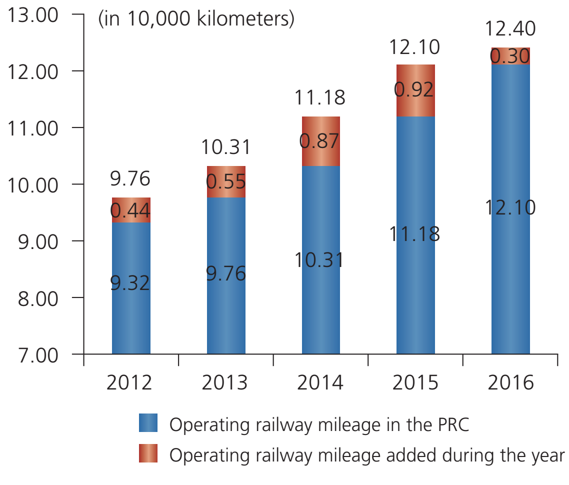
The construction industry in China generally followed an uptrend in recent years. Despite the "new normal" economic development, the industry still managed to keep advancing at mid to high speed. During the period of "13th Five-Year Plan", infrastructure construction, as an important foundation for securing growth, a crucial factor for supply-side structural reform and a strategic option for combating poverty, will continue to grow steadily. The chart below illustrates the overall development of the infrastructure industry in the past five years:



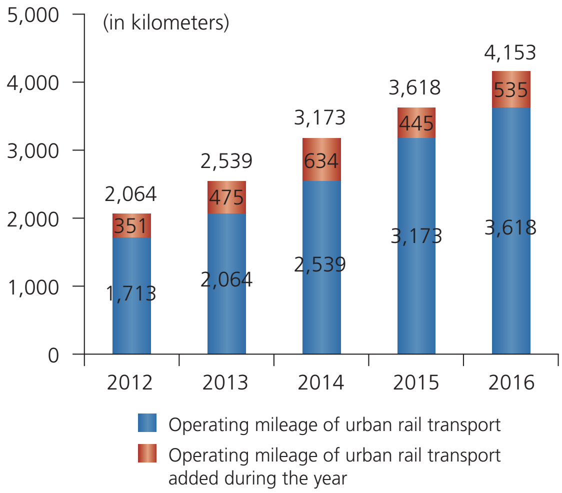

*Source: Ministry of Transport*



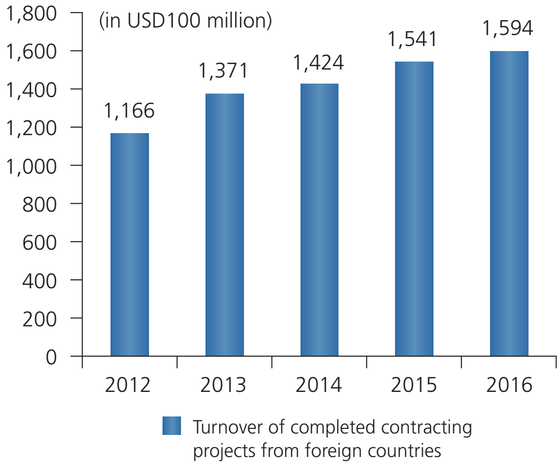

*Source: National Bureau of Statistics*




*Source: Ministry of Transport*




*Source: China Urban Rail Transit Association*




*Source: National Bureau of Statistics*


*Source: National Bureau of Statistics*

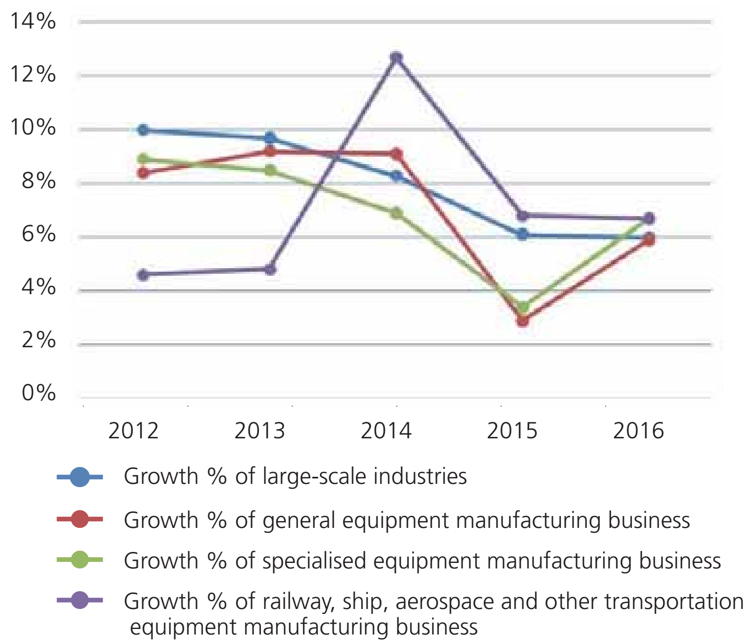
In 2016, the State sustained strong efforts to expand its fixed asset investment and took an active role in carrying out and promoting the regional strategies of the development of West China, revitalisation of Northeast China, rise of Central China and leading position of East China and the three core strategies of the Belt and Road Initiative, co-development of Beijing-Tianjin-Hebei and Yangtze River Economic Belt. The national infrastructure market, including railways, highways and urban rail transport, maintained continuous growth. The fixed asset investment in railways, highways and waterways for the whole year amounted to approximately RMB2,770 billion. In particular, the fixed asset investment in railways amounted to RMB801.5 billion and the new railway operating mileage was 3,281 kilometers. The national operating mileage reached 124,000 kilometers, of which more than 22,000 kilometers were attributable to high-speed railway. The investment in highway construction amounted to approximately RMB1,780 billion, with new highway mileage of more than 6,000 kilometers, making a total mileage of more than 130,000 kilometers. The State continued to promote urbanisation construction through overall enhancement in urban infrastructure construction, in particular the construction of high-capacity public transport such as subway and light rail, which contributed to 535 kilometers of new urban rail transit lines for the whole year. The economic and trading cooperation between China and countries along the Belt and Road countries quickened, and mutual investment remained at a relatively high level. During the year, the turnover of completed contracting projects from countries along the Belt and Road increased by 9.7% to US$76 billion, representing 47.7% of the turnover of completed contracting projects of China from all foreign countries. A large market has initially been formed for PPP, which is an emerging and important mode of project construction. As at the end of 2016, 11,260 PPP projects were registered by the Ministry of Finance, covering 19 sectors with a total investment of RMB13,500 billion. Among them, 1,351 projects with a total investment of RMB2,200 billion were signed, translating into a project floor rate of 31.6%.

### 2. Survey, Design and Consulting Services Business

Being a technology- and intelligence-intensive production-based service industry, the survey, design and consulting services business is integral to project construction as it offers technical and management services throughout the decision-making and implementation process of the construction work of various industries, including construction, transportation, electricity and irrigation works. The survey, design and consulting services industry will be better supported by the macroeconomic development strategy and policies during the "13th Five-Year Plan". The Belt and Road Initiative, city cluster development at the midstream of Yangtze River, co-development of Beijing-Tianjin-Hebei and ever-advancing national economic development initiatives, such as new urbanization and new industrialization, will provide ample market opportunities for the survey, design and consulting services industry. Meanwhile, the new trends of swift economic development, deep social reform and refinement of laws and regulations are calling for the acceleration in changing the way of economic development, industrial structure optimization and upgrading, development of a low-carbon economy and establishment of an "resource-saving and environmentally-friendly" society, which will in turn impose higher requirements on the survey and design industry in terms of innovation capability, technical know-how, quality standard, business scope and service pricing, while offering new market opportunities and new historical responsibilities to the industry.

### 3. Engineering Equipment and Component Manufacturing Business

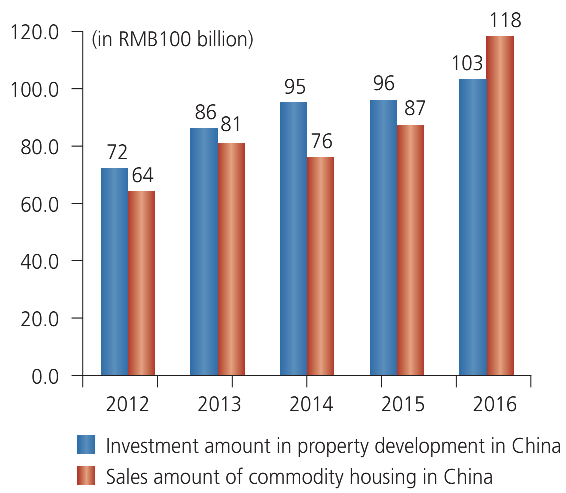
The State Council issued a series of industrial plans including "Made in China 2025" and "13th Five-Year Plan for the Development of National Strategic Emerging Industries", which laid down the transformation and upgrading direction of the manufacturing industry in China in the following decade. During the period of the "13th Five-Year Plan", fixed investment in railways will stay at a high level, and the markets of turnouts, tunnel construction equipment and services and construction machinery will continue to grow with the increase in construction of highways, urban rail transportation, irrigation works and underground development, and in further pursuance of the Belt and Road Initiative. In the meantime, due to the concept of green development, the implementation of the "Guiding Opinions on Developing Prefabricated Construction" and the market development of municipal bridge steel structure and high-rise steel structure construction, the market demand for steel structure will further expand. In 2016, the added value of large-scale industries recorded a year-on-year increase of 6.0% (2015: 6.9%), among which the added value of railway, ship, aircraft, aerospace and other transportation equipment manufacturing business increased by 3.2% (2015: 3.8%), general equipment manufacturing business increased by 5.9% and specialised equipment manufacturing business increased by 6.7%.



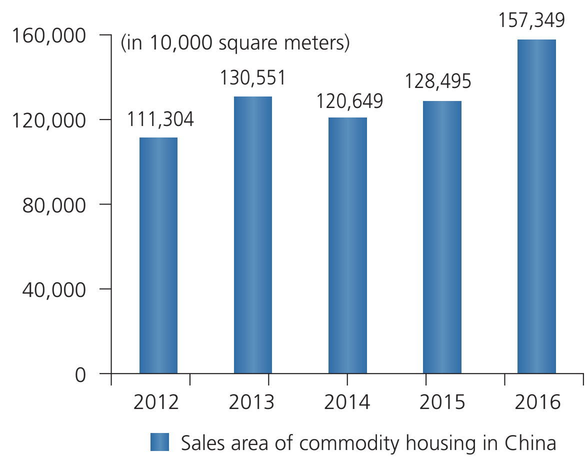

*Source: National Bureau of Statistics*

## 4. Property Development Business

In 2016, the property market in China was characterised by significant deviation. Due to the efforts of local governments in tailoring their measures to destock housing inventory and stabilise housing prices based on the property controls of the central government, the property market maintained a steady and healthy development. Since the first half of 2016, China's property market has become highly polarised. Continuous surges in land and home prices were witnessed in popular first- and second-tier cities while serious destocking problems still lingered in certain second-tier cities and in third- and fourth-tier cities in general. In view of the complex market environment, the State considered "destocking" as the foremost measure for property control, and focused on addressing regional and structural problems by adopting a differentiated control policy. Property developers were instructed to bid for lands at reasonable prices in popular cities in order to avoid an overheating land market and curb rapidly surging home prices. As at the end of 2016, a new round of property control measures were introduced to 24 cities. For first- and second-tier core cities, purchase and loan restrictions were relaunched and the barriers to land purchases were further tightened. For third- and fourth-tier cities which were under great destocking pressure, lenient home purchase policies were continued in order to release reasonable demand for home purchases. During the year, the investment in property development was RMB10,258.1 billion, representing a year-on-year nominal increase of 6.9% (actual increase of 7.5%, net of price factor), and an increase in growth rate of 5.9 percentage points as compared with 2015. In particular, the investment in residential housing grew by 6.4%. Property sales increased significantly throughout the country, pushing both the sales amount and sales area to all-time highs. The sales area of commodity housing in China was 1,573.49 million square meters, representing an increase of 22.5%. The sales area of residential housing, office buildings and commercial housing increased by 22.4%, 31.4% and 16.8%, respectively. The sales of commodity housing in China was RMB11,762.7 billion, representing an increase of 34.8%. The sales of residential housing, office buildings and commercial housing rose by 36.1%, 45.8% and 19.5%, respectively.




*Source: National Bureau of Statistics*

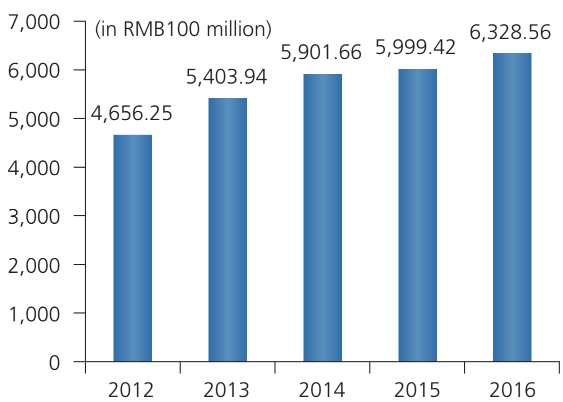



*Source: National Bureau of Statistics*

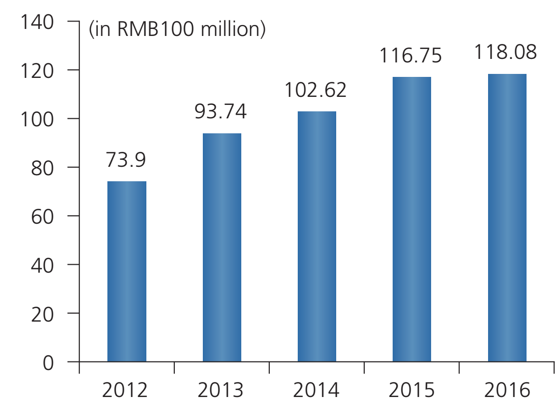
## II. Business Development Overview

The Group's principal business activities are infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, property development and other businesses. In 2016, the Group achieved total revenue of approximately RMB632.856 billion, representing a year-on-year growth of 5.5%. Benefiting from the expansion in investment in the infrastructure construction market in China and the pursuance of the Belt and Road Initiative, for the first time, the value of new contracts of the Group broke through the one thousand billion mark and reached RMB1,235.0 billion, representing a year-on-year increase of 29%. Among which, the overseas operation of the Group also went over one hundred billion to reach RMB102.5 billion for the first time, representing a year-on-year growth of 49.6%. The value of new PPP infrastructure investment contracts amounted to RMB291.16 billion, representing a year-on-year growth of 593%. As at 31 December 2016, the Group's contract backlog amounted to RMB2,037.78 billion, representing a year-on-year increase of 13.1%.

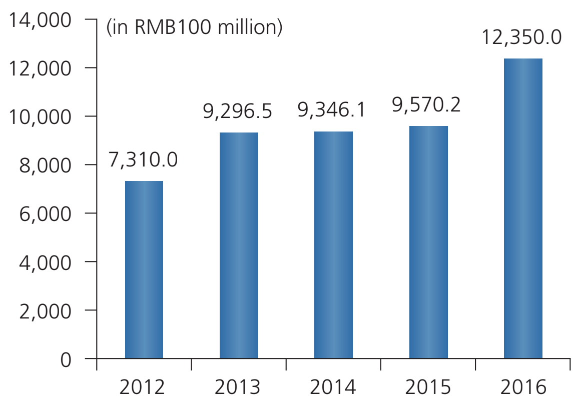
**Revenue**



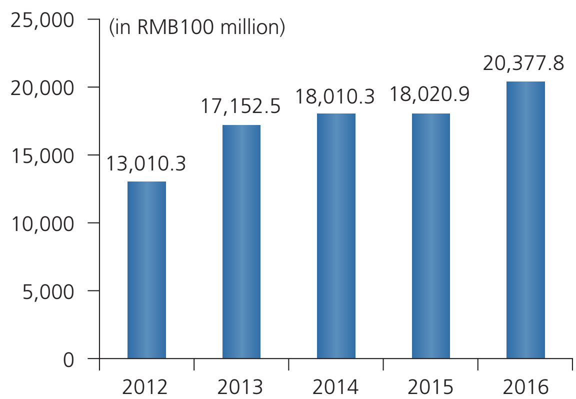

**Profit for the year attributable to owners of the Company**




**Total value of new contracts**




**Total value of contract backlog**



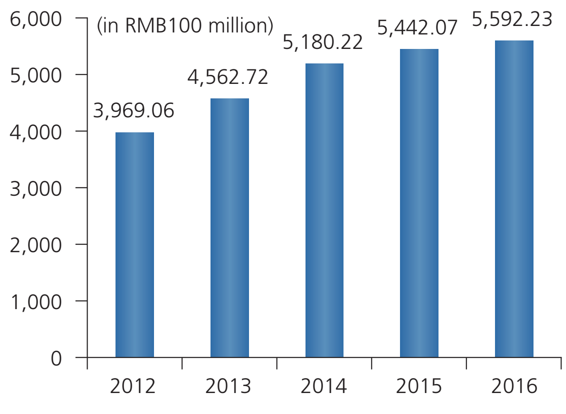
## 1. Infrastructure Construction Business

The Group's infrastructure construction business involves various sectors, including railways, highways, municipal works, buildings, urban rail transport, irrigation works and hydroelectricity, ports, waterways, airports and docks, across more than 60 countries and regions globally. The Group was granted the highest qualifications in various infrastructure construction sectors in China, including extra grade qualification as general contractor in railway construction, extra grade qualification as general contractor in highway construction, extra grade qualification as general contractor in municipal and public construction and extra grade qualification as general contractor in building construction. The basic mode of operation is to complete the survey, design, purchase, construction and operation of a construction project and be responsible for the quality, safety and deadlines of the project as agreed in the contract by various ways such as EPC contracting, construction contracting, BOT and PPP, through market competition at home and abroad. The infrastructure investment business is an extension of the traditional key industry chain of infrastructure construction. With the promotion of the "Public-Private-Partnership" (PPP) mode and the introduction of the relevant policies by the State, the PPP mode quickly took root in the infrastructure construction sector and became an important mode of project construction in 2016. To actively adapt to changes in the infrastructure investment and financing system and consolidate the Group's position in the infrastructure industry, the Group engaged in the infrastructure investment business by taking part in a number of infrastructure sectors, such as railways, highways, urban rails and underground tunnels, through various innovative PPP modes, including "PPP+EPC", "PPP+funds" and "BOT+government gap subsidies", in order to develop its traditional construction business simultaneously. The infrastructure construction business of the Group has become a coexistence of the "contractor" and "investor+contractor+operator" modes.

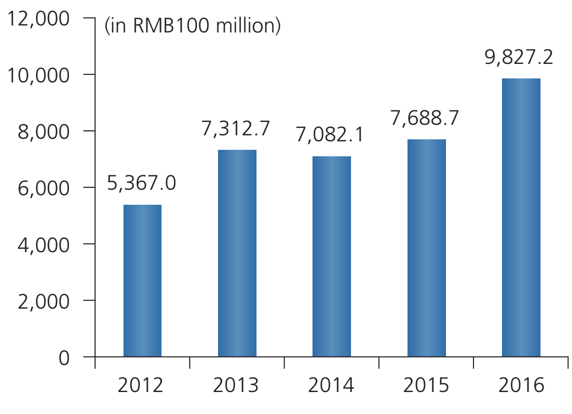
As one of the world's largest construction contractors, the Group remained as a leader of the infrastructure construction industry and was the owner of the only national key laboratory of high-speed railway construction technique in China as well as the biggest construction group in the railway infrastructure and urban railway infrastructure sectors in China, commanding more than 45% share in the railway infrastructure market, more than 50% share in the urban railway infrastructure market and around 12% share in the highway infrastructure market.

The revenue of infrastructure construction business of the Group was RMB559.223 billion in 2016, representing a year-on-year growth of 2.8%. The value of new contracts amounted to RMB982.72 billion, representing a year-on-year increase of 27.8%. As at 31 December 2016, the Group's contract backlog of infrastructure construction business was RMB1,658.88 billion, representing a year-on-year increase of 14.2%.

**Revenue of infrastructure construction business**




**Value of new contracts of infrastructure construction business**



**(1) Railway construction**

The value of new contracts of railway construction of the Group amounted to RMB334.01 billion in 2016, representing a year-on-year growth of 16.9%. The Group maintained its number one position in the market with a market share of 47.4% in the national tier-one railway market. As at 31 December 2016, the Group's contract backlog of railway construction was RMB601.10 billion, representing a year-on-year increase of 10.4%. During the year, the Group completed track laying of 7,161 kilometers of main railway line (new tracks and double tracks) and 8,250 kilometers of the line of the electrified railway network in total. A number of the Group's key projects under construction were progressing smoothly, such as Mongolia-China Railway, Beijing-Zhangjiakou Railway, Wuhan-Shiyan High Speed Railway and China-Laos Railway. A number of the Group's key railway projects were completed and commissioned, such as Zhengzhou-Xuzhou High Speed Railway and Shanghai-Kunming High Speed Railway, making great contribution to the formation of the original "Four Vertical and Four Horizontal" high speed rail network. A number of the Group's key railway projects were also completed and commissioned overseas, such as Angren-Pap Railway Tunnel in Uzbekistan and Addis Ababa-Djibouti Railway in Ethiopia, which significantly enhanced the transport accessibility of the relevant areas and improved the living conditions of the local people, contributing to local economic growth and development.

**(2) Highway construction**

The value of new contracts of highway construction of the Group amounted to RMB126.19 billion in 2016, representing a year-on-year increase of 40.4%. As at 31 December 2016, the Group's contract backlog of highway construction was RMB197.25 billion, representing a year-on-year increase of 11.6%. The Group completed 2,244 kilometers of highway construction in total, of which 1,121 kilometers were expressway. The Beijing-Xinjiang Expressway and Shaanxi Huangling-Yanan Expressway were formally commissioned. The main bridge sections of the Hong Kong-Zhuhai-Macau Bridge were connected together. The Polongou Bridge, the longest span cable-stayed bridge in Tibet undertaken by the Group, was also commissioned.

**(3) Municipal works and other construction**

The value of new contracts of municipal works and other construction of the Group amounted to RMB522.52 billion in 2016, representing a year-on-year increase of 32.9%. The value of new contracts of urban rail construction amounted to RMB252.33 billion, representing a year-on-year growth of 79.0% and a market share of approximately 50%. As at 31 December 2016, the Group's contract backlog of municipal works and other construction amounted to RMB860.53 billion, representing a year-on-year increase of 17.6%, among which, the contract backlog for urban rail construction amounted to RMB328.27 billion, representing a year-on-year increase of 34.4%. In 2016, the Group participated in the construction of urban light rail and metro lines, among which, civil engineering and laying works accounted for 198 kilometers and 220 kilometers, respectively. A number of key and difficult projects, such as Beijing Metro, Shenzhen Metro, Guangzhou Metro, Chengdu Metro and Kunming Metro, constructed by the Group were progressing smoothly.

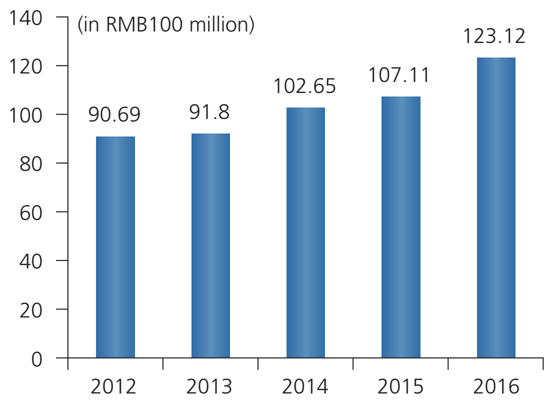
## 2. Survey, Design and Consulting Services Business

The Group's survey, design and consulting services business covers the entire infrastructure construction process from research, planning, consultation, survey and design, supervision, EPC contracting to product industrialization. It primarily involves the sectors of railways, urban rail transport, highways, municipal works and construction, with a gradual extension to new industries, such as modern trams, magnetic levitation, straddle-type rail transport, smart transportation, civil airports, ports and docks, electricity and energy-saving and environmental protection. The basic mode of operation is to complete survey and design and the relevant services of a construction project as agreed in the contract through market competition at home and abroad. Meanwhile, the Group continues to innovate the operation mode of the survey and design business by fully capitalizing on its advantages in the planning of urban transport infrastructure to operate design projects as well as EPC contracting projects.

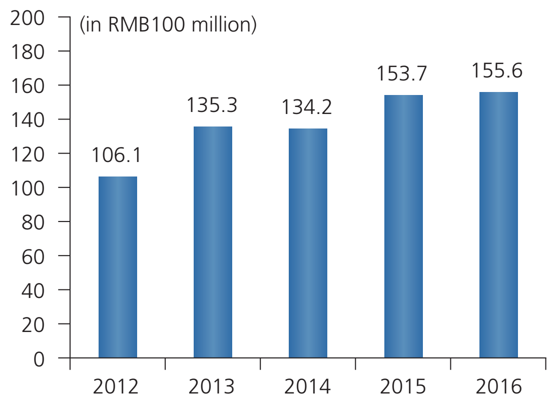
As one of the key operators in the survey, design and consulting services industry in China, the Group plays a vital leading and dominating role in the project construction sector, especially in assisting in formulating the railway industry standards in respect of construction and quality inspection. The Group has a share of about 30% of the railway survey and design market and about 35% of the urban rail survey and design market.

In 2016, the revenue of survey, design and consulting services business of the Group was RMB12.312 billion, representing a year-on-year increase of 14.9%. The value of new contracts amounted to RMB15.56 billion, representing a year-on-year growth of 1.2%. As at 31 December 2016, the Group's contract backlog of survey, design and consulting services business was RMB26.73 billion, representing a year-on-year increase of 11.3%. In 2016, the Addis Ababa-Djibouti Railway designed by the Group, which is the first railroad built entirely with Chinese standards, was successfully completed and commissioned. Shenzhen Metro Line 11, which is the longest one-off completed rail line in China with the largest investment scale and a maximum speed of 120km/h and whose survey, design and general contracting were undertaken by the Group, was commissioned. The test track of Zhongtang sky train in Chengdu – the world's first new-energy sky train whose survey and design work was undertaken by the Group – was successfully put into operation. The construction of the Wuhu Metro Line 1 and Line 2 Phase One project, whose survey and design work was undertaken by the Group, has been commenced smoothly, and it will be the first straddle-type monorail transport project in China.

**Revenue of survey, design and consulting services business**




**Value of new contracts of survey, design and consulting services business**



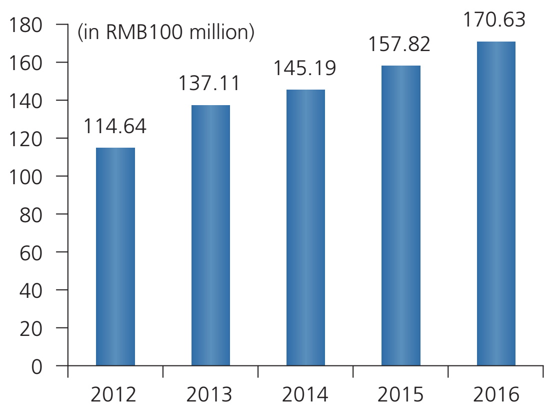
### 3. Engineering Equipment and Component Manufacturing Business

The Group's engineering equipment and component manufacturing business mainly serves the infrastructure construction business at home and abroad, with products covering turnouts, tunnel construction equipment, bridge steel structure, construction machinery and railway electrification materials. The Group enjoys core competitive advantages throughout the industry chain of turnout products from design, research and development to manufacturing techniques, with an annual production capacity of 20,000 units of different kinds of turnouts, which are widely used in railways, metro and trams, etc. With respect to the manufacturing and installation of steel structures, the steel bridge manufacturing skills applied by the Group in several major projects are the first-of-its-kind in China. The Group also meets advanced international standards in the manufacturing of bridge steel structures and steel cable towers. As for tunnel construction equipment and services, the Group is capable of providing comprehensive products and services for different series of tunnel boring machinery, ancillary tunnel boring equipment and tunnel construction machinery, covering mixed shields, earth press balance shields, slurry pressure balance shields, irregular-shaped shields and hard rock tunnel boring machines, and the relevant ancillary services. The Group has also established a full industry chain encompassing components and ancillary equipment, design, research and development, production and manufacturing, market development and ancillary services. As for construction machinery, the Group is a leading large technological enterprise in China specialised in manufacturing, researching and developing specialised construction machinery in the sectors of railways, highways, urban rail transport, irrigation works and underground construction, etc. Its product lines include specialised railway construction equipment, such as track laying machinery, bridge erecting machinery, carry girders and carriers, and other large-scale construction machinery, such as lifting machinery, special construction vehicles and pile driving machinery, covering almost all the equipment required for infrastructure construction. The basic mode of operation is to provide the relevant products and services on a timely basis at the required quality as agreed in the contract through market competition at home and abroad.

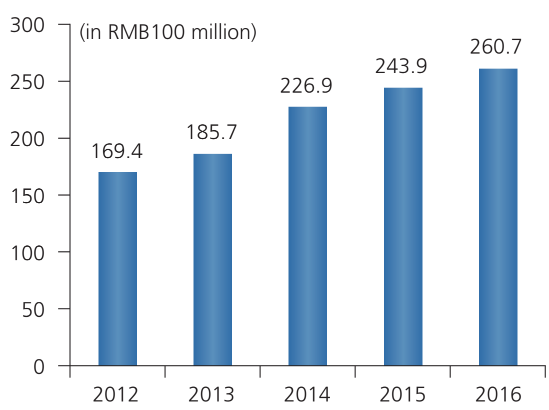
The Group enjoys a leading position in China and even the world in the manufacturing of high-end equipment in the sector of transport infrastructure, including railways, highways, urban rail transport and underground construction. Presently, the Company is the world's largest turnout and bridge steel structure manufacturer, the country's largest and the world's second largest shield developer and manufacturer, and the country's largest railway construction equipment manufacturer, with the only national key laboratory of shield tunneling and drilling technology in China. The Group occupied about 65% of the high-speed turnout market, about 40% of the shield manufacturing and selling market, more than 65% of the large bridge steel structure market and about 80% of the electrified railway network market.

In 2016, the Group's revenue on engineering equipment and component manufacturing business was RMB17.063 billion, representing a year-on-year increase of 8.1%. The value of new contracts amounted to RMB26.07 billion, representing a year-on-year increase of 6.9%. As at 31 December 2016, the Group's contract backlog of engineering equipment and component manufacturing business was RMB27.39 billion, representing a year-on-year increase of 10.8%. As the country's largest and the world's second largest shield developer and manufacturer, the Company greatly improved its production and operation capacity in shields, and equipped itself with an annual production capacity of 165 units of shields. 112 units of shields were sold and 87 units were manufactured in 2016. Meanwhile, while continuing to consolidate the domestic shield market, the Group stepped further into the international market, selling its shield products to foreign countries such as Singapore, Malaysia, India and Israel.

**Revenue of engineering equipment and component manufacturing business**



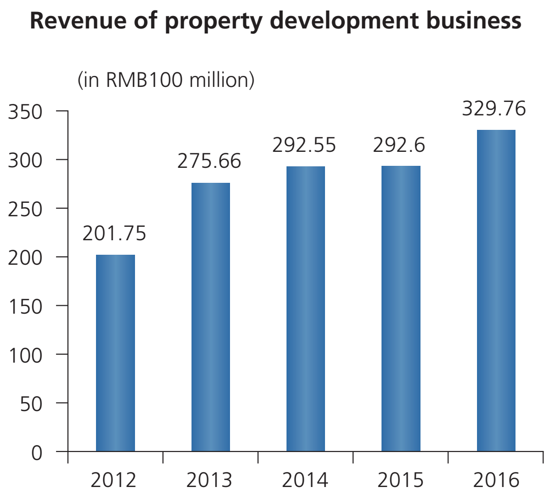

**Value of new contracts of engineering equipment and component manufacturing business**

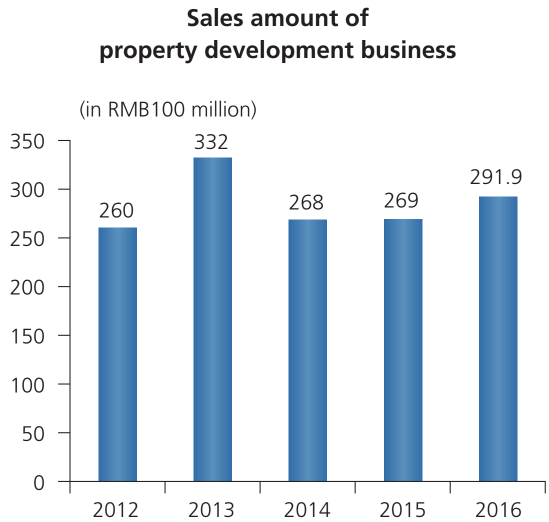



## 4. Property Development Business

The Group's property development business consists of primary land development and property development. In respect of the mode of operation of primary land development, the Company is authorised by the local government through competition to perform land requisition, demolition and removal, urban infrastructure construction and public facility construction on a plot of land in a certain area based on the planning requirements in order to equip the land with the required facilities, and the Company will then recover its investment and gains through the income from land supply. As for property development, the mode of operation is to acquire the property development rights through market competition at home and abroad and the newly completed commodity housing would then be sold or leased.

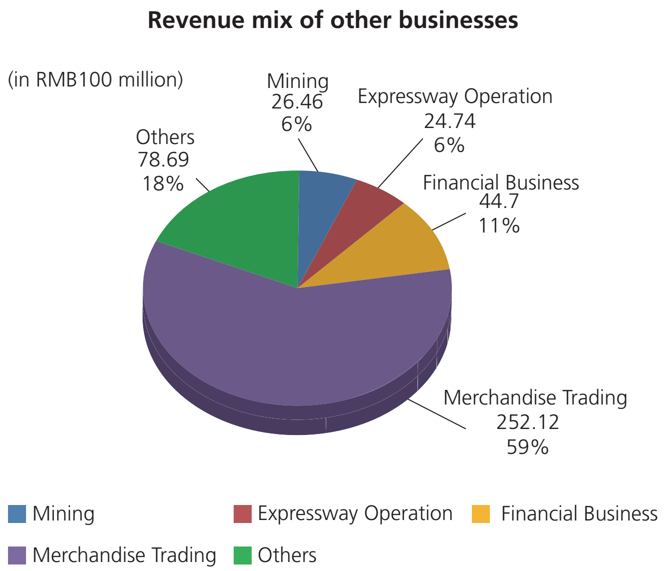
As one of the 16 central enterprises approved by the SASAC to take property development as the main operation, the Group is well-positioned in a number of sectors, including residential housing, offices, commercial buildings, urban complexes, industrial parks, railway transport integrated property development, MICE centers, and cultural and tourism properties. In 2016, adopting the operational strategy of "quickening steps in transformation and upgrading and facilitating the enhancement of quality and efficiency", the property development business actively promoted the development of new property business models, such as elderly care and healthcare properties, cultural and tourism properties, industrial property and unique small towns. In 2016, to adapt to the complicated and dynamic property market, the property development business of the Group strove to achieve sound and sustainable development by adopting the operational strategy of "quickening steps in transformation and upgrading and facilitating the enhancement of quality and efficiency". The completed gross floor area for the year was 3.18 million square meters, representing a year-on-year increase of 0.7%, and the sales amount and sales area were RMB29.19 billion and 3.03 million square meters, respectively, representing a year-on-year growth of 8.4% and 10.8%, respectively. The Group realised a revenue of RMB32.976 billion, up by 12.7% year-on-year. As at 31 December 2016, the Group had a total of 143 property development projects in 23 provinces and 50 cities in China. The project area under development of the Group was 28.969 million square meters with a gross floor area of 53.007 million square meters. The land reserve area and gross floor area available for development were 17.192 million square meters and 25.975 million square meters, respectively.




## 5. Other Businesses

In 2016, the other businesses of the Group realised revenue of RMB42.671 billion, representing a year-on-year increase of 6.6%. As required by the State to implement national supply-side structural reform and to solve the overcapacity problem of coal, the Group completed transferring its coal-related assets, including the Manglai Coal Mine and Xiaobaiyang Coal Mine, at the end of 2016, signifying the full retreat of the Group from the coal business and leading to the optimization of the industrial and product structures of its mining development business. As the prices of copper and cobalt products rebounded, mining development projects such as Luming Molybdenum Mine and Congo (Kinshasa) Sicomines Copper-Cobalt Mine have been operating smoothly, and the mining development business has entered a stage of steady development. The overall operation of expressway BOT projects remained satisfactory with a continuous increase in revenue. The gross profits of merchandise trading business further increased as a result of our business focusing on internal centralised procurement and stable external operations. Owing to an increase in market demand, the finance business grew at a high speed. By further consolidating internal financial resources, the Group fervently promoted the integration of industry and finance, created innovative investment and financing models and set up an industry-chain financial service system, leading to a gradual increase in income and profit contribution, which in turn helped to supplement the development of our principal operations.



## III. Scientific Research Investment and Technological Achievements

In 2016, following the State's guidance on technological development of "achieving innovation and focused breakthroughs to support future development", the Group applied a lot of new technology, new techniques, new materials and new equipment in project construction, which led to the full advancement of the quality of our projects and products. The innovation capability of the Group was significantly enhanced.

In 2016, to meet the actual needs for corporate development and project construction, the Group had a total of 899 technological research topics under its technological development plan. Based on key projects including Sichuan-Tibet Railway, Mosco-Kazan High Speed Railway, Mongolia-China Railway, Zhengzhou-Xuzhou Railway, Lhasa-Nyingchi Railway, Beijing-Zhangjiakou Railway, Yarlung Zangbo River Bridge, Wuhan Yangsigang Yangtze River Bridge, Pingtan Strait Highway & Railway Bridge, Wuhan Qingshan Yangtze River Bridge, Qiongzhou Strait Cross-sea Project, Gaoli Gongshan Tunnel, Beijing Metro, Shenzhen Metro and Xiamen Metro, these topics focused on studying the key techniques of the box girder structure of a large-span cable-stayed railway bridge, manufacturing of large-span composite steel box and steel truss girder, construction of 1,000-meter-span wide steel box and composite steel box girder cable-stayed bridge and the design of long and large cross-sea railway tunnel under a complicated environment, etc. The operation and management of the Group's National Engineering Laboratory of High Speed Railway Construction, National Key Laboratory of Shield Tunneling and Drilling Technology, National Key Laboratory of Bridge Structural Stability and Safety Postdoctoral Work Stations, Corporate Technology Center, BIM Technology Application, Research and Development Center and professional research and development centers of bridges, tunnels, electrification, advanced engineering materials and inspection technology, railways and construction equipment ran smoothly.

In 2016, the Group won three National Advanced Science and Technology Prizes, one Technological Invention Award – Grade II, eight Zhan Tianyou Civil Engineering Prizes and 320 Provincial Technological Achievement Awards. It also received 59 provincial survey and design awards and 13 provincial consulting achievement awards. The Group was granted 1,008 patents, 369 of which were invention patents. The "automatic guide rail send-back system of a track laying machine", "reinforced concrete pile network structure of roadbed on ballastless tracks and the construction method thereof" and "upper-blocking and lower-draining construction method for undersea tunnel fault fracture zone" were awarded the Outstanding Award at the 18th China Patent Awards. It had 220 provincial-level engineering methods. The Group also participated in formulating 20 national standards and 58 industrial standard. These technological achievements and awards demonstrated the strong research and development capabilities of the Group in infrastructure construction, survey and design.

## IV. Establishment and Implementation of Safety and Quality System

In 2016, the Group conscientiously implemented and complied with the standards of the quality management system, environmental management system, occupational health and safety management system (international quality management system: ISO 9001:2008; international quality management systems: GB/T 19001-2008/150 9001:2008 and GB/T 50430-2007; international environmental management system: ISO 14001:2004; international environmental management system: GB/T 24001-2004/150 14001:2004; international occupational health and safety management system: GB/T 28001-201'I/OHSAS 18001:2007). It also strictly implemented the domestic and international industrial standards and continuously improved its internal quality assurance system to make sure that its system and rules (including the Measures for Supervision on and Management of Construction Quality) are effectively compatible with those currently in force in relation to construction quality control, quality assurance and management, quality incident handling, and accountability for incidents, and that the management process is in an orderly and controllable condition, thus providing a solid foundation for the highly effective operation of the Group's quality management system. During the year, 13 projects of the Group won the Luban Prize and 19 projects were granted national prizes for high quality constructions. The branding and reputation of the construction projects of the Group were further enhanced.

In 2016, the Group strictly adhered to the new Production Safety Law, paid attention to safety hazards and followed the baseline safety standards. Adopting a people-oriented approach in safety development, the Group aimed at achieving "zero-accident" by implementing a responsibility system, perfecting the management system and solidifying the management foundation. Through the establishment and operation of seven major systems, namely the organizational protection system, tiered control system, regulation system, technological support system, education and training system, emergency rescue system and safety evaluation system, the Group's production safety system functioned property and the production safety level was generally stable and controllable. During the year, no incident occurred which qualified as or more severe than a major production safety incident and the Group received in total 21 national-level awards for AAA-rated safe civil and standardised construction sites.

## V. Implementation of Environmental Protection Measures

In 2016, the Group made full efforts to coordinate and plan for the energy-saving and emission reduction measures for the "13th Five-Year Plan" and completed preparing our plans for energy saving and emission reduction during the "13th Five-Year Plan". The Group played an active role in energy saving and emission reduction by establishing construction sites that conformed to the standards of energy saving and emission reduction, promoting the application of new technology, new techniques and new equipment to increase energy efficiency while strictly controlling the emission of pollutants, stepped up efforts in technical improvement and the elimination of obsolete equipment, reducing the emission of waste gas and sewage, and making full use of waste, such as waste residue. In 2016, the Group did not experience any incident concerning environmental responsibilities nor materially violated any regulations or disciplinary rules on energy conservation and emission reduction. The emission of pollutants was all in compliance with the corresponding national and local emission standards.

In terms of environmental control, the Group manifested the harmony between man and nature in every project and established a green environmental management system featuring top-down, all-round monitoring and control. It strived to protect the ecological system and the environment. By consistently adhering to the principles of "stressing on project quality and using civilised approaches", the various project departments of the Group applied a high standard to the Group's environmental protection and water and soil conservation measures as they worked for the target of "achieving excellence in project quality, environmental protection and water and soil conservation" and strived to achieve the harmony between building quality projects and maintaining a beautiful environment. For each investment and construction project, environmental impact appraisal was conducted according to the requirements of the local governments, environmental review and approval procedures were followed and preparatory environmental protection review was carried out. The Group tightened the control over major pollutant emission points and took effective measures in noise control, dust emission, pollutant emission, soil quarry/damp sites, transportation of waste residue and water protection in order to conduct the construction process in a compliant and environmentally-friendly manner. The Group made consistent efforts in the protection of the environment and ecological system. Before work was commenced on a construction project, it always arranged for professionals to do an in-depth assessment of the environment and ecological system and draw up practical and effective plans for their protection. Special efforts were made to protect the water and soil, bio-diversity and vegetation in and of construction areas which were ecologically vulnerable through the simultaneous planning and implementation of environmental protection measures and construction works. In the course of the works, increased investment was made for ecological protection, environmentally friendly equipment was used, work processes were improved and construction plans were optimised in order to reduce the impact on water, air, vegetation and organisms. Not a single ecological or environmental event occurred in the entire year.

## VI. Compliance with Laws and Regulations

As a company dually listed on Shanghai Stock Exchange and the main board of the Hong Kong Stock Exchange, during the reporting period, the Group strictly complied with laws and regulations including the Company Law, the Securities Law, the Code of Corporate Governance for Listed Companies, and the various rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange, continuously enhanced the corporate governance structure, brought forth new ideas to the operational mechanism of corporate governance, thus continuously enhanced the scientificity and effectiveness of corporate governance. During the reporting period, there was no material breach of laws and regulations by the Group.

## VII. Maintenance of Relationship with Stakeholders

During the reporting period, the Group always maintained a cooperation relationship of harmony, mutual trust and mutual benefit with stakeholders such as employees, customers and investors, and insisted on putting it in the shoes of the stakeholders to consider issues and proactively responded to the important issues of the stakeholders' concern, had in place a smooth, standardised and distinctive system of communication with the stakeholders, and made efforts to achieve the common development, harmony and a win-win with the stakeholders.

## VIII. Prospects

With respect to the domestic infrastructure market, the State's integrated implementation of the strategies of "Four Developing Regions" and "Three Supporting Belts" will continue to bring new growth points and development opportunities for the infrastructure market, which will remain as a crucial driver of steady investment and stable growth. According to the "Three-Year Action Plan on Major Transportation Infrastructure Construction Projects", "13th Five-Year Plan for Modern and Comprehensive Transport System Development" and "Mid- and Long-term Railway Network Plan" published and revised by the State, during the period of the "13th Five-Year Plan", the transport network coverage will further expand and intensified efforts will be made to develop the network, so that 80% of the cities with de jure population of more than one million will be covered by high speed railway, and virtually all cities with de jure population of more than 200,000 will be covered by railways, expressways and civil airports. The traveling time between key city clusters and core cities and between core cities and peripheral node cities will be reduced to one to two hours. A well accessible east-west and north-south "Ten Vertical and Ten Horizontal" comprehensive transport network will be established. In 2017, fixed asset investment in railways will remain at a high level. The nationwide fixed asset investment in railways is estimated to be over RMB800 billion, with 2,100 kilometers of new tracks, 2,500 kilometers of double tracks and 4,000 kilometers of electrified railways to be put into operation. With regard to highway construction, the State will keep pushing forward the "National Highway Network Planning (2013-2030)" in a rational and orderly manner, placing emphasis on the construction of the national highway network with the guidance of investment policies. Meanwhile, more efforts will be put in the construction of national and provincial highways in order to speed up the construction of roads with dead-end and overly narrow width. In 2017, the fixed asset investment in highways is estimated to be RMB1,650 billion, with newly constructed expressways of 5,000 kilometers and newly redeveloped rural highways of 200,000 kilometers. As for city infrastructure, the "New Urbanisation Plan (2014-2020)", "Guidance on Promoting the Construction of Sponge Cities" and "Guidance Opinions on Promoting the Construction of Underground Integrated Utility Tunnels" issued by the State clearly stated that the new urbanization process will need to be promoted in a quick and orderly manner to improve city functions. Urban development plans or comprehensive transportation development plans were laid out to facilitate the construction of urban infrastructures, such as urban roads, public transport, water supply and drainage, sewage treatment, waste treatment and underground public facilities to increase the overall carrying capacity of cities and towns. With respect to urban rails, the State encouraged the systematic development of metro as well as elevated or ground-level rail transport, such as light rail and tram, and also streamlined the plan approval procedures for urban railway construction so as to further accelerate the approval process for rail transport construction plans and projects. From 2016 to 2018, the State will roll out 103 urban rail transport projects, and 2,000 kilometers of new rail lines will be constructed. The investment amount will be approximately RMB1,650 billion. It is anticipated that by 2020, the operating mileage of urban rail transport will almost double that of 2015. The introduction and improvement of the framework planning documents on the top-level design of the national transport network and the introduction and gradual implementation of the top-level reform proposal of the investment and financing mechanism indicate a positive prospect for China's infrastructure market in 2017 and even during the period of the "13th Five-Year Plan", which will provide a favorable policy environment and ample business opportunities for the Group's development.

In respect of the international infrastructure market, due to further development of economic globalization, new breakthroughs in global governance, acceleration in regional economic integration, promotion in the Belt and Road Initiative and development of international cooperation over production capability, together with the "equal, open-minded, cooperation-driven and mutual sharing" world governance principle upheld by the State, different countries quickened their steps in mutual cooperation and development. The progress and achievements of the Belt and Road Initiative are much better than expected. As China strengthens the cooperation with the Belt and Road countries over the five goals of "policy co-ordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds", a cooperative atmosphere featured with mutual discussion, mutual construction and mutual sharing has already been formed among different countries. Financial cooperation, represented by the Asia Infrastructure Investment Bank and Silk Road Fund, will continue to take root and a number of influential landmark projects will be gradually carried out. It is anticipated that during the period of the "13th Five-Year Plan", infrastructure investment and construction will remain as a main driver of world economic development. In particular, most of the 65 countries along the Belt and Road are developing countries with poor infrastructure and huge demand for infrastructure construction. This will definitely lead to continuous increase in the demand for infrastructure construction along the Belt and Road and create new development opportunities for the world's construction industry, which will further help the Group to "expand overseas".

On the other hand, during the period of the "13th Five-Year Plan", the development of the construction industry in China will still face a complicated situation in view of the growing pile of local government debt and certain acute problems of PPP projects, such as incomplete legal protection, low participation of private capital and substandard implementation of certain projects. The replacement of business tax with value-added tax may also increase our tax burden in the short term. Therefore, severe challenges will still linger around construction enterprises in the future. On the international front, it is still too early to be optimistic about the situation in some of the regions. The instability of the European Union and continuous regional wars and conflicts will pose uncertainties and potential risks for the international operations of the construction enterprises in China. While the construction enterprises will have to meet new requirements on technical innovation, energy conservation, environmental protection and green development, different kinds of protectionism and inflation will also make it more difficult for construction enterprises to expand their operations overseas.

Generally, the fundamentals for the continuous development of the construction market remains unchanged. The Group will still be undergoing a critical period in terms of strategies and opportunities. We are confident and determined in promoting the sustainable development of the Group.

## IX. Operation Plan

In 2017, the Group plans to achieve total revenue of approximately RMB641.7 billion, costs of operation of approximately RMB580.8 billion, aggregate of selling, administrative and finance expenses of approximately RMB32.15 billion. It is estimated that the new contracts to be entered into will amount to approximately RMB1,150.0 billion. The Group will promptly adjust its operation plan to suit market conditions and to reflect the actual implementation of the plan.

# • MANAGEMENT DISCUSSION AND ANALYSIS

## I. Overview

The Group's principal business activities are infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, property development and other businesses.

In the year of 2016, the management of the Company seized the opportunity in the domestic and international infrastructure market development with a focus on the enhancement of quality and efficiency. It duly forged ahead with its works by following the six principles of "solidifying foundation, refining projects, innovating systems, stringent management, strengthening capabilities and better enterprise". The Company's market competitiveness was further enhanced through external marketing operation and internal scientific management with unity and pragmatism; and all the annual operating targets achieved record-high results.

In the year of 2016, the Group achieved revenue of RMB632.856 billion, representing a year-on-year increase of 5.5%. Profit for the year increased by 7.8% year-on-year to RMB12.703 billion while profit for the year attributable to owners of the Company increased by 1.1% year-on-year to RMB11.808 billion.

A comparison of the financial results for 2016 and 2015 is set forth below.

## II. Consolidated Results of Operations


### Revenue

In 2016, the Group's total revenue increased year-on-year by 5.5% to RMB632.856 billion. New contracts of the Group increased year-on-year by 29% and reached RMB1,235.0 billion. As at 31 December 2016, the Group's contract backlog increased by year-on-year by 13.1% to RMB2,037.78 billion.

### 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 2016, the Group's cost of sales recorded a year-on-year increase of 5.8% to RMB583.067 billion while gross profit of the Group increased year-on-year by 2.3% to RMB49.789 billion. The overall gross profit margin for 2016 was 7.9%, representing a decrease of 0.2 percentage point from 8.1% for 2015. It was mainly due to the decrease of gross profit margin of infrastructure construction business.

### Other income

The Group's other income primarily consists of profits from sundry operations supplemental to our principal revenue-generating activities, such as sales of materials, dividend income, relocation compensation and subsidies from government, and other income. In 2016, the Group's other income was RMB1.855 billion, decreased by 25.1% from RMB2.475 billion of last year. The decrease of other income was primarily due to the decrease in revenue from sales of materials.

### Other expenses

The Group's other expenses primarily includes expenditures on research and development. In 2016, other expenses increased by 1.3% from RMB10.281 billion of last year to RMB10.417 billion, mainly due to the fact that the Group further improved its technological self-development and innovation capabilities and enhanced energy saving and emission reduction efforts.

### Other gains and losses
The Group's other gains and losses mainly include impairment loss on trade and other receivables, foreign exchange gains/losses, increase/decrease in the fair value of available-for-sale financial assets, gains/losses on disposal/write-off of fixed assets and subsidiaries. The other gains of RMB0.630 billion in 2016 (2015: other losses of RMB1.088 billion) primarily included impairment loss on assets of RMB2.660 billion, net exchange gain of RMB2.275 billion and gain on disposal of assets and subsidiaries of RMB1.015 billion.

### 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 2016, the Group's selling and marketing expenses amounted to RMB2.560 billion, representing a year-on-year increase of 9.3%. The selling and marketing expenses as a percentage of the total revenue for 2016 was 0.4%, same as that for 2015.

### Administrative expenses
The Group's administrative expenses mainly consist of employee compensation and benefits and depreciation and amortization of its assets related to administration. In 2016, the Group's administrative expenses increased year-on-year by 1.0% to RMB17.680 billion. Administrative expenses as a percentage of revenue for 2016 was 2.8%, representing a decrease of 0.1 percentage point from 2.9% for 2015.

### Interest income
In 2016, the interest income was RMB2.197 billion, representing a decrease of 27.1% from 2015. It was mainly due to the increase in average fund balances within the Group as a result of strengthened fund centralization management, which caused the decrease in balances at banks and interest income.

### Interest expenses
In 2016, the interest expenses was RMB5.774 billion, representing a decrease of 6.6% from 2015. It was mainly due to the decrease in total interest-bearing liabilities from last year and the Group's lower finance cost by actively exploring direct financing.

### Profit before tax
As a result of the foregoing factors, the profit before tax for 2016 increased by RMB1.755 billion, or 10.3% to RMB18.772 billion from RMB17.017 billion for 2015.

### Income tax expense
In 2016, the income tax expense increased year-on-year by 16.0% to RMB6.069 billion. By excluding the impact of land appreciation tax, the effective income tax rate of the Group increased by 0.4 percentage point from 27.7% for 2015 to 28.1% for 2016. It was mainly due to the reason that deferred income tax assets were not recognised for project losses and impairment loss on assets made during the year.

### Profit for the year attributable to holders of perpetual notes
As at 31 December 2016, the Company has issued perpetual notes with a total principal amount of RMB12 billion (31 December 2015: RMB12 billion). In 2016, the profit for the year attributable to holders of perpetual notes amounted to RMB0.701 billion (2015: RMB0.583 billion).

### Profit for the year attributable to owners of the Company
As a result of the foregoing factors, profit for the year attributable to owners of the Company for 2016 increased by 1.1% to RMB11.808 billion from RMB11.675 billion for 2015.

## III. Segment Results

The revenue and results of each segment of the Group's business for the year ended 31 December 2016 are set forth in the table below.

| Business segment | Segment revenue *(RMB million)* | Growth rate *(%)* | Profit before tax *(RMB million)* | Growth rate *(%)* | Profit before tax margin[1] *(%)* | Segment revenue as a percentage of total *(%)* | Profit before tax as a percentage of total *(%)* |
|---|---|---|---|---|---|---|---|
| Infrastructure Construction | 559,223 | 2.8 | 14,753 | 3.9 | 2.6 | 84.2 | 73.1 |
| Survey, Design and Consulting Services | 12,312 | 14.9 | 1,442 | 27.5 | 11.7 | 1.8 | 7.1 |
| Engineering Equipment and Component Manufacturing | 17,063 | 8.1 | 1,349 | 28.5 | 7.9 | 2.6 | 6.7 |
| Property Development | 32,976 | 12.7 | 2,458 | –6.0 | 7.5 | 5.0 | 12.2 |
| Other Businesses | 42,671 | 6.6 | 184 | N/A | 0.4 | 6.4 | 0.9 |
| Inter-segment Elimination and Adjustments | (31,389) | | (1,414) | | | | |
| **Total** | **632,856** | **5.5** | **18,772** | **10.3** | **3.0** | **100.0** | **100.0** |

1 *Profit before tax margin is the profit before tax divided by the segment revenue.*

### Infrastructure construction business

Revenue from the operation of the Group's infrastructure construction business is mainly derived from construction of railway, highway, municipal works, urban rails and other projects. Revenue from the operation of the infrastructure construction business continues to account for a high percentage of total revenue of the Group. In 2016, the revenue from the infrastructure construction business accounted for 84.2% of the total revenue of the Group (2015: 85.0%). In 2016, segment revenue from the Group's infrastructure construction business increased by 2.8% year-on-year to RMB559.223 billion. It was mainly due to the growth in income from railway and municipal works a result of the continuous development of the domestic infrastructure construction market. Gross profit margin and profit before tax margin of the infrastructure construction segment for 2016 was 5.8% and 2.6% respectively (2015: 6.0% and 2.6% respectively). It was mainly due to (1) the significant increase in cost of raw materials as well as the delay in raw material cost adjustment and (2) certain projects were at closeout phase with claim of adjustments not yet being completed.

### 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. Benefiting from the stable growth of investment in domestic infrastructure construction segment, in 2016, segment revenue of survey, design and consulting services business increased year-on-year by 14.9% to RMB12.312 billion. Gross profit margin and profit before tax margin for the segment for 2016 was 29.6% and 11.7% respectively (2015: 31.7% and 10.6% respectively). It was mainly due to the increase in dividend income and interest income outweighed the decrease in gross profit margin resulting from the increase in staff cost and outsourcing expenses and technical consultancy charges as the business scale expanded.

### 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 2016, due to the increase in sale of shields and steel structures, segment revenue of the engineering equipment and component manufacturing business of the Group increased by 8.1% year-on-year to RMB17.063 billion. Gross profit margin and profit before tax margin was 21.4% and 7.9% respectively for 2016 (2015: 20.6% and 6.7% respectively). It was mainly due to the increase in sale of shields and steel structures which have higher gross profit margin and the increase in gross profit margin resulting from the technology advantage of power transmission equipment of railway.

### Property development business

Revenue from the Group's 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 2016, the Group strengthened its destocking effort by adhering to the national's destocking policy. The sales of property projects at first and second tier cities achieved promising results. In 2016, the revenue from property development business recorded RMB32.976 billion, increased by 12.7% year-on-year. Gross profit margin and profit before tax margin was 19.8% and 7.5% (2015: 21.5% and 8.9% respectively). It was mainly attributable to the impairment loss on assets of RMB1.170 billion made in 2016 (2015: RMB0.236 billion).

### Other businesses

The Group has progressively implemented the "limited and interrelated" diversification strategy. Revenue from other businesses increased year-on-year by 6.6% to RMB42.671 billion in 2016. Gross profit margin for 2016 was 19.6% (2015: 19.5%) while profit before tax for 2016 was RMB0.184 billion (2015: loss before tax of RMB0.450 billion). It was mainly due to the continuous development of financial business which has a higher gross profit margin and strategic shrinkage of merchandise trading business. Among which, (1) revenue from expressway operation was RMB2.474 billion, year-on-year increase of 4.8% while gross profit margin was 59.2%, representing a decrease of 4.6 percentage points from last year. (2) Revenue from mining was RMB2.646 billion, representing a year-on-year increase of 20.6% while gross profit margin was 17.8%, representing an increase of 4.6 percentage points from last year. (3) Due to the active shrinkage of the external merchandise trading business, revenue from merchandise trading was RMB25.212 billion, representing a year-on-year decrease of 1.0% while gross profit margin was 4.3%, an increase of 1.0 percentage point from last year and (4) Revenue from financial business was RMB4.470 billion, representing a year-on-year increase of 32.1% while gross profit margin was 96.9%, representing a decrease of 0.5 percentage point from last year.

As at 31 December 2016, the Group's mining resources information is shown below.

| No | Project name | Type | Resource/Reserve Grade | Unit | Quantity | Group's share (%) | Planned total investment (RMB billion) | Accumulated investment (RMB billion) | Investment in the reporting period (RMB billion) | Planned completion date | Project progress |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Luming Molybdenum Mine, Yichun City of Heilongjiang | Molybdenum | 0.09% | Thousand tonne | 716.5 | 83 | 4.217 | 4.131 | – | Completed | Commenced production |
| 2 | Luishia Copper-Cobalt Mine, Congo (Kinshasa) | Cooper | 2.55% | Thousand tonne | 759.8 | 72 | 1.657 | 1.77 | – | Completed | Commenced production |
| | | Cobalt | 0.201% | | 66.8 | | | | | | |
| 3 | MKM Copper-Cobalt Mine, Congo (Kinshasa) | Cooper | 3.36% | Thousand tonne | 156 | 80.2 | 1.195 | 1.199 | – | Completed | Commenced production |
| | | Cobalt | 0.22% | | 17.9 | | | | | | |
| 4 | Sicomines Copper-Cobalt Mine, Congo (Kinshasa) | Cooper | 2.55% | Thousand tonne | 8,529.6 | 41.72 | 24.915 | 10.674 | – | Completed | Phase I commenced production |
| | | Cobalt | 0.20% | | 570.7 | | | | | | |
| 5 | Wulan Lead and Zinc Mine, Guoxinxin Company, Mongolia | Lead | 1.67% | Thousand tonne | 282.2 | 100 | – | – | – | – | Commenced production |
| | | Zinc | 4.80% | | 765.2 | | | | | | |
| | | Silver | 80.2g/t | Tonne | 1,367.6 | | | | | | |
| 6 | Muhaer Lead and Zinc Mine, Guoxinxin Company, Mongolia | Lead | 0.75% | Thousand tonne | 81.7 | 100 | – | – | – | – | Exploration and feasibility study in progress |
| | | Zinc | 3.50% | | 382.6 | | | | | | |
| | | Silver | 108.33g/t | Tonne | 1,184.64 | | | | | | |
| 7 | Gold mine, Guoxinxin Eerdesi Company, Mongolia | Gold | 3g/t | Tonne | 3 | 100 | – | – | – | – | Exploration in progress |
| 8 | Lead and Zinc Mine, Guoxianglong Company, Mongolia | Lead | 6.28% | Thousand tonne | 151.5 | 100 | – | – | – | – | Ceased production |
| | | Zinc | 3.81% | | 91.9 | | | | | | |
| | | Silver | 234.67g/t | Tonne | 866 | | | | | | |

*Note: According to the national requirement regarding the measures to mitigate over-production of coal, the sale of the Group's assets related to coal mines was completed in December 2016.*

## IV. Cash Flow

In 2016, the net cash inflow from operating activities of the Group amounted to RMB54.495 billion, representing an increase in cash inflow of RMB23.938 billion from RMB30.557 billion in 2015. It was primarily attributable to the significant achievement on the recoverability of trade receivables through the Group's active implementation of cash flow management plan. In 2016, the net cash outflow from investing activities of the Group amounted to RMB17.478 billion, representing an increase from net cash outflow of RMB15.552 billion for 2015, which was mainly due to the increase in cash paid for investment in PPP projects. In 2016, the net cash outflow from financing activities of the Group amounted to RMB15.770 billion while there was a net cash inflow from financing activities of RMB9.424 billion for 2015. It was mainly because the Group repaid part of the bank loans as operating cash flow improved.

### Capital expenditure

The capital expenditure of the Group primarily comprises expenditure on purchases of equipment and upgrading of the Group's production facilities. The Group's total capital expenditure (excluding acquisition of subsidiaries) for 2016 was RMB14.677 billion (2015: RMB13.766 billion).

The following table sets forth the Group's capital expenditure by business segment in 2016.

| For the year ended 31 December 2016 | 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* | Total *RMB million* |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 8,538 | 241 | 1,015 | 829 | 1,036 | 11,659 |
| Land use rights | 1,311 | 1 | 222 | 997 | 300 | 2,831 |
| Investment properties | 5 | 1 | - | - | - | 6 |
| Intangible assets | 36 | 12 | 11 | 2 | 89 | 150 |
| Mining assets | - | - | - | - | 31 | 31 |
| **Total** | **9,890** | **255** | **1,248** | **1,828** | **1,456** | **14,677** |

## Working capital

| | As at 31 December | |
|---|---|---|
| | **2016** *RMB million* | 2015 *RMB million* |
| Inventories | **28,737** | 30,110 |
| Properties under development for sale | **60,962** | 66,064 |
| Trade and bills receivables | **162,379** | 146,647 |
| Trade and bills payables | **298,715** | 258,879 |
| Turnover of inventory (days) | **18** | 25 |
| Turnover of trade and bills receivables (days) | **88** | 92 |
| Turnover of trade and bills payables (days) | **173** | 165 |

At the end of 2016, the balance of Group's inventories and properties under development for sale was decreased by 4.6% and 7.7% respectively from the end of 2015. Meanwhile, the Group's inventory turnover days was 18 days in 2016, decreased by 7 days as compared to 25 days in 2015, which was mainly because the Group strengthened its efforts on destocking and put dormant assets to good use in accordance with the national's destocking policy. The Group's trade and bills receivables increased by 10.7% from the end of 2015 to RMB162.379 billion as at the end of 2016, which was mainly due to the continuous expansion in the Group's business scale. Nevertheless, the Group's turnover days of trade and bills receivables was 88 days as the end of 2016, a decrease of 4 days as compared to the 92 days at the end of 2015. It was mainly contributable to the satisfactory result on the recoverability of trade receivables through the Group's strengthened effort on recovery of trade receivables.

### Trade and bills receivables

According to the ageing analysis of the Group's trade and bills receivables, most of the Group's trade and bills receivables were of less than 6 months and the trade and bills receivables of more than one year accounted for 25.4% (31 December 2015: 31.6%) of the total receivables, which reflected the sound receivables management capability of the Group.

The following table sets forth the ageing analysis of the Group's trade and bills receivables as at 31 December 2016 and 2015, based on invoice date.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB million*** | *RMB million* |
| Less than six months | **92,483** | 75,435 |
| Six months to one year | **28,676** | 24,802 |
| One year to two years | **23,037** | 26,098 |
| Two years to three years | **9,328** | 11,326 |
| More than three years | **8,855** | 8,986 |
| **Total** | **162,379** | 146,647 |

### Trade and bills payables

The Group's trade and bills payables primarily consist of amounts owed to the Group's suppliers of raw materials, machinery and equipment. The Group's trade and bills payables increased by 15.4% from the end of 2015 to RMB298.715 billion as at the end of 2016. It was mainly because the Group arranged payment by making good use of its good business credit. The turnover days of trade and bills payables was 173 days in 2016, representing an increase from 165 days in 2015. According to the ageing analysis of the Group's trade and bills payables, most of the Group's trade and bills payables were less than one year and the trade and bills payables of more than one year accounted for 9.9% (31 December 2015: 11.7%) of the total payables.

The following table sets forth the ageing analysis of the Group's trade and bills payables as at 31 December 2016 and 2015, based on invoice date.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB million*** | *RMB million* |
| Less than one year | **269,171** | 228,672 |
| One year to two years | **18,217** | 18,432 |
| Two years to three years | **5,549** | 6,224 |
| More than three years | **5,778** | 5,551 |
| **Total** | **298,715** | 258,879 |

## V. Borrowings

The following table sets forth the Group's total borrowings as at 31 December 2016 and 2015. 46.4% of the Group's borrowings were short-term borrowings (31 December 2015: 46.7%). The Group is generally capable of making timely repayments.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB million*** | *RMB million* |
| Bank borrowings | | |
| Secured | **30,466** | 34,442 |
| Unsecured | **91,760** | 92,503 |
| | **122,226** | 126,945 |
| Short-term debentures, unsecured | **–** | 3,000 |
| Long-term debentures, unsecured | **33,322** | 34,015 |
| Other short-term borrowings, unsecured | **8,755** | 8,755 |
| Other short-term borrowings, secured | **6** | 72 |
| Other long-term borrowings, unsecured | **7,591** | 7,635 |
| Other long-term borrowings, secured | **425** | – |
| **Total** | **172,325** | 180,422 |
| Long-term borrowings | **92,308** | 96,213 |
| Short-term borrowings | **80,017** | 84,209 |
| **Total** | **172,325** | 180,422 |

Bank borrowings carry interest rates ranging from 1.12% to 9.00% (31 December 2015: 0.92% to 10.05%) per annum. Short-term debentures carry fixed interest rates ranging from 2.80% to 4.50% per annum (31 December 2015: 3.58% to 4.50%). Other short-term borrowings carry interest rates ranging from 1.00% to 7.98% (31 December 2015: 1.38% to 10.50%) per annum. Long-term debentures carry fixed interest rates ranging from 3.07% to 6.40% per annum (31 December 2015: 3.85% to 7.20%). Other long-term borrowings carry interest rates ranging from 4.75% to 7.80% (31 December 2015: 6.28% to 13.92%) per annum.

The following table sets forth the maturity of the Group's borrowings as at 31 December 2016 and 2015.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB million*** | *RMB million* |
| Less than one year | **80,017** | 84,209 |
| One year to two years | **28,117** | 19,783 |
| Two years to five years | **36,931** | 45,616 |
| More than five years | **27,260** | 30,814 |
| **Total** | **172,325** | 180,422 |

As at 31 December 2016 and 2015, the Group's bank borrowings comprised fixed-rate bank borrowings amounting to RMB1.502 billion and RMB1.449 billion and floating-rate bank borrowings amounting to RMB120.724 billion and RMB125.496 billion, respectively.

The following table sets forth the carrying amounts of the Group's borrowings by currencies as at 31 December 2016 and 2015. The Group's borrowings are primarily denominated in Renminbi and the Group's foreign currency borrowings are primarily denominated in U.S. dollars and Euro.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB million*** | *RMB million* |
| USD | **1,946** | 3,238 |
| Euro | **136** | 122 |
| Others | **164** | 163 |
| **Total** | **2,246** | 3,523 |

The following table sets forth the details of the Group's secured borrowings as at 31 December 2016 and 2015.

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Secured borrowings** | **Carrying amount of pledged assets and contract value of certain rights** | Secured borrowings | Carrying amount of pledged assets and contract value of certain rights |
| | ***RMB million*** | ***RMB million*** | *RMB million* | *RMB million* |
| Property, plant and equipment | **12** | **13** | 192 | 166 |
| Land use rights | **300** | **793** | – | – |
| Intangible assets | **21,043** | **35,098** | 21,103 | 35,792 |
| Properties under development for sale | **8,888** | **19,428** | 11,329 | 22,609 |
| Bills receivables | **–** | **–** | 37 | 37 |
| Accounts receivables | **654** | **944** | 1,503 | 2,333 |
| Rights to collect cash flows in relation to certain construction projects | **–** | **–** | 350 | 525 |
| **Total** | **30,897** | **56,276** | 34,514 | 61,462 |

As at 31 December 2016, the Group's unused short-term credit line facility from banks was RMB518.242 billion.

As at 31 December 2016, the Group's gearing ratio (total liabilities/total assets) was 80.2%, representing a decrease of 0.3 percentage point as compared with 80.5% for 2015. The Group has been primarily financing its working capital and other capital requirements through internal funds generated from operations, and mainly through borrowings in case of any deficiencies. In the year of 2016, the Group completed the issuance of corporate bonds of RMB4.17 billion, notes of USD0.5 billion and private placement bonds of RMB1 billion.

## VI. 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 2016 RMB million | 2015 RMB million |
|---|---|---|
| Pending lawsuits: | | |
| – arising in the ordinary course of business *(Note 1 & Note 2)* | **987** | 1,458 |
| – overseas lawsuits *(Note 3 & Note 4)* | **381** | 854 |
| **Total** | **1,368** | 2,312 |

*Note 1: 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 those pending lawsuits where the management considered that the claims will not be successful. The aggregate sum of these unprovided claims is disclosed in the table above.*

*Note 2: The indirectly owned subsidiary of the Company, China Railway Resources Haixi Coal Co., Ltd. ("CRRH"), was transferred to Beijing Yinuojie Investment Management Co., Ltd. ("Yinuojie") this year, and 100% equity interest in Yinuojie held by the Group was transferred to CRECG this year. All pending litigations relevant with CRRH, including its project settlement disputes with Tianjun Haoxin Mechanize Service Co., Ltd. and Ximing North Longsheng Highway Project Co., Ltd. no longer constitute contingent events of the Group.*

*Note 3: Two subsidiaries of the Company, China Overseas Engineering Group Co., Ltd. ("COVEC") and China Railway Tunnel Group Co., Ltd., established a consortium (the "Consortium") with another two independent parties in 2009 for the design and construction of certain sections of the A2 motorway Stryków – Konotopa, which is owned by the Polish General Directorate for National Roads and Motorways in Poland ("PGDNRM"). The Group's share of the total contract amount is approximately Polish Zloty ("PLN") 1,160 million (equivalent to approximately USD402 million or RMB2,741 million).The parties in the Consortium also issued a letter of performance guarantee and paid for a performance bond. During the construction work, the construction contract incurred losses due to various factors. The Consortium sent termination notices dated 3 June 2011 to PGDNRM and PGDNRM sent termination notices dated 13 June 2011 to the Consortium.*

*On 29 September 2011, PGDNRM applied to the Poland Warsaw District Court for a payment order demanding COVEC, Poland branch of COVEC and another independent party in the Consortium collectively or individually for penalties and interests of an aggregate amount of PLN129 million (equivalent to approximately USD42 million or RMB263 million), whereas all parties in the Consortium bear liabilities jointly and severally. The lawyer of the Consortium then raised an objection to the payment order and the payment order became void under Polish law. The relevant parties have since commenced to resolve the matter in dispute under litigation procedures.*

*In 2014, the Consortium began to settle the above case through the negotiation with PGDNRM by coordination of relevant parties.*

*On 25 February 2015, the Poland Warsaw District Court decided to suspend the lawsuit procedure for one year. On 26 February 2016, as the suspension of the lawsuit procedure expired, PGDNRM applied to resume the lawsuit procedure. To proceed the settlement of this case, the Group made effort to negotiate with PGDNRM and all parties agreed to apply for suspension in 2016. On 25 April 2016, the trial of this case was suspended again.*

*On 25 February 2017, as the suspension of the lawsuit procedure expired, the Poland Warsaw District Court resumed the lawsuit procedure. On 24 March 2017, the Group applied to the Poland Warsaw District Court for suspension together with PGDNRM.*

*There is no significant progress up to the date of this annual report. At this stage, the Directors consider it premature to assess the outcome of this case.*

*Note 4: Exploitations Artisanales Au Congo ("EXACO") was a former shareholder of La Miniere De Kalumbwe Myunga sprl ("MKM"), an indirectly owned subsidiary of the Company. As at 30 August 2011, EXACO had disposed of its entire interests in MKM.*

*On 1 September 2015, EXACO filed an arbitration application to International Court of Arbitration of the International Chamber of Commerce due to MKM's failure of fulfilling its contractual obligation, and claimed for a compensation from MKM amounting to USD54.77 million (equivalent to approximately RMB356 million) including the loss caused by previous 43.5% share transfer and previous 11.5% share forced sale with the interests due to delayed payment since November 2012, and all arbitration fees and other expenses EXACO has paid for the arbitration proceedings. EXACO also requested that China Railway Resources Global Holding Limited ("CRRG"), the holding company of MKM, and China Railway Resources, the holding company of CRRG, bear joint liabilities as to the obligations of above compensations.*

*On 7 January 2016, the International Court of Arbitration of the International Chamber of Commerce appointed 3 arbitrators for this arbitration and the arbitration tribunal was formed on 12 May 2016. According to the arbitration arrangements, this case will be heard for the first time on 22 May 2017.*

*On 10 February 2017, EXACO submitted its Statement of Defense and counterclaims to the arbitration tribunal. In the Statement of Defense and counterclaims, EXACO amended the amount of loss caused by 43.5% share transfer from USD54.77 million (equivalent to approximately RMB356 million) to USD53.40 million (equivalent to approximately RMB370 million).*

*Given this case is still pending, the Directors consider that it is premature to assess the outcome of this case.*

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Amount** *RMB million* | **Expiry period** | Amount *RMB million* | Expiry period |
| Guarantees given to banks in respect of banking facilities to: | | | | |
| Associates | **5,467** | **2017-2023** | 4,011 | 2016-2025 |
| Joint ventures | **400** | **2017-2018** | 2,230 | 2016-2020 |
| Other government-related enterprise | **61** | **2017** | 57 | 2016 |
| Property purchasers | **21,005** | **2017-2025** | 17,920 | 2016-2021 |
| An investee of the Group | **–** | **N/A** | 5 | 2016 |
| A former subsidiary | **928** | **2022** | 541 | 2021-2022 |
| Two former associates | **1,363** | **2020-2024** | – | N/A |
| **Total** | **29,224** | | 24,764 | |

## VII. Business Risks

The Group is exposed to a variety of business risks, including market risk, operation risk, management risk, policy risk, financial risk, investment risk, exchange rate risk and commodity price risk in the ordinary course of business.

(1) **Market risk:** Various expectations from the government could have adverse impact on the market where the Group operates, such as expectation on growth level of both national and regional economy, usage of infrastructure and expectation on future expansion of demand and expectation on the overall growth level of related industries. In addition, the instability of political and economic environment of overseas market could bring uncertainties to the Group's overseas market development, which may affect the normal project implementation.

(2) **Operation risk:** For infrastructure construction business, the bidding prices of construction contracting projects are largely affected by market competition. Meanwhile, there are also certain operation risks for the Group to control the cost and to engage labour subcontractors.

(3) **Management risk:** With the Group's incapability to fully control all the actions of its non-wholly owned subsidiaries, plus high risk of the construction industry, and the rapid growth in the business scale of the Group in recent years as well as the gradually wider span of its operation, project management becomes more and more difficult, posing a severe challenge to the safety and quality management for the projects, cadre ethics and enterprise stability, which could result in management risks.

(4) **Policy risk:** Changes in the foreign exchange administration system, preferential taxation policies, interest rate policies and policies for real estates industry in the PRC could have certain adverse impacts on the Group.

(5) **Financial risk:** Delay in payment by its customers could affect the Group's working capital and cash flow, and the failure to obtain sufficient funding could also affect the expansion plan and development prospects of the Group.

(6) **Investment risk:** Investment risk mainly includes relevant advance payments for projects, decrease in investment of infrastructural projects by non-governmental investment institutions resulted from changes in policies, and significant outlay of working capital over extended periods.

(7) **Exchange rate risk:** Due to the uncertainties of the exchange rate in the foreign exchange market, the Group may incur loss on certain overseas projects where settlements and payments of contracts are denominated in local currencies.

(8) **Commodity price risk:** The domestic and international macroscopic economy may cause significant fluctuations in market prices of commodities relating to the Group, which in turn may affect the Group's control on its production and operating costs.

To guard against the occurrence of various types of risks, the Group makes various types of risks correspond to the business process through the establishment and operation of the internal control system, pursuant to which the Group can decompose and identify the critical control point of business processes, develop specific control measures, establish procedures critical control documents, implement the responsibilities of the various types of risks and critical control point, work closely with the day-to-day management and control, and control risk factors and elements. In addition, the Group strictly supervises the important control aspects of earlier stage of research, planning, reviewing, auditing, approval and decision-making; enhances process control and post-assessment work; and makes measures to deal with risks and contingency plans, aiming to guarantee overall controllability of the Group's various types of risk.

# • BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## I. Directors

**LI Changjin**
*(Chairman and Executive Director)*

**LI Changjin**, aged 58, professor-level senior engineer, is an executive director, Chairman, Secretary to the Communist Party Committee, Chairman of the Strategy Committee and Chairman of the Nomination Committee of the Board of the Directors of the Company. Mr. LI is also the Chairman, Secretary to the Communist Party Committee of CRECG and the Chairman of the Listed Companies Association of Beijing. Mr. LI was the General Manager of CRECG from June 2010 to March 2013. He was the Chairman and Deputy Secretary to the Communist Party Committee of CRECG from June 2010 to November 2016. He has been the Chairman, an executive director and Secretary to the Communist Party Committee of the Company since June 2010. Mr. LI assumed the responsibilities of the President of the Company from January 2014 to March 2014. He has been the Chairman and Secretary to the Communist Party Committee of CRECG since November 2016.

**YAO Guiqing**
*(Vice Chairman and Executive Director)*

**YAO Guiqing**, aged 62, senior economist, is an executive director, Vice Chairman, Deputy Secretary to the Communist Party Committee of the Company. He is also the Vice Chairman and Deputy Secretary to the Communist Party Committee of CRECG. Mr. YAO was the Chairman of the Labor Union of the Company from September 2007 to March 2014, and Vice Chairman and a director of CRECG from June 2010 to March 2013. He has been an executive director and Vice Chairman of the Company since August 2010. He was the General Manager and a director of CRECG from March 2013 to November 2016. He has also been the Vice Chairman and Deputy Secretary to the Communist Party Committee of CRECG since November 2016.

**ZHANG Zongyan**
*(Executive Director and President)*

**ZHANG Zongyan**, aged 53, professor-level senior engineer, is an executive director, President, Deputy Secretary to the Communist Party Committee, Chairman of the Safety, Health and Environmental Protection Committee of the Board of the Directors of the Company, and is a director, General Manager and Deputy Secretary to the Communist Party Committee of CRECG. Mr. ZHANG was the Vice President of China Railway Construction Corporation Limited from April 2009 to March 2013. Mr. ZHANG was the President and Deputy Secretary to the Communist Party Committee of China Railway Construction Corporation Limited and concurrently a director and Secretary to the Communist Party Committee of China Railway Construction Corporation from March 2013 to July 2015, and an executive director of China Railway Construction Corporation Limited from June 2013 to July 2015. Mr. ZHANG was a director and Secretary to the Communist Party Committee of CRECG from July 2015 to November 2016. He has been the President of the Company since July 2015, an executive director of the Company since January 2016, and a director, General Manager and Deputy Secretary to the Communist Party Committee of CRECG since November 2016.

**GUO Peizhang**
*(Independent Non-executive Director)*

**GUO Peizhang**, aged 67, senior economist, is an independent non-executive director and Chairman of the Remuneration Committee of the Board of the Directors of the Company, and is also an independent non-executive director of China Shenhua Energy Company Limited. Mr. GUO was the Chairman of the Supervisory Committee of GD Power Development Co., Ltd. from November 2007 to April 2011, and has been an independent non-executive director of China Shenhua Energy Company Limited since June 2010, an external director of China Dongfang Electric Corporation from December 2010 to September 2015. Mr. GUO has been an independent non-executive director of the Company since June 2014.

**WEN Baoman**
*(Independent Non-executive Director)*

**WEN Baoman**, aged 65, senior administration engineer, is an independent non-executive director of the Company and an external director of China Telecom Group. Mr. WEN was Deputy Secretary of the Party Committee with concurrent position as Headmaster of Party School of Ansteel Group, Chairman of Supervisory Committee of Angang Steel Company Limited and a Standing Committee Member of Anshan Municipal Committee from July 2007 to December 2011. Mr. WEN has been an external director of China Telecom Group since March 2012. He has been an independent non-executive director of the Company since June 2014.

**ZHENG Qingzhi**
*(Independent Non-executive Director)*

**ZHENG Qingzhi**, aged 64, senior accountant, is an independent non-executive director of the Company, Chairman of the Audit and Risk Management Committee of the Board of the Directors of the Company and Deputy Chairman of China Agriculture Industrialisation Association. Mr. ZHENG was a director, General Manager and Deputy Secretary of the Party Committee of China National Agricultural Development Group Co., Ltd. from October 2004 to April 2013 with concurrent position as Chairman of the Board of Directors of China Animal Husbandry (group) General Corporation, and was concurrently the Secretary General of China Agriculture Industrialisation Association from April 2013 to April 2015. He has been the Deputy Chairman of China Agriculture Industrialisation Association since April 2013. Mr. ZHENG has been an external director of Wuhan FiberHome Technologies Group since October 2015 and an independent non-executive director of the Company since June 2014.

**NGAI Wai Fung**
*(Independent Non-executive Director)*

**NGAI Wai Fung**, aged 54, is an independent non-executive director of the Company, and is a director and chief executive officer of SW Corporate Services Group Limited, the managing director of MNCOR Consulting Limited, a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants, the Adjunct Professor of Law of Hong Kong Shue Yan University, a member of The Chamber of Hong Kong Listed Companies, a fellow member of the Association of Chartered Certified Accountants, a member of Hong Kong Certified Accountant Association, a senior member of Institute of Chartered Secretaries and Administrators, a senior member of The Hong Kong Institute of Chartered Secretaries, a senior member of Hong Kong Institute of Directors and a member of Hong Kong Securities and Investment Institute. He has been appointed by the Chief Executive of The Hong Kong Special Administrative Region as a member of Work Group on Professional Services under the Economic Development Commission, and has also been appointed by the Ministry of Finance of the PRC as Finance Expert Consultant. He is an independent non-executive director of China Coal Energy Company Limited and BBMG Corporation, as well as an independent non-executive director of the following Hong Kong listed companies, namely BaWang International (Group) Holding Limited, Biostime International Holdings Limited, Bosideng International Holdings Limited, Beijing Capital Juda Limited, Powerlong Real Estate Holdings Limited, SITC International Holdings Company Limited, Yangtze Optical Fibre and Cable Joint Stock Limited Company, TravelSky Technology Limited and China HKBridge Holdings Limited (formerly known as "Topsearch International (Holdings) Limited"). He is also an independent director of LDK Solar Co., Ltd and SPI Energy Co., Limited. He was an independent non-executive director of China Railway Construction Corporation Limited and Sany Heavy Equipment International Holdings Company Limited. He has been an external director of Sinochem Group since March 2016 and an independent non-executive director of the Company since June 2014.

## II. Supervisors

**LIU Chengjun**
*(Chairman of Supervisory Committee)*

**LIU Chengjun**, aged 54, professor-level senior engineer entitled to government special allowance from the State Council, is the Chairman of the Supervisory Committee of the Company. He was the General Manager of the design and consulting branch company from December 2001 to July 2014; a shareholder representative and Vice Chairman of China Railway Eryuan Engineering Group Co., Ltd. from December 2006 to October 2007; Chairman of the Supervisory Committee of China Railway South Investment & Development Co., Ltd. from December 2007 to September 2012; the Deputy Chief Engineer, Head of Scientific Design Division of the Company from January 2008 to June 2014 and Chairman of China Railway Northwest Research Institute Co., Ltd. from December 2009 to July 2014. He also served as the Chairman of China Railway Major Bridge Survey and Design Institute Group Co., Ltd. from December 2010 to March 2013. Mr. LIU has been Chairman of Supervisory Committee and a shareholder representative supervisor of the Company since June 2014.

**LIU Jianyuan**
*(Supervisor)*

**LIU Jianyuan**, aged 55, senior economist and senior political engineer, is an employee representative supervisor, Chairperson of the Labour Union and Chairperson of Female Staff Committee of the Company, with concurrent position as an employee director and Chairperson of the Labour Union of CRECG. She was Vice Chairperson of the Labour Union of the Company from January 2008 to June 2014. Ms. LIU has been an employee director of CRECG since August 2012, Chairperson of the Labour Union and Chairperson of Female Staff Committee of the Company since June 2014, Vice Chairperson of Female Staff Committee of All-China Federation of Railway Labour Union since December 2015, Executive Committee Member of All-China Federation of Labour Unions since January 2016 and Deputy Chief (part-time) of the Grassroots Department of All-China Federation of Labour Unions since October 2016. Ms. Liu has been an employee representative supervisor of the Compnany since January 2011.

**WANG Hongguang**
*(Supervisor)*

**WANG Hongguang**, aged 57, senior lecturer and senior political engineer, is an employee representative supervisor, Vice Secretary to the Disciplinary Committee and Head of Supervision Department of the Company, with concurrent position as Deputy Secretary to the Disciplinary Committee of CRECG. Mr. WANG has been Deputy Secretary to the Disciplinary Committee and Head of Supervision Department of the Company since November 2009 with concurrent position as Deputy Secretary to the Disciplinary Committee of CRECG. Mr. WANG has been an employee representative supervisor of the Company since June 2014.

**CHEN Wenxin**
*(Supervisor)*

**CHEN Wenxin**, aged 53, senior economist, solicitor and corporate legal advisor, is a shareholder representative supervisor of the Company. Mr. Chen was a supervisor of China Railway South Investment & Development Co., Ltd. from December 2007 to August 2012 and the Deputy Director of the Office of Board and concurrently Head of Property Representative Management Department of the Company from January 2008 to December 2010. He has been a director of Lince Railway Co., Ltd. from December 2010 to June 2015, a director and Vice Chairman of Lince Railway Co., Ltd. since June 2015, a director of China Railway Eastern International (Group) Limited since August 2016, as well as a shareholder representative supervisor of the Company since January 2011.

**FAN Jinghua**
*(Supervisor)*

**FAN Jinghua**, aged 51, senior auditor and senior accountant, is an employee representative supervisor and Head of Audit Department of the Company. He was a supervisor and Head of Audit Department of China Railway Major Bridge Engineering Group Co., Ltd. from October 2005 to May 2011, a supervisor, Deputy Chief Accountant and Head of Audit Department of China Railway Major Bridge Engineering Group Co., Ltd. from June 2011 to June 2013, Deputy Head of Audit Department of the Company from July 2013 to November 2013. Mr. FAN has been Head of Audit Department of the Company since November 2013 and an employee representative supervisor of the Company since June 2014.

## III. Senior Management

The biography of Mr. ZHANG Zongyan, who is a director of the Company and concurrently a member of the senior management, please refer to the above disclosure.

**LIU Hui**
*(Vice President and Chief Engineer)*

**LIU Hui**, aged 57, professor-level senior engineer, is a state registered consulting engineer and first-grade state-registered architect, Vice President and Chief Engineer of the Company and concurrently a director and the Vice Chairman of the Third Railway Survey and Design Institute Group Corporation and a director and the Vice Chairman of Taiyuan-Zhongwei (Yinchuan) Railway Co., Ltd.. Mr. LIU has been Vice Chairman of the Third Railway Survey and Design Institute Group Corporation since January 2007, Vice Chairman of Taiyuan-Zhongwei (Yinchuan) Railway Co., Ltd. since June 2011 and the Vice President and Chief Engineer of the Company since September 2007.

**MA Li**
*(Vice President)*

**MA Li**, aged 59, professor-level senior engineer, is a Vice President of the Company. He has been a Vice President of the Company since September 2007.

**ZHOU Mengbo**
*(Vice President)*

**ZHOU Mengbo**, aged 52, professor-level senior engineer, is a Vice President of the Company. He has been a Vice President of the Company since September 2007.

**ZHANG Xian**
*(Vice President)*

**ZHANG Xian**, aged 56, professor-level senior engineer, is a Vice President of the Company. He has been a Vice President of the Company since August 2010.

**YANG Liang**
*(Chief Financial Officer)*

**YANG Liang**, aged 48, senior accountant, is the Chief Financial Officer of the Company. Mr. YANG was the Head of Finance Department of the Company from September 2007 to March 2014, a supervisor of China Railway Resources Company Limited from April 2008 and March 2014 and the Director of China Railway Trust Co., Ltd. from November 2013 to March 2014. He has been the Chief Financial Officer of the Company since March 2014.

**YU Tengqun**
*(Secretary to the Board of Directors, General Legal Advisor and the spokesperson of the Company))*

**YU Tengqun**, aged 47, senior economist, is the Secretary to the Board of Directors, General Legal Advisor and the spokesperson of the Company. Mr. YU is also the Deputy Secretary of the Listed Companies Association of Beijing. Mr. YU was the Secretary to the Board of Directors and the spokesperson of the Company from September 2010 to March 2014, and has been the Secretary to the Board of Directors, General Legal Advisor and the spokesperson of the Company since March 2014.

**TAM Chun Chung**
*(Joint Company Secretary and Qualified Accountant of the Company)*

**TAM Chun Chung**, aged 44, is the Joint Company Secretary and Qualified Accountant of the Company and also an independent non-executive director of Huiyin Household Appliances (Holdings) Co., Ltd. and Lap Kei Engineering (Holdings) Limited. Mr. TAM joined the Company in November 2007. Prior to joining the 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 large international accounting firm as an assistant manager. Mr. TAM has over 21 years of experience in the accounting and auditing 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.

# • REPORT OF THE DIRECTORS

## Business Review

### 1. Business Review of the Financial Year

We are one of the strongest and largest multifunctional integrated construction groups in the PRC and even in the world. We are primarily engaged in infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, property development and other businesses.

2016 is the first year for the "13th Five-Year Plan", and is also a crucial year for the supply-side structural reform. In face of the intricate international situation and the arduous and onerous task of realising stable development of domestic reform, the Chinese government implemented the decision-making arrangements for the Central Economic Work Conference in 2016 in accordance with the strategic requirements to promote the Four Comprehensives in a coordinative way, strengthened and improved the Party's leadership in economic work, adhered to the overall tone of the work on "seeking progress while maintaining stability", and adhered to the new development concept, moderately expanded the aggregate demand by adhering to the mainline on promotion of the supply-side structural reform, firmly promoted the reform, properly responded to risk challenges, guided to form good social expectations, maintained stable and healthy development of economic and social, and achieved a good start for the "13th Five-Year Plan".

In the year of 2016, the Group achieved revenue of RMB632.856 billion, representing a year-on-year increase of 5.5%. In the year of 2016, the Group achieved net profit of RMB12.703 billion, representing a year-on-year increase of 7.8%. The profit for the year attributable to the owner of the Company was RMB11.808 billion, representing a year-on-year increase of 1.1%.

Further details of the Group's business review of the financial year are set out in Parts I to VII of "Business Overview" on pages 13 to 27 and Parts I to VI of "Management Discussion and Analysis" on pages 30 to 41 of this annual report.

### 2. Principal Risks and Uncertainties

The Group is exposed to a variety of business risks, including market risk, operation risk, management risk, policy risk, financial risk, investment risk and exchange rate risk and commodity price fluctuation risk in the ordinary course of business.

Further details of the Group's principal risks are set out in Part VII of "Management Discussion and Analysis" on page 42.

### 3. Important Events Occurred after the Reporting Period

On 2 December 2015, the Company and China Railway Erju Co., Ltd. ("**China Railway Erju**", now renamed to China Railway Hi-Tech Industry Corporation Limited, "**China Railway Industry**") entered into an asset swap agreement. The transaction contemplated under the asset swap agreement has been closed on 5 January 2017 and China Railway Erju (now China Railway Industry) has completed the registration of the issuance of 383,802,693 Consideration Shares to the Company on 12 January 2017.

In addition, in March 2017, China Railway Industry conducted a fundraising through non-public share offering to not more than ten designated investors. After the completion of this non-public share offering, the Company held 50.13% of the shares of China Railway Industry as at the date of this annual report.

Further details of the above transaction are set out in "Results of the Non-public Issuance of A Shares by the Subsidiary of the Company" on page 52 of this annual report.

### 4. Future Development of Businesses

The Group has carefully analysed the macroeconomic situation, industry trends, changes in industry policies and the impact on the development of enterprises during the period of the "13th Five-Year Plan". In accordance with the general requirements of the central government and SASAC on the development of the central enterprises, and based on the practical situation of the Group, the Group clarified the enterprise development ideas during the period of the "13th Five-Year Plan", and put forward the overall strategy of the Group during the period of the "13th Five-Year Plan", that is, to determine one major objective, to establish six concepts, and to go after six topics. One major objective refers to the implementation of the strategy of improving quality and efficiency in order to strengthen, improve and enlarge the scale of the Company; six concepts refer to solidifying foundation, refining projects, innovating systems, stringent management, strengthening capabilities and better enterprise; six topics refer to innovation drive, structural adjustment, opening up and cooperation, deepening reform, strengthening the Party's leadership, and benefiting employees.

Details of the Group's expectations to and plans of businesses future development are set out in Part VIII to Part IX of "Business Overview" on pages 28 to 29.

## Financial Statements

The profits of the Group for the year ended 31 December 2016 and the financial positions of the Company and the Group as at such date are set out in the Financial Statements on pages 98 to 222.

## Dividends

The Board of Directors recommends the payment of a final dividend in the amount of RMB0.088 per share (including tax), totalling approximately RMB2.010 billion for the financial year ended 31 December 2016 (2015: RMB0.086 per share (including tax) totalling approximately RMB1.965 billion). The distribution plan will be implemented upon approval at the 2016 annual general meeting of the Company and the dividends are expected to be paid in around August 2017 to the shareholders of the Company.

## Donations

Donations made by the Group during the financial year amounted to RMB5.219 million (2015: RMB4.306 million).

## Property, Plant and Equipment

Changes in property, plant and equipment of the Group and the Company during the financial year are set out in note 15 to the Financial Statements.

## Share Capital

Details of the Company's share capital are set out in note 33 to the Financial Statements.

## Distributable Reserves

As at 31 December 2016, pursuant to the relevant laws and regulations, the Company's distributable reserves amounted to approximately RMB28.095 billion.

## Use of Proceeds from the Non-public Issuance of A Shares

The Company completed the non-public issuance of 1,544,401,543 A shares on 14 July 2015 with the approval at the 2015 first extraordinary general meeting held on 31 March 2015. The total proceeds raised from the issuance amounted to RMB12 billion. After deducting the issuance expenses (including expenses for underwriters, sponsors, legal advisors and capital verification) of RMB121 million, the net proceeds from the issuance amounted to RMB11.879 billion (equivalent to approximately RMB7.69 per share). As of 31 December 2016, the accumulated use of raised proceeds amounted to RMB2,182,537,200. There was nil balance in the special account of the raised proceeds. The balance of raised proceeds during the year was RMB75.0552 million, representing 0.63% of the net proceeds from the non-public issuance of ordinary shares in RMB, and such balance has been transferred out of the special account of raised proceeds for the purpose of permanent replenishment of working capital.

## Results of the Non-public Issuance of A Shares by the Subsidiary of the Company

On 2 December 2015, the Company and China Railway Erju, a subsidiary of the Company, entered into an asset swap agreement, pursuant to which, the Company agreed to sell to China Railway Erju 100% equity interests held by the Company in China Railway Shanhaiguan Bridge Group Co., Ltd., China Railway Baoji Bridge Group Co., Ltd., China Railway Science & Industry Group Co., Ltd. and China Railway Engineering Equipment Group Co., Ltd. ("**Disposed Assets**"), and China Railway Erju agreed to swap with the Company all of its assets and liabilities ("**Acquired Assets**") (by first injecting them into its wholly-owned subsidiary China Railway Erju Engineering Co., Ltd., and then transferring the 100% equity interests in China Railway Erju Engineering Co., Ltd.) for equal value, the difference in the value of assets shall be paid by China Railway Erju by non-public issuance of new A shares with par value of RMB1.00 each ("**Consideration Shares**") to the Company. China Railway Erju also resolved to issue no more than 513,698,630 new A shares to no more than ten qualified designated investors at the issue price of no less than RMB11.68 per share by way of a non-public offering to raise proceeds of no more than RMB6,000,000,000 in aggregate. On 19 April 2016, the Company and China Railway Erju entered into an asset swap supplemental agreement (the "**Asset Swap Supplemental Agreement**") to confirm the final transaction prices of the Disposed Assets and the Acquired Assets respectively, which are determined and agreed by the parties by reference to the relevant assets appraisal results. Pursuant to the Asset Swap Supplemental Agreement, the transaction price of the Disposed Assets was RMB11.688 billion (equivalent to approximately HK$14.172 billion), and the transaction price of the Acquired Assets was RMB7.228 billion (equivalent to approximately HK$8.764 billion).

On 5 January 2017 ("**Closing Date**"), the formalities of the transfer of equity interests and change of business registration regarding the Acquired Assets and Disposed Assets under this transaction were completed. With effect from the Closing Date, the rights, obligations and risks in respect of the Disposed Assets were transferred to China Railway Erju, and the rights, obligations and risks in respect of the Acquired Assets were transferred to the Company.

On 12 January 2017, China Railway Erju completed the registration of the issuance of 383,802,693 Consideration Shares to the Company. After this issuance, the Company directly and indirectly held an aggregate of 1,113,577,100 shares of China Railway Erju, representing a shareholding of 60.42%.

On 24 January 2017, China Railway Erju completed the registration of the change of its name to China Railway Hi-Tech Industry Corporation Limited. On 2 March 2017, the stock name of China Railway Erju (now China Railway Industry) was changed from "China Railway Erju" to "China Railway Industry".

In March 2017, upon approval by the CSRC, China Railway Industry conducted a fundraising through non-public share offering to not more than ten designated investors and eventually issued 378,548,895 shares at RMB15.85 per share for total proceeds of RMB5,999,999,985.75. Registration was completed for these new shares on 27 March 2017. After the completion of this non-public share offering, the equity interests in China Railway Industry held directly and indirectly by the Company was changed to 50.13% as at the date of this annual report.

## Reserves

Changes in reserves of the Group and the Company during the financial year are set out in the consolidated statement of changes in equity on pages 102 to 103 of this annual report.

## Major Customers and Suppliers

The China Railway Corporation, which was founded on 14 March 2013 by the State Council, is the largest customer of the Group. For the year ended 31 December 2016, sales to the China Railway Corporation accounted for approximately 30.0% of the total revenue of the Group. For the same period, sales to the five largest customers of the Group (including the China Railway Corporation) in aggregate accounted for approximately 34.7% of the total revenue of the Group. At no time during the financial 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 2016, purchases from the five largest suppliers of the Group in aggregate accounted for approximately 1.6% of the total cost of sales of the Group in 2016.

## Subsidiaries and Associates

Particulars of the Company's principal subsidiaries and the Group's principal associates as at 31 December 2016 are set out in note 47 and note 22, 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:

| Name | Position |
|---|---|
| LI Changjin | Chairman and Executive Director |
| YAO Guiqing | Vice Chairman and Executive Director |
| ZHANG Zongyan (appointed on 28 January 2016) | Executive Director |
| GUO Peizhang | Independent Non-executive Director |
| WEN Baoman | Independent Non-executive Director |
| ZHENG Qingzhi | Independent Non-executive Director |
| NGAI Wai Fung | Independent Non-executive Director |

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

| Name | Position |
|---|---|
| LIU Chengjun | Chairman of the Supervisory Committee |
| LIU Jianyuan | Supervisor |
| WANG Hongguang | Supervisor |
| CHEN Wenxin | Supervisor |
| FAN Jinghua | Supervisor |

The senior management of the Company during the financial year were as follows:

| Name | Position |
|---|---|
| ZHANG Zongyan | President |
| LIU Hui | Vice President and Chief Engineer |
| MA Li | Vice President |
| ZHOU Mengbo | Vice President |
| ZHANG Xian | Vice President |
| XU Tingwang (retired on 30 August 2016) | Vice President |
| YANG Liang | Chief Financial Officer |
| YU Tengqun | Secretary to the Board of Directors, General Legal Advisor and Joint Company Secretary |
| TAM Chun Chung | Joint Company Secretary and Qualified Accountant |

At the 2016 first extraordinary general meeting of the Company held on 28 January 2016, Mr. ZHANG Zongyan was elected as an executive director of the Company, the term of office of which commenced from the date of passing of the resolution at the extraordinary general meeting until the expiry of the term of office of the third session of the Board of Directors. On 30 August 2016, Mr. XU Tingwang was retired as the Vice President of the Company.

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

## Directors' and Supervisors' Interests in Contracts

No transaction, arrangement or contract of significance to which the Company, or the Company's holding company or subsidiary 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 financial year or at any time during the financial year.

## Emoluments of the Directors, Supervisors and Senior Management of the Company

Details of the emoluments of the directors, supervisors and senior management of the Company in 2016 are set out in note 12 to the audited Financial Statements.

## Directors' and Supervisors' Rights to Acquire Shares or Debentures

For the year ended 31 December 2016, none of the Company or the Company's holding company or subsidiary 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 subsidiary that is not terminable within one year without payment of compensation (in addition to statutory compensation).

## Permitted Indemnity Provisions

The Company has not entered into any agreement with permitted indemnity provisions with directors or supervisors of the Company to provide indemnity to a director or a supervisor of the Company against liability incurred by the director or the supervisor to third parties or other types of liabilities.

However, during the financial year, the Company has arranged appropriate liability insurance coverage for the directors, supervisors and senior management of the Company.

## Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

Save as disclosed below, as at 31 December 2016, none of the directors and supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which will have to be notified to the Company 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 the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

| Name of director/ supervisor | Capacity | Number of A shares held (long position) *(Shares)* | Approximate percentage of issued A shares *(%)* | Approximate percentage of total issued shares *(%)* |
|---|---|---|---|---|
| **Directors** | | | | |
| Mr. LI Changjin | Beneficial owner | 105,700 | 0.0006 | 0.0005 |
| Mr. YAO Guiqing | Beneficial owner | 100,112 | 0.0005 | 0.0004 |
| **Supervisors** | | | | |
| Ms. LIU Jianyuan | Beneficial owner | 1,200 | 0.000006 | 0.000005 |

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

As at 31 December 2016, 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:

### Holder of A Shares

| Name of substantial shareholder | 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 | 12,260,390,308 | Long position | 65.79 | 53.67 |

### 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 *(%)* |
|---|---|---|---|---|---|
| BlackRock, Inc. | Interest of controlled corporations | 390,884,046 | Long position | 9.29 | 1.71 |
| | | 25,000 | Short position | 0.00 | 0.00 |
| National Council for Social Security Fund of the PRC | Beneficial owner | 332,600,000 | Long position | 7.91 | 1.46 |
| JPMorgan Chase & Co. | *(Note 1)* | 242,878,498 | Long position | 5.77 | 1.06 |
| | | 5,812,000 | Short position | 0.13 | 0.03 |
| | | 133,318,607 | Lending Pool | 3.16 | 0.58 |
| Deutsche Bank Aktiengesellschaft | *(Note 2)* | 229,803,271 | Long position | 5.46 | 1.01 |
| | | 123,424,962 | Short position | 2.93 | 0.54 |
| | | 10,406,000 | Lending Pool | 0.25 | 0.05 |
| Lehman Brothers Holdings Inc. | Interest of controlled corporations | 210,186,560 | Long position | 5.00 | 0.92 |
| | | 94,560,550 | Short position | 2.25 | 0.41 |

*Notes:*

1 *According to the Corporate Substantial Shareholder Notice filed by JPMorgan Chase & Co. with the Hong Kong Stock Exchange dated 25 December 2016, the interests held by JPMorgan Chase & Co. were held in the following capacities:*

| Capacity | Number of H shares (Long position) | Number of H shares (Short position) |
|---|---|---|
| Beneficial owner | 98,862,891 | 5,812,000 |
| Investment manager | 10,697,000 | – |
| Custodian corporation | 133,318,607 | – |

2 *According to the Corporate Substantial Shareholder Notice filed by Deutsche Bank Aktiengesellschaft with the Hong Kong Stock Exchange dated 13 January 2014, the interests held by Deutsche Bank Aktiengesellschaft were held in the following capacities:*

| Capacity | Number of H shares (Long position) | Number of H shares (Short position) |
|---|---|---|
| Beneficial owner | 139,171,310 | 123,424,962 |
| Person having a security interest in shares | 17,515,361 | – |
| Interest of controlled corporations | 54,042,600 | – |
| Custodian corporation | 10,406,000 | – |
| Others | 8,668,000 | – |

3 *The interests or short positions include the underlying shares as follows:*

| | Long Position | | | | Short Position | | | |
|---|---|---|---|---|---|---|---|---|
| Name of substantial shareholders | Listed equity derivative payment in kind | Listed equity derivatives settled in cash | Non-listed equity derivatives payment in kind | Non-listed equity derivatives settled in cash | Listed equity derivatives payment in kind | Listed equity derivatives settled in cash | Non-listed equity derivatives payment in kind | Non-listed equity derivatives settled in cash |
| BlackRock, Inc. | – | – | – | 4,180,000 | – | – | – | 25,000 |
| JPMorgan Chase & Co. | 69.000 | – | 19,096,595 | 5,511,405 | 123,000 | 339,000 | 0 | 5,350,000 |
| Deutsche Bank Aktiengesellschaft | – | – | – | 17,624,000 | – | – | – | 10,166,000 |
| Lehman Brothers Holdings Inc. | – | – | 10,000,000 | – | – | – | 60,000 | – |

Apart from the foregoing, as at 31 December 2016, no person or corporation had any interest in the share capital of the Company as recorded in the register 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

### 1. Continuing connected transactions defined under the Listing Rules

CRECG is the Company's controlling shareholder and is therefore one of the Company's connected persons under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "**Listing Rules**"). Transactions between the Company and/or its subsidiaries and CRECG and/or its associates constitute connected transactions.

**(1) the Comprehensive Services Agreement between the Company and CRECG**

Reference is made to the prospectus of the Company dated 23 November 2007 in relation to, among other things, the comprehensive services agreement (the "**Comprehensive Services Agreement**") entered into between the Company and CRECG. The term of the Comprehensive Services Agreement commenced on the date of the agreement and has expired on 31 December 2009. Subsequently on 1 January 2010 and 28 March 2013, the Company entered into a comprehensive services renewal agreement with CRECG respectively, with a further term of three years each. Pursuant to the Comprehensive Services Agreement and its renewal agreements, CRECG and/or its associates will provide social services to the Group, including health check, vaccination and preventive medical services, on-site medical services, prevention of occupational disease and other special medical services to employees of the Group as well as training to the Group's employees.

On 30 December 2015, the Company entered into another comprehensive services renewal agreement with CRECG, effective from 1 January 2016 to 31 December 2018. As all the relevant percentage ratios of the transactions contemplated under this comprehensive services renewal agreement do not exceed 0.1%, this comprehensive service renewal agreement is exempt from the reporting, announcement and independent shareholders' approval requirement under the Listing Rules.

**(2) the Financial Services Framework Agreement between China Railway Finance Company Limited ("China Railway Finance") and CRECG**

On 29 April 2014, China Railway Finance (a subsidiary of the Company, with 95% of its equity interest being held by the Company and 5% of its equity interest being held by CRECG) executed a financial services framework agreement with CRECG (the "**Financial Services Framework Agreement**"), which took effect upon the completion of relevant statutory procedures, being 16 March 2014, till 31 December 2015. Pursuant to the Financial Services Framework Agreement, China Railway Finance agreed to provide deposit services, loan services and other financial services to CRECG in accordance with the terms and conditions stipulated in the agreement.

On 29 December 2015, China Railway Finance and CRECG entered into a financial services framework renewal agreement (the "**Financial Services Framework Renewal Agreement**"), effective from 1 January 2016 to 31 December 2018, to renew the Financial Services Framework Agreement. The Company has made announcement in respect of the Financial Services Framework Renewal Agreement on 29 December 2015.

The annual caps for the year of 2016, 2017 and 2018 under the Financial Services Framework Renewal Agreement are as follows:

| | For the financial year ended/ending 31 December | | |
|---|---|---|---|
| | 2016 *RMB* | 2017 *RMB* | 2018 *RMB* |
| **(i) deposit service** The maximum of daily deposit balance in China Railway Finance by CRECG (including interest accrued) | 20,000,000,000 | 20,000,000,000 | 20,000,000,000 |
| **(ii) loan service** The maximum of daily loan balance from China Railway Finance to CRECG (including interest accrued) | 3,500,000,000 | 3,500,000,000 | 3,500,000,000 |
| **(iii) other financial services** The aggregate annual amount of maximum service fees for financial services provided by China Railway Finance to CRECG | 80,000,000 | 80,000,000 | 80,000,000 |

The factors in determining the above annual caps include: (1) historical transaction amount; (2) the strategy of financial management of the Company by taking into account the cash flow and capital needs as required by the business expansion plan of the Group; and (3) the effective and reasonable control of financial risks. The Company has made announcement in respect of the Financial Services Framework Renewal Agreement on 29 December 2015.

The independent non-executive directors of the Company are of the opinion that, during the financial year, the above continuing connected transactions between the Group and the CRECG were entered into:

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

(ii) either on normal commercial terms or, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

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

Pursuant to Rule 14A.56 of the Listing Rules, the Company must engage its auditors to report on the continuing connected transaction every year. The auditors must provide a letter to the Company's Board of Directors confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:

(1) have not been approved by the Company's Board of Directors;

(2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the cap.

In accordance with the above requirements, the Board of Directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 58 to 59 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company for submission to the Hong Kong Stock Exchange.

In respect of the above continuing connected transactions, the Company has complied with the disclosure requirements under the Listing Rules in force from time to time.

### (2) One-off connected transactions defined under the Listing Rules

**(a) Relocation and reconstruction of Wuhan Railway Bridge School and Wuhan Railway Bridge Senior Technical School**

On 29 April 2016, China Railway Construction Group Co., Ltd. (the "**CRCGCL**"), a wholly-owned subsidiary of the Company, entered into a construction agreement (the "**Construction Agreement**") with Wuhan Railway Bridge School and Wuhan Railway Bridge Senior Technical School, pursuant to which, CRCGCL was appointed as the contractor of the Wuhan Schools Project. The total contractual value was RMB171,488,785.85. The Company has issued an announcement in respect of the relocation and reconstruction of Wuhan Railway Bridge School and Wuhan Railway Bridge Senior Technical School on 29 April 2016.

CRCGCL has a strong track record and a large number of professionals in the construction business. In particular, CRCGCL has extensive experience in housing construction. The directors, including the independent non-executive directors, believe that CRCGCL has the capability to carry out the Wuhan Schools Project in accordance with the terms of the Construction Agreement.

As each of Wuhan Railway Bridge School and Wuhan Railway Bridge Senior Technical School is a public institution owned by China Railway Hongda Asset Management Centre ("**Hongda**"), which is in turn a wholly-owned enterprise of CRECG, the controlling shareholder of the Company, each of Wuhan Railway Bridge School and Wuhan Railway Bridge Senior Technical School is therefore a connected person of the Company and the transaction contemplated under the Construction Agreement therefore constitutes a connected transaction of the Company under the Listing Rules.

**(b) Disposal of Beijing Yinuojie Investment Management Co., Ltd.**

China Railway Resources Group Co., Ltd. (the "**CRRC**"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with CRECG on 29 December 2016. Pursuant to the Equity Transfer Agreement, CRECG agreed to purchase and CRRC agreed to sell its 100% equity interest in Beijing Yinuojie Investment Management Co., Ltd. (the "**Beijing Yinuojie**") for a consideration of RMB2,456,335,900 (equivalent to approximately HK$2,742,670,700). The Company has issued an announcement in respect of the disposal of Beijing Yinuojie on 29 December 2016.

The purpose of this transaction is to implement the State requirements on eliminating the excess coal productivity of the central enterprises, which is beneficial to the overall assets quality and the long-term development of the Company and is in the interests of all shareholders of the Company as a whole. This transaction will not have any adverse impact on the sustainable operation capacity and the current financial condition of the Company.

Pursuant to the Listing Rules, CRECG is a connected person of the Company by virtue of it being the controlling shareholder of the Company. Accordingly, the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction for the Company under the Listing Rules.

### (3) Significant related party transactions as defined under PRC laws and regulations

Details of the significant related party transactions as defined by PRC laws and regulations during the reporting period are set out on pages 230 to 233 of this annual report.

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

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

## Pre-emptive Rights

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.

## Equity-linked Agreements

No equity-linked agreements were entered into by the Company during the financial year, or existed as at 31 December 2016.

## Bank and Other Loans

Particulars of bank and other loans of the Group as at 31 December 2016 are set out in note 36 to the Financial Statements.

## Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the financial year.

## Financial Summary

The summary of the audited results and of the audited statements of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

## Emolument Policy

Ever since listing, the Group has been devoted to establishing a remuneration management scheme that is scientific and reasonable, fair and equitable, normative and orderly, in accordance with the requirements of the modern enterprise system, focused on the incentive and constraint functions that of remuneration distribution may serve, and aimed to attract and retain the core talents of the Group and maintain the reasonable and orderly growth in remuneration. In respect of remuneration policies, in 2010, the Group formulated the *Guiding Opinion of China Railway Group Limited* on *Remuneration Management*, which set out guidance and goals for remuneration distribution, adopted a grading and classification mechanism for remuneration management, and rationalised the remuneration distribution relationships within the enterprise. In order to motivate the staff working abroad and promote the healthy development of the overseas businesses of the Group, in 2010, the Group formulated the *Guiding Opinion of China Railway Group Limited regarding Strengthening Remuneration Management Overseas*, which set out the principles for remuneration management overseas of legal compliance, emphasising on domestic growth balanced with expansion overseas and grade-based management, whereby reinforcing and regulating the management of aggregate amount of salary overseas, performance evaluation and welfare benefits taking into account the special nature of overseas remuneration arrangements. In respect of safeguarding employees' lawful benefits, in 2009, the Group formulated the *Guiding Opinion on Establishing and Improving the Mechanism for Assuring Normal Growth and Payment of Employees' Salary* to effectively ensure the coordinated growth of employees' salary and the enterprise economic performance and achieve scientific and harmonious development. In respect of the management of the aggregate amount and rate of salary, in 2013, the Group formulated the *Interim Measures of China Railway Group Limited for Budgetary Management of Aggregate Salary* and the *Rules of China Railway Group Limited for Implementing Interim Measures for Budgetary Management of Aggregate Salary* in accordance with the relevant regulations of the SASAC on budgetary management of aggregate salary. In 2014, the Group was selected by the SASAC as the pilot unit of filing-based regulatory scheme for budgetary management of aggregate salary. As such, the Company further strengthened the internal management of aggregate salary by issuing the *Notice Regarding Further Regulating the Budgetary Management of Aggregate Salary*, which refined the salary setting mechanism tying salary to economic efficiency and the floating solution for salary increase control, based on the principles under which salary are tied to and distribution is dependent on economic efficiency, with an aim to ensure a reasonable and orderly growth in aggregate salary and employee wage so as to facilitate the scientific development of the Company.

Employee remuneration comprises basic salary, performance-based bonus and allowances. In accordance with applicable PRC laws, the Group entered into an employment contract with each of its employees. Such contracts include provisions on wages, vacation, employee benefits, training programs, health and safety, confidentiality obligations and grounds for termination. Particulars of the employee remuneration of the Company are set out in note 12 to the Financial Statements.

In accordance with applicable regulations, the Group makes contributions to the employee 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 makes contributions to employee housing provident fund according to applicable PRC regulations. In addition to statutory contributions, the Group also provides 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 annuities for current employees.

In 2016, the Group formulated the *13th Five-Year Personnel Training Plan of China Railway Group Limited*, determined to focus on the implementation of "686" action plan during the period of "13th Five-Year Plan", namely, to build six major systems (including training management system, training organization and implementation system, training project system, training content system, training method system and training security system); to implement eight types of training (including leadership training, marketing personnel training, international personnel training, investment and financing personnel training, professional and technical personnel training, project management personnel training, skilled personnel training and community personnel training); to implement six measures (strengthening the organizational leadership, ensuring training funding, increasing inspection and examination, building quality model, improving incentive mechanism and building a strong team). During the year, the Group organized and implemented the political theory training courses as well as ideal and faith training courses for leaders, the advanced classes for middle-ranking cadres within China Railway hold by the Central Party School SASAC Branch, the 40th session of the "3+1 order-style training classes" for international talented undergraduates, with a total number of more than 7,000 personnel having attended the trainings. To actively promote the establishment of network learning platform, the headquarter of the Group opened the first internet college, of which 28 companies actively followed up and purchased more than 8,000 e-learning accounts in total. The Group actively promoted the construction of internal training human resources, training curriculums development, enterprise management cases selection and edition and training bases construction work, which made the Group's scientific level of training achieve a new level.

In 2017, the Group will continue to focus on the Group's strategy and major tasks, to increase staff training efforts, implement the "686" action plan formulated by the *13th Five-Year Personnel Training Plan of China Railway Group Limited,* focus on the organization and implementation of trainings for leaders, international personnel, investment and financing personnel, professional and technical personnel etc., steadily implement training curriculums development, teaching staffs construction and other foundational and guaranteeing works for training, increase the training reform and innovation efforts and continuously improve the quality and efficiency of training, to promote the Group's transformation, upgrading and quality and efficiency improvement.

The remuneration of executive directors of the Company is on an annual basis and consists of base salary and performance-based bonus. The revised remuneration policies for the independent directors of the Company were approved at the 2009 annual general meeting of the Company held on 29 June 2010, according to which, the remuneration of the independent non-executive directors of the Company is a fixed salary depending on position. Remuneration of the directors is determined with reference to the prevailing market conditions and in accordance with applicable regulations. Details of the remuneration of the directors of the Company are set out in note 12 to the Financial Statements.

The personnel expenses of the Company for the year ended 31 December 2016 were RMB30.278 billion. As at 31 December 2016, the number of employees hired by the Group was 283,511. The following table sets forth a breakdown of the Group's employees by professional composition as at 31 December 2016:

| Professional composition | Number of employees as at 31 December 2016 |
|---|---|
| Senior level and above | 22,477 |
| Medium level | 56,777 |
| Assistant level | 64,526 |
| Member level | 15,221 |
| Others | 124,510 |
| **Total** | **283,511** |

## Employee Retirement Benefits

Particulars of the employee retirement benefits of the Group are set out in note 12 and note 38 to the Financial Statements.

## Public Float

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 Corporate Governance Code

For details of the Company's corporate governance practices, please refer to the Report on Corporate Governance Practices on pages 64 to 81 of this annual report.

## Auditors

The 2016 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 LLP.

As Deloitte Touche CPA LLP and Deloitte Touche Tohmatsu has been providing the Company with auditing services for 10 years, in order to ensure the objectivity and independence of the auditors, the Company proposed to change its auditors for the year 2017, and to simultaneously change its internal control auditors. The Board has resolved on 30 March 2017 to propose to appoint PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and overseas auditors of the Company, respectively, for the year 2017, to carry out auditing for the financial statements of the Company for the year 2017 and to review its 2017 interim financial statements. In the meanwhile, PricewaterhouseCoopers Zhong Tian LLP is proposed to be appointed as the internal control auditors of the Company for the year 2017. According to the Articles of Association, the aforesaid proposed change of auditors is subject to approval by the shareholders at the 2016 annual general meeting of the Company.

All references in this part of the annual report (Report of the Directors) to other parts, sections of or notes in the annual report, form part of the Report of the Directors.

By order of the Board of Directors

**Li Changjin**
*Chairman*

Beijing, the PRC
30 March 2017

# • REPORT ON CORPORATE GOVERNANCE PRACTICES

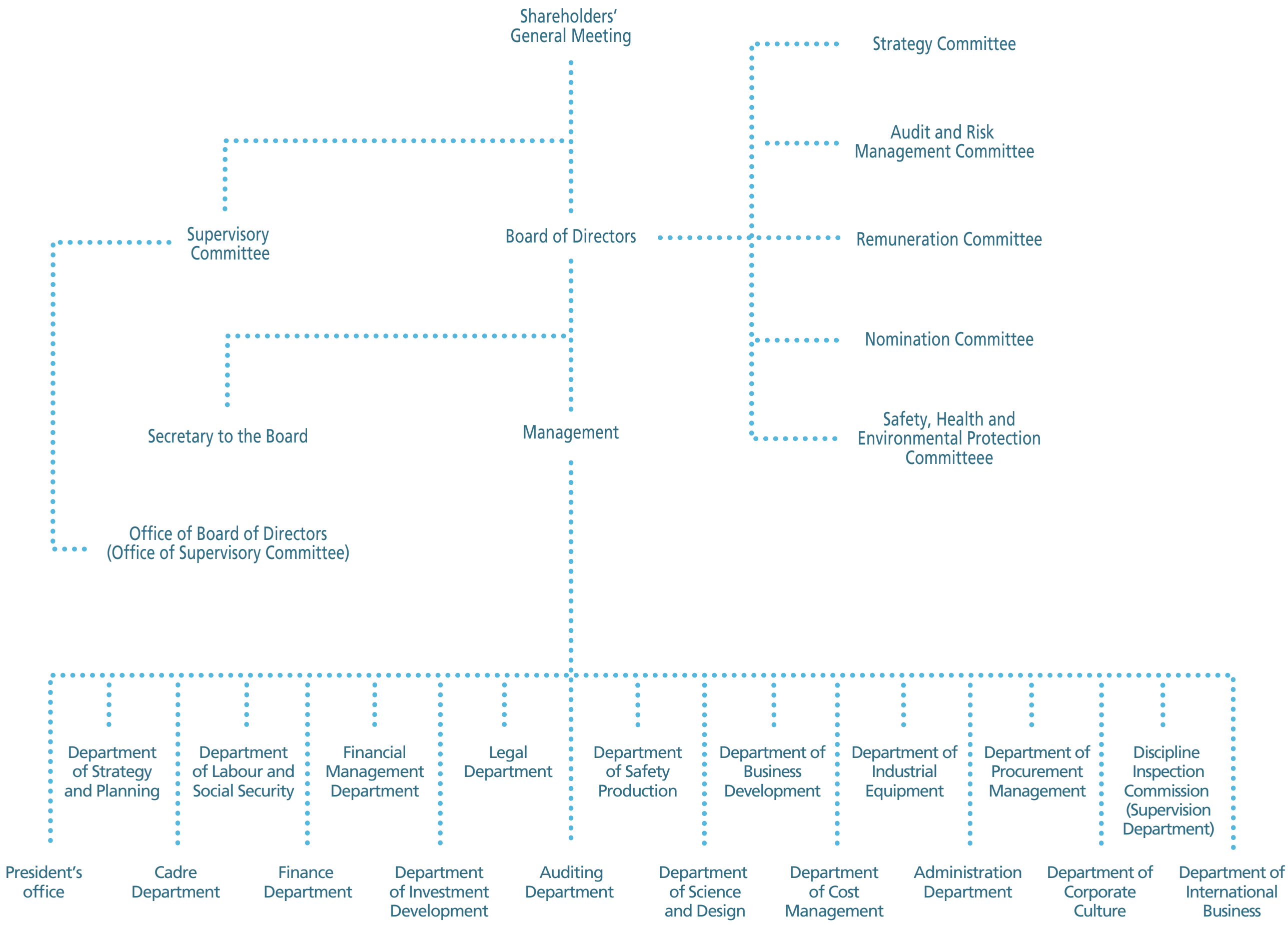

## Overview

During the reporting period, the Company has complied with the laws and regulations of the places where it operates its business as well as the regulations and guidelines prescribed by regulatory authorities such as the CSRC, the Securities and Futures Commission, the Shanghai Stock Exchange and the Hong Kong Stock Exchange. The goals of the Company are to ensure the sustainable long-term development of the Company and generate greater returns for its shareholders. The Board believes that, in order to achieve these goals, the Company must implement and maintain corporate governance principles of and structures consistent with integrity, transparency, openness and effectiveness. For this reason, we have taken various measures to achieve an effective Board of Directors, including the creation of five committees under the Board, i.e. the Strategy Committee, the Audit and Risk Management Committee, the Remuneration Committee, the Nomination Committee and the Safety, Health and Environmental Protection Committee, and setting up 20 functional departments. We have adopted internal working procedures to ensure accurate and timely information disclosure in accordance with the requirements under the Listing Rules as well as the requirements under relevant PRC laws and regulations. The Company will continue to adopt measures to refine its corporate governance structures, improve its corporate governance and enhance practices in corporate governance standards in light of the actual circumstances of the Company.

## 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 a corporate governance framework comprising the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and senior management.

## China Railway Group Limited



## Compliance with the Code Provisions of the Corporate Governance Code

As a company listed on the main board of the Hong Kong Stock Exchange, the Company is committed to comply with the principles of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Company has complied with all provisions of the Corporate Governance Code during the reporting period.

## 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 formulated the Articles of Association and the Procedural Rules for Shareholders' General Meeting to regulate the convening, approval and voting procedures for shareholders' general meetings.

During the reporting period, the Company convened and held two shareholders' general meetings, being the 2016 first extraordinary general meeting held on 28 January 2016 and the 2015 annual general meeting held on 24 June 2016. At the 2016 first extraordinary general meeting, one ordinary resolution was considered and approved, namely the election of Mr. Zhang Zongyan as an executive director of the Company, and three special resolutions were also considered and approved, including the proposal on issuing domestic and overseas debt financing instruments, the proposal on the increase of the registered capital of the Company from RMB21,299,900,000 to RMB22,844,301,543 to reflect the Company's completion of the non-public issuance of A shares on 14 July 2015 and the proposal on the proposed amendments to the Articles of Association of China Railway Group Limited as set out in Appendix II to the circular of the Company dated 14 December 2015. At the 2015 annual general meeting, a total of 12 ordinary resolutions were considered and approved, including the 2015 report of the Board of Directors, the 2015 report of the Supervisory Committee, the 2015 work report of independent directors of the Company, the 2015 A share annual report and the abstract, H share annual report and results announcement, the 2015 audited consolidated financial statements, the 2015 profit distribution plan, the re-appointment of the external auditors for 2016, the re-appointment of internal control auditors for 2016, the provision of total amount of external guarantee by the Company for the second half of 2016 and the first half of 2017, the Salary (Remuneration) Management Measures of Directors and Supervisors of the Company, the salary (remuneration) of directors and supervisors of the Company for the year of 2015 and the purchase of liabilities insurance for directors, supervisors and senior management of the Company, and one special resolution was also considered and approved, namely granting a general mandate to issue new shares to the Board of Directors. The meetings were convened in compliance with relevant legal procedures which safeguarded shareholders' participation and exercise of rights.

The table below sets out the details of general meetings attendance of each director during the reporting period:

| Director | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy |
|---|---|---|---|
| LI Changjin | 2 | 2 | – |
| YAO Guiqing | 2 | 2 | – |
| ZHANG Zongyan (appointed on 28 January 2016) | 2 | 2 | – |
| GUO Peizhang | 2 | 2 | – |
| WEN Baoman | 2 | 2 | – |
| ZHENG Qingzhi | 2 | 2 | – |
| NGAI Wai Fung | 2 | 2 | – |

## The Board of Directors

### 1. Composition of the Board of Directors

During the reporting period, the members of the Board of the Company were as follows:

| | |
|---|---|
| LI Changjin | Chairman and Executive Director |
| YAO Guiqing | Vice Chairman and Executive Director |
| ZHANG Zongyan (appointed on 28 January 2016) | Executive Director and President |
| GUO Peizhang | Independent Non-executive Director |
| WEN Baoman | Independent Non-executive Director |
| ZHENG Qingzhi | Independent Non-executive Director |
| NGAI Wai Fung | Independent Non-executive Director |

At the 2016 first extraordinary general meeting of the Company held on 28 January 2016, Mr. ZHANG Zongyan was appointed as an executive director of the Company, the term of office of which commenced from the date of passing of the resolution at the extraordinary general meeting until the expiry of the term of office of the third session of the Board of Directors. At the 18th meeting of the third session of the Board of Directors held on the same date, Mr. ZHANG Zongyan was appointed as the Chairman and a member of the Safety, Health and Environmental Protection Committee under the Board of Directors, and a member of each of the Strategy Committee and the Nomination Committee under the Board of Directors.

There was no financial, business, family or other material relationship among the directors of the Company.

During the reporting period, the Company complied with Rules 3.10(1) and 3.10(2) of the Listing Rules which require the Company to maintain at least three independent non-executive directors and have an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

Majority of the members of the Board of Directors are independent non-executive directors, in compliance with Rule 3.10A of the Listing Rules which requires independent non-executive directors of the Company must represent at least one-third of the Board of Directors. The Company has received confirmation of independence from the independent non-executive directors in accordance with Rule 3.13 of the Listing Rules and the Company considered each independent non-executive director as independent.

Pursuant to the Articles of Association, the term of office of each director of the Company (including the non-executive directors and the independent non-executive directors) is three years which is renewable upon re-election and each independent non-executive director shall not serve for more than six consecutive years in order to ensure his independence.

## 2. Board Meetings

In 2016, the Company held 10 Board meetings. A total of 144 proposals were considered and passed at these Board meetings, including proposals for the consideration of the periodical reports, change of accounting policies, and the working plan of the assessment of internal control, and heard 34 briefings including management reports, meeting reports and work evaluations.

The table below sets out the details of Board meeting attendance of each director during the reporting period.

| Director | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy |
|---|---|---|---|
| LI Changjin | 10 | 10 | – |
| YAO Guiqing | 10 | 10 | – |
| ZHANG Zongyan (appointed on 28 January 2016) | 10 | 9 | 1 |
| GUO Peizhang | 10 | 10 | – |
| WEN Baoman | 10 | 10 | – |
| ZHENG Qingzhi | 10 | 8 | 2 |
| NGAI Wai Fung | 10 | 8 | 2 |

## 3. Responsibilities and Operation of the Board

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 the shareholders' general meeting, making decisions on its business strategies, business plans and major investment plans of the Company, formulating proposed annual financial budgets and final accounts, formulating profit distribution plans and (where applicable) plans for making up losses previously incurred, formulating plans relating to the increase or reduction of the Company's registered capital, the issue of corporate bonds or other securities, and (where applicable) the listing of such securities, deciding the Company's internal management scheme, developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board of Directors, reviewing and monitoring the training and continuous professional development of the directors and the senior management, reviewing and monitoring the Company's policies and practices on the compliance with law and regulatory requirements, formulating, reviewing and monitoring the code of conduct and compliance manual applicable to the employees and the directors, reviewing the Company's compliance with corporate governance, and the disclosures made in the Corporate Governance Report, and exercising any other powers conferred by the shareholders' general meeting or under the Articles of Association.

There are currently five committees under the Board of Directors, being the Strategy Committee, the Audit and Risk Management Committee, the Remuneration Committee, the Nomination Committee and the Safety, Health and Environmental Protection Committee. Each committee has its own rules of procedures.

The offices of the Chairman and President of the Company are held by different persons and division of power between the Board of Directors and the senior management strictly complies with the Articles of Association and the relevant regulations. The Board of Directors formulates the overall strategy of the Company and monitors its financial performance. The management of the Company implements the strategic plans as determined by the Board of Directors and is responsible for the daily operations and management of the Company. The Chairman is responsible for convening and presiding over Board meetings, supervising the implementation of the Board's resolutions and coordinating the operation of the Board of Directors. Pursuant to the Articles of Association, the President is delegated with the authority to, among other things, oversees the operation and management of the Company, implement the decisions of the Board of Directors, carry out investment plans and formulate the basic management policies 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, the Company confirms that the directors and supervisors complied with the standards set out in the Model Code during the reporting period.

## 5. Directors' Training

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills in order to ensure that they continue to be equipped with all necessary information to contribute to the Board of Directors. The Company has devised a training record in order to assist the directors of the Company to record the training courses they have taken.

A summary of the trainings received by the directors of the Company during the reporting period is set out below.

| | Trainings | | | |
|---|---|---|---|---|
| Director | Qualification and follow-up training regarding independent directors delivered by Shanghai Stock Exchange | Thematic training for directors and supervisors delivered by Listed Companies Association of Beijing | Thematic training for directors of enterprise owned by central government delivered by SASAC | Internal business training delivered by the Company |
| LI Changjin | – | 1 | – | 4 |
| YAO Guiqing | – | – | – | 3 |
| ZHANG Zongyan (appointed on 28 January 2016) | – | – | 1 | 3 |
| GUO Peizhang | 1 | 1 | 1 | 1 |
| WEN Baoman | 1 | – | – | 1 |
| ZHENG Qingzhi | 1 | 2 | 2 | 1 |
| NGAI Wai Fung | 1 | 4 | 1 | 1 |

## 6. Committees under the Board

During the reporting period, the composition of the committees under the Board of Directors is as follows: Mr. LI Changjin, Mr. YAO Guiqing, Mr. ZHANG Zongyan (Mr. ZHANG Zongyan was appointed on 28 January 2016), Mr. GUO Peizhang and Mr. ZHENG Qingzhi were appointed as members and Mr. LI Changjin was appointed as Chairman of the Strategy Committee under the Board of Directors, Mr. ZHENG Qingzhi, Mr. WEN Baoman and Mr. NGAI Wai Fung were appointed as members and Mr. ZHENG Qingzhi was appointed as Chairman of the Audit and Risk Management Committee under the Board of Directors, Mr. GUO Peizhang, Mr. WEN Baoman and Mr. ZHENG Qingzhi were appointed as members and Mr. GUO Peizhang was appointed as Chairman of the Remuneration Committee under the Board of Directors, Mr. LI Changjin, Mr. ZHANG Zongyan (Mr. ZHANG Zongyan was appointed on 28 January 2016), Mr. GUO Peizhang, Mr. WEN Baoman and Mr. ZHENG Qingzhi were appointed as members and Mr. LI Changjin was appointed as Chairman of the Nomination Committee under the Board of Directors, and Mr. ZHANG Zongyan (Mr. ZHANG Zongyan was appointed on 28 January 2016), Mr. YAO Guiqing, Mr. GUO Peizhang, Mr. WEN Baoman and Mr. NGAI Wai Fung were appointed as members and Mr. ZHANG Zongyan was appointed as Chairman of the Safety, Health and Environmental Protection Committee under the Board of Directors.

### (a) Strategy Committee

The primary responsibilities of the Strategy Committee include, among other things, reviewing proposals and making recommendations to the Board of Directors regarding the Company's strategic development plans, annual budget, capital allocation plan, major mergers and acquisitions, major investment and financing plans and material internal reorganisation. Currently the Strategy Committee comprises Mr. LI Changjin, Mr. YAO Guiqing, and Mr. ZHANG Zongyan, who are executive directors, and Mr. GUO Peizhang and Mr. ZHENG Qingzhi, who are independent non-executive directors, and is chaired by Mr. LI Changjin.

During the reporting period, the Strategy Committee held 2 meetings and heard *the Report on the Execution of the Company's Development Strategy for 2015 and the Key Working Arrangement for 2016, the Analysis Report on Capital Markets for 2015, the Report on the Execution of Strategic Plan for the First Half Year of 2016 and the Key Working Arrangement for the Second Half Year of the Company and the 2016 Interim Analysis Report on Capital Markets and the Market Value of Shares of the Company; considered the Proposal on the "13th Five-Year" Development Plan of China Railway Group Limited and the Proposal on Progressive Development Plan for 2016-2018 of China Railway Group Limited*.

The table below sets out the details of meeting attendance of each member of the Strategy Committee during the reporting period.

| Director | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy |
|---|---|---|---|
| LI Changjin | 2 | 2 | 0 |
| YAO Guiqing | 2 | 2 | 0 |
| ZHANG Zongyan (appointed on 28 January 2016) | 2 | 1 | 1 |
| GUO Peizhang | 2 | 2 | 0 |
| ZHENG Qingzhi | 2 | 1 | 1 |

**(b) Audit and Risk Management Committee**

The primary responsibilities of the Audit and Risk Management Committee are:

(1) making recommendations to the Board of Directors on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;

(2) reviewing and overseeing the external auditors' independence and objectivity and the effectiveness of the audit process;

(3) overseeing the integrity of the financial statements of the Company and the Company's annual report and accounts, interim report and quarterly reports, and reviewing significant financial reporting judgments contained in such reports;

(4) overseeing the Company's financial reporting system and risk management and internal control procedures, including but not limited to, reviewing the financial control, risk management and internal control systems, deliberating on actions to be taken in respect of any findings of major investigations of risk management and internal control matters as delegated by the Board of Directors or at its own initiative and management's response thereto, and reviewing the Group's financial and accounting policies and practices; and

(5) reviewing arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit and Risk Management Committee's terms of reference are available on the websites of the Company and the Hong Kong Stock Exchange.

The Audit and Risk Management Committee currently comprises Mr. ZHENG Qingzhi, Mr. WEN Baoman and Mr. NGAI Wai Fung who are independent non-executive directors of the Company, and is chaired by Mr. ZHENG Qingzhi.

During the reporting period, the Audit and Risk Management Committee held 7 meetings, at which a total of 33 proposals were considered, including the periodical reports, financial statements, and proposals on internal auditing, internal control assessment, and risk management and heard 15 briefings.

The table below sets out the details of meeting attendance of each member of the Audit and Risk Management Committee during the reporting period.

| Director | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy |
|---|---|---|---|
| ZHENG Qingzhi | 7 | 7 | 0 |
| WEN Baoman | 7 | 7 | 0 |
| NGAI Wai Fung | 7 | 6 | 1 |

**(c) Remuneration Committee**

The primary responsibilities of the Remuneration Committee are:

(1) making recommendations to the Board of the Directors on the Company's policy and structure for remuneration of directors and senior management and on the formulation of a formal and transparent process for developing policy on such remuneration;

(2) reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives set by the Board of Directors;

(3) determining, as authorised by the Board of Directors the specific remuneration packages of individual 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 of Directors in relation to the remuneration of non-executive directors;

(4) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group; and

(5) ensuring that no director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee's terms of reference are available on the websites of the Company and the Hong Kong Stock Exchange.

The Remuneration Committee currently comprises Mr. GUO Peizhang, Mr. WEN Baoman and Mr. ZHENG Qingzhi who are independent non-executive directors, and is chaired by Mr. GUO Peizhang.

During the reporting period, the Remuneration Committee held 6 meetings, at which a total of 15 reports and proposals were considered, including the proposals on performance contract with senior management, remuneration assessment and determination for senior management, remuneration management plan for directors, supervisors and senior management, total remuneration management, performance assessment plan for responsible officers of the subordinate enterprises.

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the reporting period.

| Director | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy |
|---|---|---|---|
| GUO Peizhang | 6 | 6 | 0 |
| WEN Baoman | 6 | 6 | 0 |
| ZHENG Qingzhi | 6 | 6 | 0 |

The emolument payable to directors, supervisors and members of senior management of the Company are determined in accordance with the contractual terms under their respective employment contracts. Details of the remuneration of directors and supervisors are set out in note 12 to the financial statements.

**(d) Nomination Committee**

The primary responsibilities of the Nomination Committee are:

(1) formulating the standards, procedures and methods for election of directors and senior management of the Company and submitting the same to the Board of Directors for consideration;

(2) identifying individuals suitably qualified to become Board members, selecting and nominating individuals for directorship or make recommendations to the Board of Directors in this regard, reviewing the candidates for directors and President and making recommendations;

(3) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board of Directors at least annually and making recommendations on any changes to the Board of Directors proposed to support the Company's corporate strategy;

(4) making proposals regarding candidates for directors, shareholder representative supervisors and general managers of wholly owned subsidiaries; making proposals regarding candidates for directors, shareholder representative supervisors and general managers of subsidiaries controlled by the Company and subsidiaries in which the Company has equity participation;

(5) assessing the independence of independent non-executive directors of the Company; and

(6) making recommendations to the Board of Directors on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the President.

The Nomination Committee's terms of reference are available on the websites of the Company and the Hong Kong Stock Exchange.

The Nomination Committee currently comprises Mr. LI Changjin and Mr. ZHANG Zongyan, who are executive directors and Mr. GUO Peizhang, Mr. WEN Baoman and Mr. ZHENG Qingzhi who are independent non-executive directors, and is chaired by Mr. LI Changjin.

The Nomination Committee shall nominate director candidates for election in accordance with the formalities and procedures stipulated in the Articles of Association and the rules of procedures of the Nomination Committee, and consider candidates for directorship based on qualification, ability and experience of the individual candidates.

During the reporting period, the Nomination Committee did not hold any meetings.

The Board of Directors has adopted the Board diversity policy, which sets out the approaches to achieve diversity among members of the Board of Directors and is available on the website of the Company. When selecting Board members, the Company gives full consideration to the benefits of all aspects of Board diversity, including but not limited to gender, race, age, territory, cultural and educational background, professional experience and length of service. All the members of the Board of Directors are appointed based on meritocratic principles and eventually decided by considering their strengths and contributions they can make to the Board of Directors.

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

The primary responsibilities of the Safety, Health and Environmental Protection Committee include, among other things, providing guidance, inspecting and evaluating the implementation of the Company's plans on safety, employees' health and environmental protection, making plans and recommendations to the Board of Directors regarding material matters relating to safety, health and environmental protection.

The Safety, Health and Environmental Protection Committee currently comprises of Mr. ZHANG Zongyan and Mr. YAO Guiqing who are executive directors, and Mr. GUO Peizhang, Mr. WEN Baoman and Mr. NGAI Wai Fung who are independent non-executive directors, and is chaired by Mr. ZHANG Zongyan.

During the reporting period, the Safety, Health and Environmental Protection Committee held 2 meetings, at which *the Report on Safety and Quality, Health and Environmental Protection of the Company for 2015 and the Key Working Arrangement for 2016 and the Report on Safety and Quality, Health and Environmental Protection of the Company for the First Half Year of 2016 and the Key Working Arrangement for the Second Half Year* were heard.

The table below sets out the details of meeting attendance of each member of the Safety, Health and Environmental Protection Committee during the reporting period.

| Director | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy |
|---|---|---|---|
| ZHANG Zongyan (appointed on 28 January 2016) | 2 | 1 | 1 |
| YAO Guiqing | 2 | 2 | 0 |
| GUO Peizhang | 2 | 2 | 0 |
| WEN Baoman | 2 | 2 | 0 |
| NGAI Wai Fung | 2 | 1 | 1 |

## Supervisory Committee

The primary responsibilities of the Supervisory Committee are:

(1) supervising the performance by directors and senior management of their duties, and proposing removal of directors or senior management who have violated laws and regulations, the Articles of Association or resolutions of shareholders' general meetings;

(2) requesting directors and senior management to rectify any actions damaging the Company's interests;

(3) examining the Company's financial matters;

(4) making proposals to convene extraordinary general meetings of shareholders, and convene and preside 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;

(5) making proposals for shareholders' general meetings;

(6) making proposals to convene extraordinary meetings of the Board of Directors other than regular meetings;

(7) supervising the establishment and implementation of internal controls by Board of Directors; and

(8) supervising the review of, voting on, disclosure and performance of connected transactions, and providing comments in the annual report.

During the reporting period, the members of the Supervisory Committee of the Company were as follows:

| | |
|---|---|
| Mr. LIU Chengjun | Chairman of the Supervisory Committee and Shareholder Representative Supervisor |
| Ms. LIU Jianyuan | Employee Representative Supervisor |
| Mr. WANG Hongguang | Employee Representative Supervisor |
| Mr. CHEN Wenxin | Shareholder Representative Supervisor |
| Mr. FAN Jinghua | Employee Representative Supervisor |

The Supervisory Committee has detailed rules of procedures that specify its responsibilities, ensuring that the Supervisor Committee operates in a compliant and efficient manner. The term of office for each supervisors of the Company is three years which is renewable upon re-election.

During the reporting period, the Supervisory Committee held 8 meetings, considered a total of 36 proposals, and heard a total of 26 briefings.

The table below sets out the details of meeting attendance of each member of the Supervisory Committee during the reporting period.

| Supervisor | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy |
|---|---|---|---|
| Mr. LIU Chengjun | 8 | 8 | 0 |
| Ms. LIU Jianyuan | 8 | 7 | 1 |
| Mr. WANG Hongguang | 8 | 8 | 0 |
| Mr. CHEN Wenxin | 8 | 8 | 0 |
| Mr. FAN Jinghua | 8 | 8 | 0 |

## Joint Company Secretaries

The Joint Company Secretaries of the Company are Mr. YU Tengqun and Mr. TAM Chun Chung. Mr. YU and Mr. TAM have confirmed that they had taken not less than 15 hours of relevant professional trainings during the reporting period.

## Shareholders' Rights

### 1. Convening of Extraordinary General Meeting

According to the Articles of Association, the shareholders of the Company who individually or jointly hold more than 10% of the voting shares at such proposed meeting may propose to the Board of Directors to convene an extraordinary general meeting of shareholders or a class shareholders' meeting. The procedures for shareholders to convene an extraordinary general meeting or a class shareholders' meeting are stated as below:

(1) The proposing shareholder(s) shall execute one or several copies of written request with the same form and contents to propose to the Board of Directors to convene an extraordinary general meeting of shareholders or a class shareholders' meeting and set out the topics of the meeting.

(2) If the Board of Directors agrees to convene an extraordinary general meeting or a class shareholders' meeting, a notice of the meeting shall be issued within five days after the resolution of the Board of Directors is passed.

(3) In case the Board of Directors refuses to convene an extraordinary general meeting or a class shareholders' meeting, or does not give any response within ten days upon receipt of the request, the shareholders who individually or jointly hold more than 10% of the voting shares at such proposed meeting shall have the right to propose to the Supervisory Committee for convening of such meeting, and shall make such request to the Supervisory Committee in writing. If the Supervisory Committee agrees to convene an extraordinary general meeting or a class shareholders' meeting, a notice of the meeting shall be issued within five days upon receipt of the request. Changes made to the original request in the notice shall be approved by relevant shareholders. If the Supervisory Committee fails to give the notice of such a meeting within the specified time limit, it shall be deemed to have failed to convene or preside over the meeting, in which case, the shareholders who either individually or jointly hold more than 10% of the Company's shares for more than ninety consecutive days may convene and preside over the meeting by themselves.

(4) When the Supervisory Committee or the shareholders decide to convene a general meeting of shareholders by themselves, they must notify the Board of Directors in writing and at the same time file the notice with the local branch of CSRC and the stock exchange where the Company is domiciled. Before the resolutions of general meeting of shareholders are publicly announced, the proportion of shares held by the convening shareholder should be not less than 10%. When issuing the notice of general meeting of shareholders and the public announcement of the resolutions of general meeting of shareholders, the convening shareholder shall submit relevant supporting materials to the local branch of CSRC where the Company is domiciled and the stock exchange.

(5) For the general meeting of shareholders convened by the Supervisory Committee or the shareholders themselves, the Board of Directors and the Secretary to the Board of Directors shall provide cooperation. The Board of Directors shall provide the register of shareholders as at the date of record.

### 2. Putting Forward Proposals at the Shareholders' General Meeting

The procedures for putting forward proposals in the shareholders' general meeting are stated as below:

(1) When the Company holds a general meeting of shareholders, shareholders who individually or jointly hold more than 3% of shares of the Company shall have the right to prepare a proposal to the Company. Shareholders who hold more than 3% of shares of the Company, either individually or jointly, may prepare an interim proposal and submit it in writing to the person(s) convening the meeting ten days before the general meeting of shareholders convenes. The person(s) convening the meeting shall issue a supplementary notice of the general meeting of shareholders within two days upon receipt of the proposal and publicly announce the contents of such proposal.

(2) When the Company holds a general meeting of shareholders, it shall send a written notice to the shareholders forty-five days prior to the meeting. Shareholders intending to be present in the general meeting of shareholders shall send a written reply of attendance to the Company twenty days before the meeting convenes.

### 3. Enquiries to the Board

Shareholders who intend to put forward their enquires about the Company to the Board of Directors could email their enquires to ir@crec.cn.

## Amendment to the Articles of Association

The Company confirmed, approved and rectified at the 2016 first extraordinary general meeting held on 28 January 2016 the amendments to the Articles of Association made on 15 July 2015 in relation to the changes of the share capital and the registered capital based on the results of the non-public issuance of A shares completed on 14 July 2015, and also approved amendments to the Articles of Association based on the amendments to the Rules of Procedures for the Audit and Risk Management Committee of the Board of Directors amended by the Board of Directors pursuant to the amendments to the Code Provisions of the Corporate Governance Code and the Report of the Corporate Governance as set out in Appendix 14 to the Listing Rules (which became effective from the accounting period after 1 January 2016), and amendments to the Articles of Association to further reflect the relevant content of the Guidelines for the Articles of Association of Listed Companies (as amended in 2014). The latest version of the Articles of Association is available on the websites of the Company and the Hong Kong Stock Exchange.

## 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. During the reporting period, except for the Chairman and executive director of the Company, Mr. LI Changjin, who also served as the chairman of CRECG, the Vice Chairman and executive director of the Company, Mr. YAO Guiqing, who also served as the vice chairman of CRECG, the executive director and President, Mr. ZHANG Zongyan (Mr. ZHANG Zongyan was appointed as an executive director of the Company at the shareholders' general meeting on 28 January 2016), who also served as a director of CRECG, and supervisor of the Company, Ms. LIU Jianyuan, who also served as a director of CRECG, none of the directors, supervisors or senior management of the Company held any positions with CRECG or received any salary from CRECG and/or its associates. Notwithstanding the fact that Mr. LI Changjin, Mr. YAO Guiqing and Mr. ZHANG Zongyan (collectively the "**Overlapping Directors**") and Ms. LIU Jianyuan act as directors of CRECG and directors or supervisors of the Company respectively, they have the capacity to commit to the daily management of the Company because there was less day-to-day management work of CRECG. Moreover, the Overlapping Directors represent a minority in the Board of Directors. During the reporting period, the Board of Directors also had four independent non-executive directors, which ensured that the interests of the Company and shareholders were protected. The Company also has its own financial management system and related personnel who are independent from CRECG.

The Company entered into the Comprehensive Services Agreement and its renewal agreements with CRECG in relation to the mutual provision of comprehensive services between the CRECG and the Group on 23 November 2007, 1 January 2010 and 28 March 2013 respectively, with each valid for three years. Pursuant to the Comprehensive Services Agreement and its renewal agreements, CRECG and/or its associates will provide social services, including health check, vaccination and preventive medical services, on-site medical services, prevention of occupational diseases and other special medical services to employees of the Group as well as training to the Group's employees. On 30 December 2015, the Company entered into another comprehensive services renewal agreement with CRECG, effective from 1 January 2016 to 31 December 2018. None of the relevant percentage ratios of the transactions under this Comprehensive Services Renewal Agreement is more than 0.1%, and is therefore exempted from all declarations, announcements and transactions approved by the independent shareholders under the Listing Rules.

On 29 April 2014, China Railway Finance (a subsidiary of the Company, with 95% of its equity interest being held by the Company and 5% of its equity interest being held by CRECG) entered into the Financial Services Framework Agreement with CRECG, effective form 16 March 2014 to 31 December 2015. Pursuant to the Financial Services Framework Agreement, China Railway Finance agreed to provide deposit services, lending services and miscellaneous financial services to CRECG. On 29 December 2015, China Railway Finance and CRECG entered into the Financial Services Framework Renewal Agreement, effective from 1 January 2016 to 31 December 2018, to renew the Financial Services Framework Agreement.

## Auditors' Remuneration

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA LLP (collectively the "**External Auditors**") have been appointed as the international and domestic auditors of the Company, respectively, for the year 2016.

Fees paid to the External Auditors for the audit of the financial statements of the Group for the year ended 31 December 2016 are approximately RMB43 million.

## Information Disclosure

The Secretary to the Board of Directors and the Joint Company Secretaries are in charge of information disclosure affairs of the Company. During the reporting period, the Company actively studied and reacted to new changes in regulatory policies in the Chinese capital market and domestic and overseas securities markets, and continuously adapted itself to the new requirements on information disclosure by regulatory authorities; it continued to advocate for voluntary information disclosure as a supplement to statutory disclosure requirements, intensified its efforts in internal report and approval on material matters, strengthened targetedness and effectiveness of content of periodical reports, and effectively increased transparency in information disclosure by the Company. The Company published 303 announcements and circulars in total, among which, announcements for A shares totalled 125, and announcements and circulars for H shares totalled 178. All of the announcements are published through the Shanghai Stock Exchange, Hong Kong Stock Exchange and designated newspapers.

## Risk Management and Internal Control

In accordance with the Basic Standards for Internal Control of Enterprises and its Implementation Guidance issued by five ministries including the Ministry of Finance and the CSRC and the Internal Control of Listed Companies issued by the Shanghai Stock Exchange, subject to the working discipline of "step-by-step promotion, horizontal and vertical expansion and comprehensive coverage", the Company established the framework for internal control at both headquarters and subsidiary and branch levels, covering various aspects including operation, production, management and control, and prepared the working standard and procedural documents in relation to corporate governance, strategic management, production and operation, operation supervision, information disclosure, legal matters, safety quality and environmental protection, human resources, finance management, international business, procurement management and information management, stipulated management measures on internal control system in order to ensure the internal control management of the Company and its subsidiaries and branches has rules in place. Meanwhile, controlling measures have been proactively taken to prevent and manage any potential risk factors and ensure the smooth production and operation of the Company.

In terms of identification, evaluation and management of significant risks, the Company formed a normalised mechanism of risk management evaluation and reporting. Through preparation of risk evaluation questionnaire and comprehensive application of qualitative and quantitative methods, the Company identifies, distinguishes and evaluates various types of risks and determines the priority of control of significant risk, principle risk and general risk. Based on the above, the Company formulates risk management strategies, solutions and control methods, and forms comprehensive risk management report.

In terms of reviewing the effectiveness of the risk management and internal control system, the Company has established three defence lines in order to review and oversee the effectiveness of the risk management and internal control system:

- The first defence line consists of the functional departments and business units who are in charge of significant risk management control, so as to implement the risk management and control mechanism into specific business procedures;

- The second defence line consists of the leading team of internal control construction system of the Company, management of the Company and the functional department in charge of risk management, which are responsible for the supervision of the formulating and implementing process of significant risk management strategies and solutions of the members of the Company; and

- The third defence line consists of the Board of Directors, the Supervisory Committee, the audit department, the supervision department and external auditors. The audit department of the Company is responsible for organizing and implementing assessment work on risk management and internal control. The supervision department is responsible for supervising the execution of significant risk management strategies and solutions, recognising problems and proposing rectification methods by carrying out various specific investigation activities and reporting to the Board regularly. The Supervisory Committee is responsible for supervising the implementation status of the risk management and internal control of the Board, and putting forward improvement suggestions.

In view of the potential defects of internal control, the Company has established corporate government structure including the shareholders' general meeting, the Board of Directors, the Supervisory Committee and senior management, clearly defined the boundaries of power on decision-making, implementation and supervision, formed scientific and efficient mechanism of divisions and balances of duties so as to ensure the effective operation of the internal control system.

In terms of the procedures and internal control for the handling and dissemination of inside information, the Company has formulated the Insiders Registration and Management System and specified the procedures and relevant internal control methods for dissemination of inside information in accordance with the Securities Law, the Administrative Measures for the Disclosure of Information of Listed Companies and other relevant laws and regulations.

The Board is responsible for the on-going supervision of the risk management and internal control system of the Company and reviewing their effectiveness through the Audit and Risk Management Committee. The Audit and Risk Management Committee assists the Board to perform the duties of supervision and corporate government and review the effectiveness of the risk management and internal control systems of the Group at least annually, including the functions of financial, management, compliance, risk management and internal control, and financial resources and internal audit of the Group.

During the reporting period, the Audit and Risk Management Committee has reviewed the effectiveness of risk management and internal control system of the Group, covering all material aspects, including financial, operational and compliance controls, and taking into account the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, compliance, risk management, internal audit and financial reporting, and has reported relevant matters to the Board. No significant defect in respect of internal control has been discovered by relevant reviews. The Board is of the view that the current risk management and internal control system of the Group is adequate to protect the interests of the shareholders during the reporting period.

In addition, the Company carefully complied with regulatory rules and prepared 2016 annual social responsibility report and appraisal report on internal control in relation to the financial statement, engaged Deloitte Touche Tohmatsu CPA LLP to audit the effectiveness of the Company's internal control in relation to financial statements in 2016 and Deloitte Touche Tohmatsu CPA LLP issued standard clean opinions in this respect.

## Accountability of the Directors in Relation to Financial Statements

The directors of the Company are responsible for overseeing the preparation of financial statements. In preparing the financial statements for the year ended 31 December 2016, the directors of the Company have selected and applied appropriate accounting policies and made prudent and reasonable judgment and estimation so as to give a true and fair view of the financial position, results and cash flow of the Group 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 93 to page 97 of this annual report.

## Investors Relations

In 2016, the Company has fully exerted the functions of investors' hotlines, IR mailbox and Shanghai Stock Exchange e-interaction platform. Through a variety of activities including convening results briefings, receiving investors' visits, convening annual general meeting and attending investment summits, the Company communicated and interacted with investors, listened carefully to and handled suggestions and advices from shareholders and investors well.

During the reporting period, the Company has held 4 large results briefings, 2 large results press conferences, 2 results promoting phone conferences, 12 telephone communication meetings; picked 2,312 hotlines from investors, received and replied 9,023 important emails and information; has received more than 31 visits by investors, and more than 261 visits by individual investors; was present in 13 foreign and domestic prestigious investment forums and investment strategy conferences; organised 67 roadshows, interacted and exchanged with fund managers and analysts for 756 times. Through above communication, the understanding and recognition of shareholders and investors of the Company has strengthened and the management level and transparency of the Company has increased.

During the reporting period, the Company received the honour's of, including but not limited to, "Tian Ma Awards – Mainboard – Best Board of Directors" awarded by Securities Times, Golden Round Table – Best Board of Directors, Top 20 Best Practice for Supervisory Committee of Listed Company, "Golden Bauhinia Awards – Best Investor Relationship Management Company", "Top Secretaries of Directorate" awarded by New Fortune.

## Continuous Evolvement of Corporate Governance

The Company will continue to closely study the development of corporate governance practices by the world's leading corporations and the requirements of the investors. We will also review and strengthen our corporate governance procedures and practices on a regular basis so as to ensure the long-term sustainable development of the Company.

## I. Promotion of Energy Saving and Emission Reduction

In 2016, the Company fully planned "13th Five-Year" work for energy saving and emission reduction, and completed the compilation of "13th Five-Year Plan" for energy saving and emission reduction of the Company. The Company actively carried out energy saving and emission reduction work, and fully implemented standardized site construction of energy saving and emission reduction, promoted the application of new technologies, new processes and new equipment to improve energy efficiency while strictly controlling pollutant emissions, reinforced technological transformation and elimination of backward equipment, reduced emissions of waste gas and waste liquid, and made full use of waste residues and other waste. In 2016, there was neither environmental liability accident nor major illegal event on energy saving and emission reduction and the pollutant emission reached relevant national and local emission standards.

In 2016, the comprehensive energy consumption (comparable price) per ten-thousand business income was 0.0590t standard coal, which was reduced by 3.27% on an year-on-year basis, and the Company successfully achieved the annual objectives for energy saving and emission reduction.

In 2016, 20 engineering projects were defined as the 5th batch of national green construction demonstration projects in construction industry, and 55 projects won the title of standardized construction site for energy saving and emission reduction of China Railway Group Limited.

In 2016, CR3 (China Railway No. 3 Engineering Group Co., Ltd.) invested a total amount of nearly RMB58 million in energy saving and emission reduction. In addition, it organized and carried out "Publicity Week for Energy Saving and Emission Reduction" and "National Low-carbon Day". It carried out selection activity of "Energy Saving and Emission Reduction Standard Site" and self-inspection work for energy saving and emission reduction so as to effectively control energy consumption and reduce pollution emission.

In 2016, CRBBG (China Railway Baoji Bridge Group Co., Ltd.) vigorously promoted energy saving and emission reduction work. It scrapped 4 coal-fired boilers, 7 waste gas tanks, and built 3 new natural gas boilers. In addition, it continued to increase dust control efforts according to local conditions. It invested more than RMB1.6 million to purchase new dust removal equipment to solve the long-standing dust pollution problems in steel rail flash welding and steel structure sanding processes.

## II. Key Performance Indicators in Three Aspects of Emissions, Resource Utilization, and Environmental and Natural Resources

| | Emissions and Energy Types | Accumulated Completion Value of Last Year | Accumulated Completion Value of This Year | Environmental and Natural Resources |
|---|---|---|---|---|
| Exhaust emission types and related emission data | Nitrogen oxide, sulfur oxide and other pollutants regulated by national laws and regulations | – | – | – |
| Total amount of greenhouse gas emission (ton) | $CO_2$ | 13,166,396.5 | 13,195,853.6 | – |
| | Other gases (specify if any) | | | |
| Hazardous waste generated | | | | – |
| Total amount of non-hazardous waste generated | | | | – |
| Detailed description of measures and the results obtained in energy saving and emission reduction | In 2016, the comprehensive energy consumption (comparable price) per ten thousand business income was 0.0590t standard coal, which was reduced by 3.27% on an year-on-year basis compared to the last year, and the company successfully completed the annual objectives for energy saving and emission reduction. | | | – |
| Detailed description of methods for handling hazardous and non-hazardous waste, measures to reduce production and all results | | | | – |
| Direct/indirect energy classified by type (e.g. electricity, gas or oil) | Electricity (kilowatt) | 836,790 | 837,891 | – |
| | Gasoline (ton) | 371,160 | 372,650 | – |
| | Diesel (ton) | 1,265,005 | 1,267,443 | – |
| | Natural gas (10,000 standard cubic meters) | 3,350 | 4,100 | – |
| | Other energy (specify the name if any) | – | – | |
| Total water consumption | Water (ton) | – | – | – |
| Describe energy use benefit plan and the results obtained | | | | – |
| Describe any problems on the applicable water source, and enhancement in water efficiency and results obtained | None | | | – |
| NA, omitted | | | | – |
| Describe the significant impact of operational activities on the environment and natural resources and the actions taken to manage the impact | The Company carried out standard site construction of energy saving and emission reduction, which has become the normal state. Centering on the "Four Savings and One Environmental Protection", the Company carried out standard site construction activities in energy saving and emission reduction which played a huge promotion role on the project energy saving and consumption reduction as well as energy efficiency so as to effectively enhance energy utilization efficiency and reduce the total energy consumption. According to the requirements of "Interim Measures for Promotion and Management of Energy-saving and Low-carbon Technologies of China Railway Group Limited" (hereinafter referred to as the "Measures"), through strict review, 8 technologies including "CR3 Technology of Energy Saving and Consumption Reduction in Subgrade Continuous Rolling in Large Earthworks was classified as "Key Energy Saving and Low-carbon Technology of China Railway Group Limited", and was listed into the Company's directory database for key energy-saving and low-carbon technologies. | | | |

## III. Strengthening Environmental Governance

On environmental governance, China Railway embodied the harmony of human and nature into every project, established the top-to-bottom and all around monitoring green environmental protection management system and actively implemented the ecological environmental protection work. Each project department of the Company insisted on the principle of "Construction of High-quality Project, Creation of Civilized Ecology", implemented the Company's high standard environmental protection and soil conservation measures and regarded "Double Excellence in Project Quality and Environmental Protection and Water Conservation" as its goal to strive to achieve the high degree of harmony and unity between high-quality project and beautiful environment. For all invested construction projects, the Company carried out environment influence evaluation as per local regulatory requirements, went through environmental approval procedures, and performed prepositive examination for environmental protection. The Company strengthened monitoring on main pollutant discharge points, and took effective measures in noise treatment, construction dust control, pollutant discharge management, soil taking (discarding) site, abandoned residue transport and water body protection in order for compliance construction and green construction.

In the construction process of Shenzhen urban rail transit Line 11, CRCIG (China Railway Construction & Investment Group Co., Ltd.) ran green construction concept throughout all production aspects in order for "eradicating muddy water, suppressing dust, lowering noise, beautifying fence, reducing energy consumption, no disturbing residents", of which, two project departments won the title of national "AAA-grade Safe and Civilized Standard Site", and one project department won the title of "National Green Construction Demonstration site".

CREEG (China Railway Electricization Engineering Group) organized more than 70 employees as volunteers to participate in Dalian beach garbage clean-up activities and clean-up activities around the community of some project departments, and actively publicized green environmental protection concept.

## IV. Protection of Ecological Environment

China Railway has always committed to the ecological environment protection. Before the commencement of a project, China Railway always organizes professional personnel to evaluate the ecological environmental protection situations carefully, formulates practical and effective protection implementation plan, especially focusing on construction site whose ecology is liable to be disturbed. The Company also carries out works such as conservation of water and soil, biodiversity protection, vegetation protection etc. It planned and implemented the ecological environment management with the project construction synchronously. During the construction process, China Railway increased the investment in ecological protection, applied environmental protection equipment, improved ecological construction process and optimized construction program, thus reducing the impact on water, air, vegetation and creature. No ecological destruction event occurred throughout the year.

The Company actively took part in the evaluation and promotion of national key practical technologies and demonstration projects of environmental protection, of which, such technologies as farmland ecological protection technology for mountain road construction area, "3R" treatment technology for abandoned residue of tunnel construction in mountain area, and production wastewater recovery technology in high-speed rail board factory were rated as national key practical technologies for environmental protection.

In 2016, CR5 (China Railway No. 5 Engineering Group., Ltd.) undertook construction tasks of major projects including Menghua Railway where Yangshao culture is located, Jinan-Qingdao Railway where a large number of Warring States relics are located, Badaling station of Beijing-Zhangjiakou high-speed rail located in Badaling Great Wall. They made pre-arranged planning in advance for the construction, actively cooperated with the cultural relics management departments, and always emphases cultural relics protection and construction. By improving the construction process and other methods, it successfully protected the cultural relics.

China Railway Consulting (China Railway Engineering Consulting Group Co., Ltd.) adheres to implementing environmental protection concept from the initial designing stage to construct green railways. In selection of railway line and construction site, it takes natural reserves, scenic spots, water conservation areas, cultural relics protection units and other ecological sensitive areas as important factors for comparison, and tries to avoid these areas to the greatest extent. In high-speed rail design, it maximized plants protection to the subgrade slope. In railway station design, it applied energy conservation and environmental protection concept and new technologies, new materials to control the infiltration air. Moreover, it optimized the natural lighting design, applied ground source heat pump technology and solar photovoltaic power generation system, and made great efforts to make the station become a national green project.

In China Railway International Eco-City project, the company invested a total of nearly RMB340 million in scientific renovation to the rocky desertification area within the region. Up to now, it has completed artificial forest grass and vegetation planting of over 10,000 square meters, with 7.55 million planting seedlings accumulatively. It has restored vegetation area of more than 6,900 mu, and 80% of the rocky desertification land within the region has been effectively managed.

## V. Community Service

China Railway always insisted on the work principle of local corporate civilization and harmonious construction, widely supported the army and gave preferential treatment to the families of the armyman and martyrs, supported military police construction, offered volunteer services to gerocomium, hospital, street office, community, school and other local institutions, implementing its corporate citizenship responsibility by its actual deeds.

In 2016, the Company totally set up more than 900 volunteer service teams which offered volunteer services for 21,000 person times, and carried out various volunteer service activities for over 1,800 times. It vigorously carried forward the social morality, and actively built a harmonious society. CR4 (China Railway No. 4 Engineering Group Co., Limited) "small migratory bird" happy tour program and "road builder" volunteer service program won gold and silver awards in the 3rd Chinese youth volunteer service program competition in care for peasant workers' children.

In 2016, the Company donated the fund of more than RMB10 million for education, helped nearly 8,600 students, and supported educational institutions with more than RMB30 million; it invested over RMB80 million to other public welfare undertakings.

In 2016 G20 Summit period, CR2 (China Railway No. 2 Engineering Group Co., Ltd.) organized 9 young employees to form a "Small Pioneer" volunteer team, and carried out 11 days of volunteer service activities in Wenze Road of Hangzhou. They performed all-weather 24-hour uninterrupted patrol in four shifts, and took charge of Wenze Road safety and sanitation work to ensure the safe operation of Wenze Road Station.

## VI. Internal Control Supervision

In recent years, the Company continues to strengthen anti-corruption system construction and staff training, has established an independent audit department, strengthens the monitoring of each business, and actively creates a ”do not want to rot, can not rot, dare not rot” clean culture.

## VII. Improvement of Service Quality

In 2016, China Railway always insisted on the general idea of ”Ever Perfecting and Continuous Improvement” and adhered to people oriented concept to constantly improve its service quality in an attitude of highly responsible for the nation, the people and the corporate. At the same time, we fully protect the customer’s business sensitive information and personal privacy.

In project quality management, the Company seriously implemented ISO9000 system standard and Measures for Project Quality Supervision and Management, vigorously carried out QC activities, developed feasible quality plan, set up professional quality engineers and prepared special excellence programs to ensure the quality of excellence to achieve the goal.

In industrial equipment service, based on major project or product, the Company constantly enhanced pre-sale, sale and after-sale services. In addition, it went into the front line and work site to understand on-site demand, collect product feedback opinions in order to continuously improve its product and service quality and promote its management level.

In financial service, the Company cooperated with large financial institutions such as banks, insurance companies and trust securities to innovate and develop financial products by making full use of central enterprises’ financial resources and advantages of abundant high-quality assets so as to transform owner-related high-quality infrastructure investment into various financial products and introduce them to institutions and individual investors. At the same time, with the needs of owner development, it actively carried out the integration of industry and finance to lay a solid foundation for in-depth cooperation between enterprises and financial institutions.

In 2016, CREEG (China Railway Electrification Engineering Group) conscientiously did a good job to ensure the railway transport and management services in major festivals and important activities. Especially during the Hangzhou G20 Summit, it made great efforts to ensure smooth transport of a number of high-speed rails including Hangzhou-Huangshan High-speed Rail, Hangzhou-Changsha High-speed Rail and Hangzhou-Ningbo High-speed Rail, etc.

In 2016, supported by cloud computing platform and big data technology, China Railway Engineering Equipment Group Co., Ltd. established TBM optimization decision-making theory and intelligent control expert system. It actively built up an efficient and unified digital remote construction technology monitoring platform and collaborative design platform to achieve R&D data centralized management and sharing, thus greatly enhancing the quality of service.

China Railway Huida Insurance Broker Co., Ltd. has diversified and efficient underwriting services. It tailored insurance scheme for the insured to improve the cost performance of insurance premiums, reduce the insurance costs of the insured. In addition, it established a complete business chain service model. As of the end of 2016, the cumulative premium income was about RMB580 million.

## VIII. Continuous Promotion of Employment

China Railway always fulfills employment responsibility which is taken as one key content of its corporate social responsibility. In 2016, the Company strictly implemented the staff employment commitment of Collective Contract, making every endeavor to promote laid-off employees for re-employment. Every year, the Company will create and provide large amounts of new job positions for the society through receiving the graduates from junior college and technical secondary school, receiving demobilized armyman and introducing talents from HR market. In 2016, the Company received more than 9,702 new graduates from colleges and technical secondary schools, and was recognised by Military Demobilization Office of the State Council for its good reception work for demobilized army cadres.

In 2016, the Company provided employment opportunities for 1.8 million peasant workers. On the basis of vigorously promoting "Five Same" Management for peasant workers and staff, the Company dispatched political assistant to collaborative team for party-masses working and enhanced the team leader safety and quality responsibility system. It further intensified management, support and help to the front line peasant workers and took many measures to ensure it could pay wages to peasant workers on time in full. We adhere to the principle of equality of employment, prohibit the use of forced labor and child labor. Adhere to provide diversified development opportunities, staff will not be discriminated against by gender, race, religion, age and nationality.

In 2016, the Company strictly carried out Measures for Talent Introduction Management for talent introduction control. It organized human resources departments of its affiliated units to conduct graduates recruitment work for main specialties in Tongji University, Southwest Jiaotong University, Tianjin University and other colleges and universities, and a total of more than 400 excellent university graduates were recruited, adding fresh blood and reserve forces for the corporate.

## IX. Maintenance of Staff's Rights and Interests

China Railway paid high attention to maintenance of staff's rights and interests, and supported gender equality. Through signature of labor contract according to law, it established a scientific salary management system and maintained the staff's legal rights and interests.

### 1. Labor Contract Management

In 2016, the Company strictly implemented the national Labor Contract Law, and the signature rate of labor contract in the whole company reached 100%. Moreover, it strictly executed contract clauses; in addition, it earnestly implemented national laws and regulations on contract workers sent by corporate, strictly standardized management on contract workers sent by corporate, and effectively maintained the staff's legal rights and benefits. If the employee is unable to perform the job or seriously violates the rules of the company, both parties will terminate the labor contract.

### 2. Staff Salary Management

The Company built sound regular employee salary increase mechanism and income guarantee mechanism to ensure the staff salary could be paid on time in full so as to better benefit its staff by means of corporate development achievements. In 2016, the staff income growth could adapt to corporate economic benefit growth, and the level of staff income has steadily improved with the corporate development.

### 3. Staff Social Insurance Management

The Company protected legal social security rights and interests of the staff, supervised and urged member corporates to join in primary endowment insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for the staff. In addition, the Company actively implemented national requirements about industry and corporate social insurance to be listed into local management. In 2016, it vigorously standardized and boosted enterprise annuity management, supervised member corporates to establish annuity plan.

### 4. Democratic Rights of Staff

In 2016, the Company held the 2nd meeting of the Second Session of the Workers' Congress. In the congress, the labor union signed the 2016 Collective Contract with the Company on behalf of all employees; it insisted on the systems of workers' congress review of administrative work report, democratic appraisement to leaders, and staff proposal report, and further unblocked the channel for democratic participation, management and supervision.

### 5. Life Guarantee for Staff

In 2016, the Company carefully carried out Guidance to Staff Life Guarantee Work, further deepened the "three permissions and three preventions" commitments for staff care program and the activity of "warmth-delivery in two festivals" to help staff solve the difficulties. It totally inspected and reimbursed special fund of over RMB56.48 million for "three preventions" activity, and helped over 30,000 staff in difficulty. The company raised warmth-delivery fund of RMB165 million for "warmth-delivery in two festivals", visited over 250,000 staff, retirees, firstline staff and peasant workers, and granted autumn study aid payment of RMB7.50 million to help 3,933 children of the needy staff.

### 6. Staff Holiday System

The Company strictly complied with the national labor laws and regulations, carefully implemented the Regulation on Paid Annual Leave of Employees and various other holiday regulations. It paid remuneration and overtime salary to staff that worked on legal holidays, public holidays or work overtime according to national legal provisions.

## X. Promotion of Staff's Growth

China Railway strongly implemented the "Talent Corporate" strategy, treated the talents as the first corporate recourse, made effort to give priority to development of talent resources, give priority to adjustment of talent structure, give priority to talent investment and give priority to innovation of the talent system. The Company has a series of professional and technical staff promotion review committee in engineering, accounting, economic and political work which review the qualifications, for the application of the above series of senior professional and technical staff in accordance with the relevant provisions of the company.

In 2016, the Company formulated the China Railway "13th Five-Year" talent development plan and talent training program, in order to provide a blueprint and basis for further promotion of the strategy of talent thriving enterprises and creation of "eight talent teams". The Company's "national model of migrant workers", Xiaolin JU, was elected as the vice chairman of the National Federation of trade unions, the "national knowledge industry workers", Tiecheng DOU, was elected as the vice chairman of the Shaanxi Provincial Federation of trade unions.

In 2016, the Company organized Jinggangshan ideal and faith training class twice for leading cadres, theoretical training class twice for leading cadres, class for advanced studies twice for department leaders in SASAC branch of Party School of the CPC Central Committee to vigorously carry out the education on ideal and faith, party style and party discipline, political theory, and has trained 305 leaders at all levels. The Company has totally trained over 300,000 talents in all fields and promoted the substantially improvement of talent team in capacity and quality.

In 2016, the Company organized a company expert selection and recommendation meeting, carried out performance assessment for 40 appointed company experts in their terms, and added 32 company experts. Up to now, the company owns a total of 10 special-grade company experts and 72 company experts. By taking company experts as the main body, it actively performed high-level expert recommendation and selection work. In 2016, 8 people won Mao Yisheng Railway Engineer Awards, 6 people won Zhan Tianyou Railway Science and Technology Awards, 3 people won the title of national engineering survey and design master, of which, Hong Kairong from CRTG (China Railway Tunnel Group) won the honorary title of Zhan Tianyou Award, which was the second time for the Company to won this laurel after Academician Wang Mengshu. In 2016, a total of 173 professor-level senior engineers and 2,660 senior professional talents passed the assessment.

In 2016, the Company continued to carry out "3+1" order-oriented training work for international engineering reserve talent, and totally recruited 322 third-year students in 7 cooperative colleges and universities, an increase of 110 students over last year. At the same time, more than 200 college students graduated from the first international engineering class were assigned to various overseas projects to begin the actual practice. 50 young backbones who successfully graduated from the first China Railway International Engineering Seminar have completed full-time study of nearly 10 months. They have improved the level of foreign languages and become familiar with the international engineering contracts, laws, businesses, and management knowledge, laying a solid foundation for better participation in the development of international business in the future.

In 2016, the Company organized the appraisal and election of advanced collective and advanced individual in "advocating ideal, comparing contribution" activities. Five units won "advanced collective" honorary title, and 10 people won "advanced individual" honorary title, who were commended in the company science and technology meeting, thus further inspiring the enthusiasm of the majority of professional and technical personnel for innovation and benefit-making.

## XI. Improvement of Management System

China Railway is constantly taking "to maintain stable condition of safe production, to provide the society with safe and good-quality architectural products, to provide the public with pleasant environment and create safe and health working condition for the staff" as the most important aspect of its social responsibility. In the long-term construction production and project management process, China Railway formed a complete set of perfect safety management system, including the safe production responsibility system, prevention of major accidents, safety input, safety education, safety management and safety inspection, safety assessment, rewards and punishments and so on.

China Railway safety concept: Hidden dangers is more dangerous than open fire, prevention is better than disaster relief, and responsibility is extremely heavy.

Safety management policies: Safety first, prevention as the main and comprehensive management.

Safety management principles: Unified leadership, responsibility implementation, classification management and guidance, full participation.

Safety management objectives: Building of intrinsic safe enterprise.

In 2016, China Railway deeply carried out a series of important spirits about safe production work issued by Central Party and the State Council, and further perfected regulations on safety and quality management. It insisted on "Red Line" awareness and intensified "Zero Accident" concept. The Company studied and formulated the documents including Guidance Opinions on Further Strengthening the Construction of Team Leader Safety and Quality Responsibility System at Operation Level, Notice on Standardizing the Construction Management and Further Clarifying the Procedure Requirements for Important Event Reporting and Approval, Notice on Strengthening Safety Production Control to Investment Project". In addition, it further standardized construction and production behavior and effectively prevented and controlled safety and quality risk.

## XII. Implementation of Safeguard Measures

In 2016, the Company deployed and carried out a two-year violation rectification action, put forward 12 specific safeguard measures, and consolidated the basis of safety and quality management. The Company also organized relevant experts to carry out safety production inspection in the first and second half years, respectively. By taking tunnel and underground engineering project, large temporary facilities, support system, mechanical equipment operation, site inertial "Three Violations", subcontracting on-site control as key inspection points to conduct onsite safety and quality inspection to the construction of tunnels, subways, shields, and operational lines of key projects under construction, as well as cross-road railway cast-in-place continuous beam, prefabricated beam erection, high-filled (digged) roadbed, bridge and subgrade accessory works, girder fabrication field and prefabricated field, mixing station and other working points.

In 2016, the Company compiled the "Manual of Standardization to Subway Construction Operation of China Railway", and vigorously promoted the standardized operation for subway construction and shield machine maintenance management as well as standardized management for shield measurement. At the same time, it boosted the safety production information construction and safety and quality standardization management to its affiliated construction enterprises.

In 2016, CR4 (China Railway No. 4 Engineering Group Co., Ltd.) vigorously promoted the safety and quality technicalization and informatization management, and further optimized and improved the information system for safety and quality hidden danger identification, and carried out a pilot in engineering projects for promotion, having received good results. In the meanwhile, CR4 has conducted 6 safety and quality training and review classes for "three categories of personnel", and 10 safety supervisor and safety and quality director certification classes, laying a foundation for safety production.

In 2016, CR7 (China Railway No. 7 Engineering Group Co., Ltd.) strengthened the safety management model of regional responsibility, system supervision, and integration of departments and regions at different levels. It took "zero violation in operation, zero tolerance to hidden danger" as the red line for control, and took "zero death, zero project accident" as the bottom work line to define three-level safety objectives in order to achieve full coverage and no dead zone in the safety and quality process control, and zero omission and no dead space in the safety and quality supervision and management so as to achieve zero safety accident.

## XIII. Guarantee of Occupational Health

In 2016, China Railway seriously organized the implementation of the Law of the People's Republic of China on Prevention and Control of Occupational Diseases (revised in 2016), adhered to doing occupational health work in accordance with the laws and regulations by taking "occupational hazard pre-evaluation in construction project, conducting of occupational injury insurance, overall occupational health education and training, informing of occupational hazards, improvement of health examination record, allocation of qualified labor protection products, and strengthening of process supervision and inspection" as the main measures to vigorously promote the occupational health management to front-line (factory) projects. The Company carried out various safety educations and trainings as well as activities for 21,800 times with 282,326 person-time of staff who received education and assessment, thus enhancing the occupational health and health protection awareness of front-line operators.

The Company further perfected staff health record, regularly organized staff physical examination, conducted occupational injury insurance for the staff, carried out health lectures so as to lead staff and enterprises to control the occupational hazard source and actively carry out scientific prevention and treatment to occupational hazard by cooperating with related departments. On the construction site, the Company continued to increase fund investment, improved staff's working conditions, constantly improved the site dustproof, noise reduction and safety facilities, enhanced the inspection and governance of all hazardous gas, dust, noise in the workshop, provided the personnel with working protection facilities and personal protecting devices that meet the safety and sanitation standards, maximally minimized the occupational hazards, and actively created a safe, clean, comfortable and harmonious working environment for the staff.

CRFG (China Railway First Group Co., Ltd.) insisted on promoting the front-line psychological counseling services. In 2016 it newly educated 337 full-time and part-time psychological counselors, established 298 psychological counseling rooms, conducted 224 psychological counseling seminars, and a total of nearly 8,000 employees received psychological counseling.

BRDI (China Railway Major Bridge Reconnaissance & Design Institute Co., Ltd.) organizes regular staff physical examination, female workers examination and two cancers screening every year, on the basis of which, it targeted to invite relevant experts to the company to teach and answer questions about health problems concerned about by the staff, in the meanwhile, it strengthened the care to female workers. Moreover, it launched 3 mummy cabins to provide services for female workers in special period.

## XIV. Promotion of Industrial Cooperation

In 2016, the Company actively pushed forward industrial cooperation in high-speed rail, infrastructure construction, financial service and building materials. In the field of high-speed rail construction, the Company carried out strategic cooperation in talent cultivation and technology sharing with Beijing Jiaotong University, East China Jiaotong University and other colleges and universities; in addition, it established strategic cooperation relationship with Chinese electronics and other industrial chain-related enterprises to jointly promote China's high-speed rail development. In infrastructure construction filed, the Company carried out strategic cooperation with large-scale corporates such as Fuzhou Metro, Shandong Hi-speed Group and Tangshan Jingtang Railway Company to actively take part in domestic infrastructure investment and construction. In financial service field, the Company actively carried out cooperation with BRICS New Development Bank, China Government and Enterprise Cooperation Investment Funds and Everbright Securities to innovate investment and financing mode and set up complete business chains. In the cooperation with suppliers, it carried out multi-aspect deep-level cooperation with a variety of suppliers in product development, technological innovation, product optimization, resource integration, information sharing and other aspects to achieve a harmonious win-win situation and value sharing. In 2016, it signed strategic procurement framework agreements with a total of 129 suppliers to provide a strong guarantee for project quality. At the same time, we also continue to strengthen the supply chain management, in order to maintain the fair supply chain as the basic requirements, and constantly monitor their integrity, product quality, safety, environmental protection and other aspects of performance.

In 2016, China Railway deepened cooperation with Everbright Securities. They played their advantages in urban construction and financial services, and jointly provided comprehensive urban construction solutions to Hangzhou, Shaoxing, Heze and other cities, involving major urban infrastructure, subway, municipal facilities, modern transportation network and water conservancy and environmental protection, etc.

In 2016, the Company achieved centralized material procurement and supply for petrochemical products in 1,059 projects accumulatively, and supplied petrochemical products of 470,000 tons to ensure product quality and reduce procurement cost. At the same time, it improved the quality of engineering machinery oil to minimize the environmental pollution.

In 2016, through strategic cooperation with JD.com on office supplies, the Company completed 12,118 on-line centralized procurement orders for offce supplies with the volume of transactions of RMB23.64 million.

## XV. Harmonious Media Relations

Over the years, China Railway maintained good relations with various social media. Through holding press conferences, inviting media to attend important enterprise meetings, organizing and reporting opening and completion ceremonies of important project, opening up column in media and holding forum and training courses, the company enhanced the communication with the media, promoted work, released information and received media's supervision.

In 2016, Xinhua News Agency, CCTV, People's Daily, Guangming Daily, Economic Daily, Science and Technology Journal, the China Securities, Shanghai Securities, Securities Daily, Securities Times, Xinhua Net, People's Net, Phoenix TV and other media have issued more than 100,000 pieces of information.

## XVI. Characteristic Corporate Media

In 2016, the Company continued to strengthen the daily management and operation of corporate newspapers, websites, microblog, WeChat and other media, on the basis of which, it launched China Railway new official website. China Railway official WeChat won "The Most Influential Central Enterprise News Media Award", "The Most Influential Top 500 Companies" News Media Award, Tencent Most Valuable Enterprise Award and other honors.

In 2016, the Company actively participated in the CCTV feature program production, and received overwhelming response after broadcast, including Great Craftsman in Big Country, Chinese World, Community of Common Destiny, Homeland Dreamland, China's Mega Project, China Railway High-speed Rail, etc.; it launched a series of cultural works such as "The Most Beautiful Happiness", "Golden Road Impression – Excellent Photography Collection", "Thriving Enterprise by Culture".

**TO THE SHAREHOLDERS OF CHINA RAILWAY GROUP LIMITED**
*(incorporated in the People's Republic of China with limited liability)*

## Opinion

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 98 to 222, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Revenue from construction contracts** | |
| We identified the revenue from construction contracts as set out in Note 5 to the consolidated financial statements as a key audit matter due to the fact that the accounting treatments of which require significant estimations made by the management.<br><br>Referring to Note 3 and Note 4(a) to the consolidated financial statements, the Group's revenue from construction contract is recognised under the percentage of completion method when the outcome of a construction contract can be estimated reliably.<br><br>The Group's management estimates the total contract revenue and total contract costs at the beginning for each contract and, through regular review, revises the estimates when the management considers there are change in the assumptions in deriving the estimates throughout the contract period. | Our procedures in relation to revenue recognition on construction contracts included:<br><br>• Testing the key internal controls in place on budget preparation and revenue recognition of the construction contracts;<br><br>• Checking the data calculation accuracy on percentage of completion of the construction contracts by reference to construction contract ledger;<br><br>• Evaluating management's basis in determining the total contract revenue and total contract costs and checking to the construction contracts and the respective budget for the construction contracts on a sample basis;<br><br>• Checking construction costs incurred during the year by tracing to supporting documentation on a sample basis; and<br><br>• Visiting the selected sites of construction contracts to observe the progress of the construction work, discussing with the site project managers the extent to which the construction work was completed. |

## Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Recoverability of trade receivables** | |
| We identified the recoverability of trade receivables as a key audit matter due to the fact that its significance to the consolidated statement of financial position and the accounting treatments of which are all subject to management's estimates and judgements.<br><br>The management identifies the objective evidences of impairment and evaluates the present value of the underlying future cash flows from recovering of these receivables for impairment assessment purpose. Details of the key estimation uncertainty of trade receivables are set out in Note 4(b) to the consolidated financial statements. | Our procedures in relation to the recoverability of trade receivables included:<br><br>• Testing the key internal controls over the management's assessment on the recoverability of trade receivables;<br><br>• Corroborating the relevant consideration and objective evidences employed by the management's assessment on the recoverability of trade receivables;<br><br>• For significant trade receivables individually assessed to be impaired, reviewing the supporting documentation for the estimated future cash flows on a sample basis;<br><br>• For trade receivables assessed to be impaired by reference to the credit risk characteristics, assessing the reasonableness of the management's assessment on impairment with reference to the credit risk characteristics and aging analysis;<br><br>• Testing the cash collections subsequent to end of the reporting period on a sample basis. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yam Siu Man.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

30 March 2017

# • CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the Year Ended 31 December 2016*

| | NOTES | 2016 RMB million | 2015 RMB million |
|---|---|---|---|
| Revenue | 5 & 6 | **632,856** | 599,942 |
| Cost of sales and services | | **(583,067)** | (551,256) |
| Gross profit | | **49,789** | 48,686 |
| Other income | 7 | **1,855** | 2,475 |
| Other expenses | 7 | **(10,417)** | (10,281) |
| Other gains and losses | 8 | **630** | (1,088) |
| Selling and marketing expenses | | **(2,560)** | (2,342) |
| Administrative expenses | | **(17,680)** | (17,509) |
| Interest income | 9 | **2,197** | 3,012 |
| Interest expenses | 9 | **(5,774)** | (6,184) |
| Share of profits of joint ventures | | **118** | 88 |
| Share of profits of associates | | **614** | 160 |
| Profit before tax | | **18,772** | 17,017 |
| Income tax expense | 10 | **(6,069)** | (5,231) |
| Profit for the year | 11 | **12,703** | 11,786 |
| **Other comprehensive income (expense), net of income tax** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Remeasurement of defined benefit obligations | | **(24)** | (159) |
| Income tax relating to remeasurement of defined benefit obligations that will not be reclassified | | **8** | 36 |
| | | **(16)** | (123) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | | **548** | 120 |
| Fair value (loss) gain on available-for-sale financial assets | | **(141)** | 157 |
| Reclassification adjustments for the cumulative gain included in profit or loss upon disposal of available-for-sale financial assets | | **(23)** | (76) |
| Fair value gain (loss) on cash flow hedging instrument | | **8** | (3) |
| Income tax relating to items that may be reclassified subsequently | | **31** | (29) |
| | | **423** | 169 |
| Other comprehensive income for the year, net of income tax | | **407** | 46 |
| Total comprehensive income for the year | | **13,110** | 11,832 |

*For the Year Ended 31 December 2016*

| | NOTES | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|---|
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **11,808** | 11,675 |
| Holders of perpetual notes | *34* | **701** | 583 |
| Non-controlling interests | | **194** | (472) |
| | | **12,703** | 11,786 |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **12,141** | 11,716 |
| Holders of perpetual notes | *34* | **701** | 583 |
| Non-controlling interests | | **268** | (467) |
| | | **13,110** | 11,832 |
| | | **RMB** | RMB |
| Earnings per share | | | |
| Basic | *14* | **0.517** | 0.530 |

# • CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2016*

| | NOTES | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **54,778** | 51,765 |
| Deposits for acquisition of property, plant and equipment | | **1,429** | 1,280 |
| Lease prepayments | 16 | **11,986** | 9,290 |
| Deposits for land use rights | | **99** | 1,251 |
| Deposits for investments | 17 | **2,012** | – |
| Investment properties | 18 | **4,547** | 3,722 |
| Intangible assets | 19 | **36,821** | 37,547 |
| Mining assets | 20 | **4,664** | 5,454 |
| Interests in joint ventures | 21 | **5,524** | 2,640 |
| Interests in associates | 22 | **5,958** | 5,249 |
| Goodwill | 23 | **829** | 829 |
| Available-for-sale financial assets | 24 | **12,896** | 8,351 |
| Other loans and receivables | 25 | **6,976** | 8,813 |
| Deferred tax assets | 40 | **5,258** | 4,367 |
| Other prepayments | | **212** | 209 |
| Trade and other receivables | 28 | **5,209** | 7,137 |
| | | **159,198** | 147,904 |
| **Current assets** | | | |
| Lease prepayments | 16 | **239** | 192 |
| Properties held for sale | 26 | **23,315** | 28,205 |
| Properties under development for sale | 26 | **60,962** | 66,064 |
| Inventories | 27 | **28,737** | 30,110 |
| Available-for-sale financial assets | 24 | **1,210** | 3,886 |
| Trade and other receivables | 28 | **234,229** | 206,253 |
| Amounts due from customers for contract work | 29 | **111,791** | 122,379 |
| Current income tax recoverable | | **807** | 1,030 |
| Other loans and receivables | 25 | **9,650** | 6,620 |
| Held-for-trading financial assets | 30 | **123** | 144 |
| Restricted cash | 31 | **9,254** | 7,414 |
| Cash and cash equivalents | 32 | **114,830** | 93,304 |
| | | **595,147** | 565,601 |
| **Total assets** | | **754,345** | 713,505 |
| **EQUITY** | | | |
| Share capital | 33 | **22,844** | 22,844 |
| Share premium and reserves | | **105,287** | 95,456 |
| Equity attributable to owners of the Company | | **128,131** | 118,300 |
| Perpetual notes | 34 | **12,038** | 12,123 |
| Non-controlling interests | | **8,827** | 8,815 |
| Total equity | | **148,996** | 139,238 |

*At 31 December 2016*

| | NOTES | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Other payables | 35 | 686 | 631 |
| Borrowings | 36 | 92,308 | 96,213 |
| Obligations under finance leases | 37 | 42 | 492 |
| Retirement and other supplemental benefit obligations | 38 | 3,453 | 3,779 |
| Provisions | 39 | 335 | 248 |
| Deferred government grant and income | | 1,140 | 1,537 |
| Deferred tax liabilities | 40 | 782 | 920 |
| | | 98,746 | 103,820 |
| **Current liabilities** | | | |
| Trade and other payables | 35 | 407,418 | 365,245 |
| Amounts due to customers for contract work | 29 | 12,952 | 14,857 |
| Current income tax liabilities | | 5,129 | 4,065 |
| Borrowings | 36 | 80,017 | 84,209 |
| Obligations under finance leases | 37 | 451 | 1,346 |
| Retirement and other supplemental benefit obligations | 38 | 466 | 494 |
| Provisions | 39 | 13 | 46 |
| Held-for-trading financial liabilities | 30 | 157 | 185 |
| | | 506,603 | 470,447 |
| **Total liabilities** | | 605,349 | 574,267 |
| **Total equity and liabilities** | | 754,345 | 713,505 |
| **Net current assets** | | 88,544 | 95,154 |
| **Total assets less current liabilities** | | 247,742 | 243,058 |

The consolidated financial statements on pages 98 to 222 were approved and authorised for issue by the board of directors on 30 March 2017 and are signed on its behalf by:

**LI Changjin**
*DIRECTOR*

**YAO Guiqing**
*DIRECTOR*

# • CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the Year Ended 31 December 2016*

| | Equity attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB million *(Note 33)* | Share premium RMB million | Capital reserve RMB million *(note (b))* | Statutory reserve RMB million *(note (a))* | Foreign currency translation reserve RMB million | Investment revaluation reserve RMB million | Retained profits RMB million | Total RMB million | Perpetual notes RMB million *(Note 34)* | Non-controlling interests RMB million | Total RMB million |
| At 1 January 2015 | 21,300 | 33,647 | (3,230) | 12,154 | (643) | 546 | 31,696 | 95,470 | 3,080 | 10,344 | 108,894 |
| Profit for the year | – | – | – | – | – | – | 11,675 | 11,675 | 583 | (472) | 11,786 |
| Other comprehensive income (expense) for the year | – | – | (123) | – | 77 | 87 | – | 41 | – | 5 | 46 |
| Total comprehensive income (expense) for the year | – | – | (123) | – | 77 | 87 | 11,675 | 11,716 | 583 | (467) | 11,832 |
| Dividend declared to non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | – | (347) | (347) |
| Acquisition of subsidiaries *(Note 41)* | – | – | – | – | – | – | – | – | – | 100 | 100 |
| Acquisition of additional interests in subsidiaries | – | – | (109) | – | – | – | – | (109) | – | (90) | (199) |
| Capital contribution from non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | – | 90 | 90 |
| Disposal of partial interests in subsidiaries without losing control | – | – | 620 | – | – | – | – | 620 | – | 127 | 747 |
| Disposal of subsidiaries *(Note 42)* | – | – | – | – | – | – | – | – | – | (942) | (942) |
| Non-proportional capital contribution from other shareholders of an associate | – | – | 345 | – | – | – | – | 345 | – | – | 345 |
| Dividend recognised as distribution *(Note 13)* | – | – | – | – | – | – | (1,661) | (1,661) | – | – | (1,661) |
| Issuance of perpetual notes *(Note 34)* | – | – | – | – | – | – | – | – | 8,958 | – | 8,958 |
| Issuance of shares upon non-public offering (Note 33) | 1,544 | 10,456 | – | – | – | – | – | 12,000 | – | – | 12,000 |
| Share issuance expenses | – | (121) | – | – | – | – | – | (121) | – | – | (121) |
| Dividend declared to perpetual notes holders | – | – | – | – | – | – | – | – | (498) | – | (498) |
| Transfer to reserves *(note (a))* | – | – | – | 3,078 | – | – | (3,078) | – | – | – | – |
| Others | – | – | 40 | – | – | – | – | 40 | – | – | 40 |
| At 31 December 2015 | 22,844 | 43,982 | (2,457) | 15,232 | (566) | 633 | 38,632 | 118,300 | 12,123 | 8,815 | 139,238 |
| Profit for the year | – | – | – | – | – | – | 11,808 | 11,808 | 701 | 194 | 12,703 |
| Other comprehensive income (expense) for the year | – | – | (16) | – | 492 | (143) | – | 333 | – | 74 | 407 |
| Total comprehensive income (expense) for the year | – | – | (16) | – | 492 | (143) | 11,808 | 12,141 | 701 | 268 | 13,110 |
| Dividend declared to non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | – | (599) | (599) |
| Acquisition of subsidiaries *(Note 41)* | – | – | – | – | – | – | – | – | – | 46 | 46 |
| Capital contribution from non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | – | 290 | 290 |
| Disposal of subsidiaries *(Note 42)* | – | – | – | – | – | – | – | – | – | 7 | 7 |
| Reclassification of previously recognised non-proportional capital contribution from other shareholders of an associate to profit or loss on disposal | – | – | (345) | – | – | – | – | (345) | – | – | (345) |
| Dividend recognised as distribution *(Note 13)* | – | – | – | – | – | – | (1,965) | (1,965) | – | – | (1,965) |
| Dividend declared to perpetual notes holders | – | – | – | – | – | – | – | – | (786) | – | (786) |
| Transfer to reserves *(note (a))* | – | – | – | 3,890 | – | – | (3,890) | – | – | – | – |
| At 31 December 2016 | 22,844 | 43,982 | (2,818) | 19,122 | (74) | 490 | 44,585 | 128,131 | 12,038 | 8,827 | 148,996 |

*For the Year Ended 31 December 2016*

*Notes:*

(a) *The statutory reserves comprise:*

| | Statutory surplus reserve RMB million | Trust compensation reserve RMB million | General risk reserve RMB million | Total RMB million |
|---|---|---|---|---|
| At 1 January 2015 | 11,417 | 259 | 478 | 12,154 |
| Transfer from retained profits | 2,614 | 97 | 367 | 3,078 |
| At 31 December 2015 | 14,031 | 356 | 845 | 15,232 |
| Transfer from retained profits | 3,390 | 137 | 363 | 3,890 |
| At 31 December 2016 | 17,421 | 493 | 1,208 | 19,122 |

*The statutory reserves comprise principally the statutory surplus reserve. According to the relevant laws and regulations of the People's Republic of China (the "PRC"), an entity established under the PRC Company Law is required to make an appropriation at 10 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 reaches 50 percent of the registered capital of that entity. The statutory reserve can only make up losses or use to increase the registered capital of that entity and is not distributable.*

(b) *The balance of capital reserve mainly comprises the difference between the par value of the 12.8 billion ordinary shares issued and the carrying value of the principal operations and businesses transferred to China Railway Group Limited (the "Company") as part of the reorganisation in September 2007, capital contribution by China Railway Engineering Corporation ("CRECG") as an equity participant, certain items dealt with directly in the capital reserve of the Company and its subsidiaries (collectively referred to as the "Group") in the Company's statutory consolidated financial statements prepared in accordance with the relevant PRC accounting standards, reserve generated from the acquisition of subsidiaries under common control and the actuarial gains or losses arising from the remeasurement of defined benefit obligations.*

# • CONSOLIDATED STATEMENT OF CASH FLOWS

*For the Year Ended 31 December 2016*

| | NOTES | 2016 RMB million | 2015 RMB million |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | **12,703** | 11,786 |
| Adjustments for: | | | |
| Income tax | | **6,069** | 5,231 |
| Interest income | | **(2,197)** | (3,012) |
| Dividend income from unlisted investments | | **(127)** | (184) |
| (Gains) losses on disposal and/or write-off of: | | | |
| Property, plant and equipment | | **(125)** | (91) |
| Land use rights | | **(444)** | (82) |
| Available-for-sale financial assets | | **(67)** | (93) |
| Investment properties | | **(38)** | (3) |
| Interests in associates | | **1** | (1) |
| Interests in a joint venture | | **5** | (3) |
| Subsidiaries | *42* | **(427)** | (83) |
| Foreign exchange losses, net | | **305** | 65 |
| Fair value decrease (increase) on held-for-trading financial assets/ liabilities | | **80** | (3) |
| Waiver of trade and other payables | | **(71)** | (33) |
| Excess of fair value of the previously-held investment | *41* | **–** | (5) |
| Bargain purchase gain on acquisition | *41* | **–** | (8) |
| Impairment losses recognised on: | | | |
| Trade and other receivables | | **958** | 1,897 |
| Other loans and receivables | | **352** | 562 |
| Interests in associates | | **345** | 308 |
| Available-for-sale financial assets | | **263** | 18 |
| Recognition of expected losses on construction contracts | | **150** | 76 |
| Inventories | | **6** | 17 |
| Mining assets | | **565** | 401 |
| Properties held for sale | | **872** | 166 |
| Properties under development for sale | | **192** | 13 |
| Land use rights | | **8** | – |
| Investment properties | | **27** | – |
| Property, plant and equipment | | **142** | 12 |
| Unrealised profit from internal sales to associates | | **3** | 28 |
| Interest expenses | | **5,774** | 6,184 |
| Share of profits of joint ventures | | **(118)** | (88) |
| Share of profits of associates | | **(614)** | (160) |
| Charge to retirement benefit obligations | | **114** | 135 |
| Government grants credited to income | | **(421)** | (440) |
| Depreciation and amortisation | | **8,761** | 7,813 |
| Operating cash flows before movements in working capital | | **33,046** | 30,423 |
| Movements in working capital: | | | |
| Increase in other prepayments | | **(111)** | (7) |
| Decrease (increase) in properties held for sale | | **2,457** | (6,098) |
| Decrease in properties under development for sale | | **4,032** | 11,282 |
| Decrease in inventories | | **1,358** | 14,900 |
| (Increase) decrease in trade and other receivables | | **(26,749)** | 12,653 |
| Decrease (increase) in amounts due from customers for contract work | | **10,438** | (27,795) |
| Decrease in retirement and other supplemental benefit obligations | | **(492)** | (544) |
| Increase in trade and other payables | | **40,704** | 8,444 |
| Increase in other loans and receivables arising from consolidated structured entities | | **(1,025)** | (714) |
| Increase in payables arising from consolidated structured entities | | **631** | 1,488 |
| Decrease in amounts due to customers for contract work | | **(1,905)** | (6,100) |
| Increase (decrease) in provisions | | **54** | (224) |
| Increase in government grants for operating expenses | | **383** | 419 |
| Decrease (increase) in held-for-trading financial assets | | **17** | (50) |
| Decrease in held-for-trading financial liabilities | | **(96)** | (104) |
| Decrease in amounts due from central bank | | **100** | 90 |
| Increase in loans to customers | | **(1,100)** | (488) |
| Decrease in amount due to customers of China Railway Finance Co., Ltd. | | **(1,484)** | (1,317) |
| Net cash inflows from operations | | **60,258** | 36,258 |
| Income tax paid | | **(5,763)** | (5,701) |
| **Net cash from operating activities** | | **54,495** | 30,557 |

*For the Year Ended 31 December 2016*

| | NOTES | 2016 RMB million | 2015 RMB million |
|---|---|---|---|
| **Investing activities** | | | |
| Additions of property, plant and equipment | | **(9,675)** | (6,710) |
| Deposits for acquisition of property, plant and equipment | | **(1,249)** | (2,127) |
| Government grants received for acquisition of property, plant and equipment | | **98** | 6 |
| Disposal of property, plant and equipment | | **1,218** | 760 |
| Deposits paid for land use rights | | **(37)** | (1,110) |
| Deposits paid for investments | | **(2,012)** | – |
| Additions of land use rights | | **(1,642)** | (568) |
| Disposal of land use rights | | **629** | 198 |
| Additions of investment properties | | **(6)** | (4) |
| Disposal of investment properties | | **41** | 4 |
| Additions of intangible assets | | **(150)** | (3,616) |
| Disposal of intangible assets | | **18** | 139 |
| Additions of mining assets | | **(31)** | (770) |
| Disposal of mining assets | | **–** | 52 |
| Acquisition of subsidiaries | *41* | **(1)** | (1,550) |
| Disposal of subsidiaries | | **2,414** | 93 |
| Investments in joint ventures | | **(2,918)** | (523) |
| Disposal of investments in joint ventures | | **1** | 11 |
| Investments in associates | | **(843)** | (976) |
| Disposal of investments in associates | | **5** | 11 |
| Purchase of available-for-sale financial assets | | **(10,167)** | (8,196) |
| Disposal of available-for-sale financial assets | | **7,350** | 6,635 |
| New other loans and receivables | | **(3,566)** | (6,305) |
| Repayment of other loans and receivables | | **3,151** | 5,830 |
| Interests received | | **1,498** | 1,652 |
| Dividends received from joint ventures and associates | | **209** | 158 |
| Dividends received from other financial assets | | **127** | 183 |
| Decrease in restricted cash | | **8,536** | 8,652 |
| Increase in restricted cash | | **(10,476)** | (7,481) |
| Net cash used in investing activities | | **(17,478)** | (15,552) |
| **Financing activities** | | | |
| Capital contributions from non-controlling shareholders of subsidiaries | | **290** | 90 |
| New proceeds from issue of debentures | | **9,589** | 3,991 |
| Repayment of debentures | | **(13,531)** | (3,300) |
| New bank borrowings | | **77,859** | 95,847 |
| Repayment of bank borrowings | | **(78,204)** | (95,659) |
| New other borrowings | | **6,050** | 8,916 |
| Repayment of other borrowings | | **(4,914)** | (8,665) |
| Interests paid | | **(8,430)** | (10,241) |
| Repayments of obligations under finance leases | | **(1,346)** | (756) |
| Sale and leaseback of property, plant and equipment | | **74** | – |
| Dividends paid to non-controlling shareholders of subsidiaries | | **(533)** | (249) |
| Dividends paid to owners of the Company | | **(1,965)** | (1,661) |
| Dividends paid to holders of perpetual notes | | **(709)** | (290) |
| Issuance of shares upon non-public offering | | **–** | 12,000 |
| Share issuance expenses | | **–** | (121) |
| Disposal of partial interests in subsidiaries | | **–** | 747 |
| Acquisition of additional interest in subsidiaries | | **–** | (153) |
| Issue of perpetual notes | | **–** | 8,958 |
| Payment of deferred underwriting fee of issuing debentures | | **–** | (30) |
| **Net cash (used in) generated from financing activities** | | **(15,770)** | 9,424 |
| **Net increase in cash and cash equivalents** | | **21,247** | 24,429 |
| **Effect of foreign exchange rate changes** | | **279** | 196 |
| **Cash and cash equivalents at the beginning of the year** | *32* | **93,304** | 68,679 |
| **Cash and cash equivalents at the end of the year** | *32* | **114,830** | 93,304 |

# • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2016*

## 1. General Information

The Company was established in the PRC on 12 September 2007 as a joint stock company with limited liability, as part of the group reorganisation ("Reorganisation") of CRECG in preparation for the listing of the Company's A shares on Shanghai Stock Exchange and H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE"). The address of the Company's registered office is 918, Block 1, No.128 South 4th Ring Road West, Fengtai District, Beijing, the PRC. The Company's ultimate holding company is CRECG, established in the PRC.

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

The Group are principally engaged in infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, property development, mining and merchandise trading, financial trust management, comprehensive financial services and insurance agent.

## 2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs")

In the current year, the Group has applied, for the first time, the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

| | |
|---|---|
| Amendments to IFRS 11 | *Accounting for Acquisitions of interest in Joint Operations* |
| Amendments to IAS 1 | *Disclosure Initiative* |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Amendments to IAS 16 and IAS 41 | *Agriculture: Bearer Plants* |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | *Investment Entities: Applying the Consolidation Exception* |
| Amendments to IFRSs | *Annual Improvements to IFRSs 2012–2014 Cycle* |

Except as described below, the application of the amendments to IFRSs in the current year have had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Amendments to IAS 1 Disclosure Initiative

The Group has applied the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material and reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

## 2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") (continued)

### Amendments to IAS 1 Disclosure Initiative (continued)

The Group has applied these amendments retrospectively. The ordering of capital management and financial instruments have been revised to give prominence to the areas of the Group's financial performance and financial position. Specifically, information to capital management and financial instruments was reordered to note 45. Other than the above disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | *Financial Instruments*[1] |
| IFRS 15 | *Revenue from Contracts with Customers and the related Amendments*[1] |
| IFRS 16 | *Leases*[2] |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to IAS 7 | *Disclosure Initiative*[4] |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses*[4] |
| Amendments to IAS 40 | *Transfers of Investment Property*[1] |
| Amendments to IFRSs | *Annual Improvements to IFRS Standards 2014–2016 Cycle*[5] |

[1] *Effective for annual periods beginning on or after 1 January 2018*
[2] *Effective for annual periods beginning on or after 1 January 2019*
[3] *Effective for annual periods beginning on or after a date to be determined*
[4] *Effective for annual periods beginning on or after 1 January 2017*
[5] *Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate*

Except as described below, the application of the new and amendments to IFRSs in the current year will have no material impact on the Group's financial performance and positions and/or on the disclosures set out in these consolidated financial statements.

## 2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") (continued)

### IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurements of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

## 2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") (continued)

### IFRS 9 Financial Instruments (continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2016:

Application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

The directors of the Company (the "Directors") anticipate that the application of new hedging requirements may not have a material impact on the Group's current designation and hedge accounting.

### IFRS 15 Revenue from Contracts with Customers and the related Amendments

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported as timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

## 2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") (continued)

### IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB747 million as disclosed in Note 44. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

## 3. Principal Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

# 3. Principal Accounting Policies (continued)

## Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# 3. Principal Accounting Policies (continued)

## Basis of consolidation (continued)

**Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

## Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets and liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

## 3. Principal Accounting Policies (continued)

### Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of associates and joint ventures is described below.

### Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

## 3. Principal Accounting Policies (continued)

### Investments in associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether there are any indication that the Group's investment in an associate or a joint venture may be impaired. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss is recognised in profit or loss and forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement of the previously held interest or the retained interest to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

## 3. Principal Accounting Policies (continued)

### Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's policy. 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 their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

## 3. Principal Accounting Policies (continued)

### Property, plant and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Property held for sale is transferred to owner-occupied property when there is a change in use evidenced by the commencement of owner occupation.

### Investment properties

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

Investment properties are initially 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 recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

Investment property is transferred to owner-occupied property when there is a change in use as evidenced by the commencement of owner occupation.

Owner-occupied property is transferred to investment property when there is a change in use as evidenced by end of owner occupation.

Property held for sale is transferred to investment property when there is a change in use evidenced by the commencement of an operating lease.

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 the disposal. 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 profit or loss in the period in which the property is derecognised.

## 3. Principal Accounting Policies (continued)

### Intangible assets

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at an amount equals to the fair value of the consideration for provision of construction service upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation of service concession arrangement in relation to the toll road operations is calculated to write off their cost, over their expected useful lives or the remaining concession period, whichever is the shorter, commencing from the date of commencement of commercial operation of the toll roads, based on a units-of-usage basis, which is the ratio of actual traffic volume compared to the total expected traffic volume of the toll roads as estimated by the management or by reference to traffic projection reports prepared by independent traffic consultants. Amortisation of service concession arrangement in relation to other constructions is provided on a straight-line basis over their estimated concession lives.

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, if any. Amortisation is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

An internally-generated intangible asset arising from development activities is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

## 3. Principal Accounting Policies (continued)

### Mining assets

**Exploration and evaluation assets**

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any identified impairment loss.

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. An impairment loss is recognised in profit and loss.

When the technical feasibility and commercial viability of extracting a mineral resource become demonstrable and the mining rights are obtained, any previously recognised exploration and evaluation assets are reclassified as mining rights or property, plant and equipment, as appropriate. Exploration and evaluation assets are assessed for impairment and any impairment loss is recognised before reclassification.

**Mining rights**

Mining rights acquired separately are initially measured at cost. Mining rights are reclassified from exploration and evaluation assets at the carrying amount when the technical feasibility and commercial viability of extracting mineral resources are demonstrable. Mining rights with finite useful lives are carried at costs less accumulated amortisation and any identified impairment loss. Amortisation for mining rights with finite useful lives is provided using the unit of production method based on the actual production volume over the estimated total proved and probable reserves of the ores mines.

### Construction contract

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative 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 the amount can be measured reliably and its receipt is considered probable.

When 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.

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

# 3. Principal Accounting Policies (continued)

## Construction contract (continued)

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.

When 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 statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

## Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out, weighted average or specific identification method for inventories with a different nature or use. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## 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.

## Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

## 3. Principal Accounting Policies (continued)

### Financial instruments (continued)

**Financial assets (continued)**

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

Held-for-trading financial assets (including derivatives that are not designated and effective as a hedging instrument) are measured at fair value, with changes in fair value arising from remeasurement 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 and is included in the other gains and losses line item in the consolidated statement of profit or loss and other comprehensive income.

*(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. Subsequent to initial recognition, loans and receivables (including trade and other receivables, other loans and receivables, restricted cash and cash and cash equivalents as shown in the consolidated statement of financial position) 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 considered to be 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 financial asset's 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 reorganisation. 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) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of the reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to 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. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss 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.

## 3. Principal Accounting Policies (continued)

### Financial instruments (continued)

**Financial assets (continued)**

*(iii) Available-for-sale financial assets (continued)*

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 are measured at cost less any identified impairment losses at the end of the reporting period. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is considered to be 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 be reversed in subsequent periods.

*Effective interest method*

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, to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at fair value through profit or loss, of which interest income is included in other gains and losses.

**Financial liabilities and equity instruments**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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 recognised at the proceeds received, net of direct issue costs.

The Group's financial liabilities are generally classified into held-for-trading financial liabilities and other financial liabilities.

*Held-for-trading financial liabilities*

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Held-for-trading financial liabilities 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 interest paid on the financial liabilities and is included in the other gains and losses line item in the consolidated statement of profit or loss and other comprehensive income.

## 3. Principal Accounting Policies (continued)

### Financial instruments (continued)

**Financial liabilities and equity instruments (continued)**

*Other financial liabilities*

Other financial liabilities including bank and other borrowings and trade and other payables as shown in the consolidated statement of financial position are subsequently measured at amortised cost, using the effective interest method.

*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 (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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

**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 terms of a debt instrument.

A financial guarantee contract issued by the Group 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 of obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period.

**Derivative financial instruments**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

**Hedge accounting**

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

# 3. Principal Accounting Policies (continued)

## Financial instruments (continued)

### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When an existing financial liability's terms are modified and such modification results in the discounted present value of the cash flows under the new terms including any fee paid net of any fees received is at least 10 per cent different from the discounted present values of the remaining cash flows of the original financial liability, it is accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability or equity instrument or compound instrument with the difference, being the carrying amount of the financial liability extinguished and the fair value of the financial liability, equity instrument, compound instrument issued and/or hybrid instrument, recognised in profit or loss.

## 3. Principal Accounting Policies (continued)

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) 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 recognised 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 provides supplementary pension subsidies to retired employees in Mainland China. Such supplementary pension subsidies are considered as defined benefit plans. The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

Employees who retire after 31 December 2006 will no longer be entitled to such supplementary pension subsidies. The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of reductions in future contributions to the plans.

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. All actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are recognised immediately in other comprehensive income. These obligations are valued annually by independent qualified actuaries.

**Termination benefits**

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

## 3. Principal Accounting Policies (continued)

### Employee compensation and benefits (continued)

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

**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 not recognised until there is reasonable assurance that the Group has complied with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Taxation

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

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income 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 current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 3. Principal Accounting Policies (continued)

### Taxation (continued)

**Deferred tax**

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**Current and deferred tax for the year**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 3. Principal Accounting Policies (continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the construction contracts, sale of properties, sales 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 customers; 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, and operating service provided under service concession arrangements, 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 respective 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.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts above.

Dividend income from investments is recognised when a group entity's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 on initial recognition.

Deposits and instalments received from customers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

The Group's policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

## 3. Principal Accounting Policies (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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.

### Leasing

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**

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised 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 on a straight-line basis over the lease term.

**The Group as lessee**

Assets held under finance leases are initially 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 statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

## 3. Principal Accounting Policies (continued)

### Leasing (continued)

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'lease prepayments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Sale and leaseback transactions**

When a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36.

### Foreign currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (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 exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate). 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) Construction 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 total contract revenue, total contract costs and foreseeable losses of construction work at the beginning for each contract based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, management reviews and revises the estimates of both total contract revenue and total 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, additional losses may need to be recognised.

### (b) Recoverability of loans and receivables

The Group's management identifies the objective evidences of impairment and evaluates the present value of underlying future cash flows from recovering of these receivables for impairment assessment purpose. These are all subject to management's estimates and judgements. The movements in impairment provision and the impairment loss recognised during the year are set out in notes 25 and 28. At 31 December 2016, the carrying amount of trade receivables after taking into account the impairment loss, amounted to RMB150,608 million (2015: RMB144,676 million) and the carrying amount of loans and other receivables after taking into account the impairment loss, amounted to RMB45,260 million (2015: RMB49,091 million).

### (c) 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.

### (d) Amortisation of service concession arrangements

Amortisation of service concession arrangements in relation to the toll road operations are calculated to write off their cost, over their expected useful lives or the remaining concession period, whichever is the shorter, commencing from the date of commencement of commercial operation of the toll roads, based on a units-of-usage basis, which is the ratio of actual traffic volume compared to the total expected traffic volume of the toll roads as estimated by the management or by reference to traffic projection reports prepared by independent traffic consultants. Appropriate adjustment will be made should there be any material change.

## 4. Key Sources of Estimation Uncertainty (continued)

### (e) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise.

As at 31 December 2016, the carrying amount of goodwill is RMB829 million (2015: RMB829 million). Details of the impairment loss calculation are disclosed in Note 23.

### (f) Deferred tax asset

As at 31 December 2016, deferred tax assets of RMB5,258 million (2015: RMB4,367 million) in relation to the unused tax losses for certain operating subsidiaries, impairment of assets (including impairment loss on trade and other receivables, other loans and receivables, property, plant and equipment, recognition of expected losses on construction contracts and inventories), excess of accounting depreciation over tax depreciation and retirement and other supplemental benefit obligations have been recognised in the consolidated statement of financial position (see Note 40). 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 taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal or further recognition takes place.

### (g) 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 38. The accuracy of the estimate mainly depends on the extent of deviation between the actuarial assumptions and the actual conditions. Any changes in these assumptions will have an impact on the carrying amount of retirement and other supplemental benefit obligations.

## 5. Revenue

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

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Revenue from: | | |
| Construction contracts | **545,192** | 517,860 |
| Rendering of other services | **24,999** | 20,462 |
| Sale of properties | **32,224** | 27,920 |
| Sale of goods | **30,441** | 33,700 |
| | **632,856** | 599,942 |

## 6. Segment Information

Information reported to the Directors, being the chief operating decision maker for the purposes of resource allocation and assessment of segment performance, is prepared in accordance with the relevant PRC accounting standards, which resulted in the difference in the basis of measurement of segment results, segment assets and segment liabilities, the details of which are shown as reconciling items.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

(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) Mining, financial business, operation of service concession arrangements, merchandise trading and other ancillary business ("Other businesses").

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

The segment information regarding the Group's reportable and operating segments is presented below.

## 6. Segment Information (continued)

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

| | 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 | Total segments RMB million |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | |
| External revenue | 551,486 | 11,615 | 12,315 | 32,583 | 31,760 | 639,759 |
| Inter-segment revenue | 5,003 | 653 | 4,399 | 25 | 10,423 | 20,503 |
| Other operating income | 2,465 | 44 | 349 | 368 | 372 | 3,598 |
| Inter-segment other operating income | 269 | – | – | – | 116 | 385 |
| Segment revenue | 559,223 | 12,312 | 17,063 | 32,976 | 42,671 | 664,245 |
| Segment results | | | | | | |
| Profit before tax | 14,753 | 1,442 | 1,349 | 2,458 | 184 | 20,186 |
| Segment results included: | | | | | | |
| Share of profits (losses) of joint ventures | 12 | 1 | 75 | (2) | 32 | 118 |
| Share of profits (losses) of associates | 381 | 18 | 49 | (3) | 169 | 614 |
| Interest income | 3,268 | 71 | 34 | 287 | 1,211 | 4,871 |
| Interest expenses | (3,659) | (173) | (156) | (1,136) | (3,414) | (8,538) |

| | 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 | Total segments RMB million |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2015** | | | | | | |
| External revenue | 535,006 | 10,120 | 13,058 | 28,873 | 32,176 | 619,233 |
| Inter-segment revenue | 5,041 | 524 | 2,390 | 73 | 7,182 | 15,210 |
| Other operating income | 3,659 | 67 | 334 | 314 | 497 | 4,871 |
| Inter-segment other operating income | 501 | – | – | – | 189 | 690 |
| Segment revenue | 544,207 | 10,711 | 15,782 | 29,260 | 40,044 | 640,004 |
| Segment results | | | | | | |
| Profit (loss) before tax | 14,193 | 1,131 | 1,050 | 2,616 | (450) | 18,540 |
| Segment results included: | | | | | | |
| Share of (losses) profits of joint ventures | (1) | (6) | 60 | – | 35 | 88 |
| Share of profits (losses) of associates | 150 | 23 | 34 | (17) | (30) | 160 |
| Interest income | 3,630 | 88 | 39 | 249 | 690 | 4,696 |
| Interest expenses | (4,119) | (207) | (170) | (954) | (2,759) | (8,209) |

*For the Year Ended 31 December 2016*

## 6. Segment Information (continued)

### Segment revenues and results (continued)

A reconciliation of the amounts presented for reportable segments to the consolidated financial statements is as follows:

| | 2016 RMB million | 2015 RMB million |
|---|---|---|
| Segment revenue | **664,245** | 640,004 |
| Inter-segment elimination | **(20,888)** | (15,900) |
| Reconciling items: | | |
| Reclassification of sales tax *(note (a))* | **(6,903)** | (19,291) |
| Reclassification of other operating income *(note (b))* | **(3,598)** | (4,871) |
| Total consolidated revenue, as reported | **632,856** | 599,942 |
| Segment interest income | **4,871** | 4,696 |
| Inter-segment elimination | **(2,870)** | (1,968) |
| Reconciling items: | | |
| Reclassification of interest income obtained from other loans and receivables | **196** | 284 |
| Total consolidated interest income, as reported | **2,197** | 3,012 |
| Segment interest expenses | **(8,538)** | (8,209) |
| Inter-segment elimination | **2,764** | 2,024 |
| Reconciling items: | | |
| Reclassification of amortisation of financial guarantee contracts | **–** | 1 |
| Total consolidated interest expenses, as reported | **(5,774)** | (6,184) |
| Segment results | **20,186** | 18,540 |
| Inter-segment elimination | **(2,513)** | (2,233) |
| Reconciling items: | | |
| Land appreciation tax *(note (c))* | **1,099** | 710 |
| Total consolidated profit before tax, as reported | **18,772** | 17,017 |

*Notes:*

(a) *Sales tax is included in operating expenses under segment reporting and is classified as a reduction against revenue in the consolidated statement of profit or loss and other comprehensive income.*

(b) *Other operating income is included in revenue under segment reporting and is classified as other income in the consolidated statement of profit or loss and other comprehensive income.*

(c) *Land appreciation tax is included in operating expenses under segment reporting and is classified as income tax expense in the consolidated statement of profit or loss and other comprehensive income.*

## 6. Segment Information (continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

| | 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 | Total segments RMB million |
|---|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | | |
| ASSETS | | | | | | |
| Segment assets | **563,496** | **14,765** | **31,605** | **149,468** | **213,287** | **972,621** |
| Segment assets included: | | | | | | |
| Interests in joint ventures | **3,475** | **39** | **324** | **36** | **1,650** | **5,524** |
| Interests in associates | **5,018** | **101** | **202** | **106** | **531** | **5,958** |
| LIABILITIES | | | | | | |
| Segment liabilities | **472,462** | **9,842** | **21,699** | **130,009** | **188,807** | **822,819** |

| | 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 | Total segments RMB million |
|---|---|---|---|---|---|---|
| **At 31 December 2015** | | | | | | |
| ASSETS | | | | | | |
| Segment assets | 514,776 | 14,771 | 27,783 | 138,123 | 173,514 | 868,967 |
| Segment assets included: | | | | | | |
| Interests in joint ventures | 836 | 43 | 226 | – | 1,535 | 2,640 |
| Interests in associates | 4,266 | 100 | 119 | 82 | 682 | 5,249 |
| LIABILITIES | | | | | | |
| Segment liabilities | 441,942 | 9,394 | 19,255 | 114,949 | 141,803 | 727,343 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than deferred tax assets and current income tax recoverable excluding prepaid land appreciation tax which is allocated to operating segments. Goodwill is allocated to segments as described in Note 23; and

- all liabilities are allocated to operating segments other than deferred tax liabilities and current income tax liabilities excluding land appreciation tax payable which is allocated to operating segments.

## 6. Segment Information (continued)

### Segment assets and liabilities (continued)

A reconciliation of the amounts presented for reportable segments to the consolidated financial statements is as follows:

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Segment assets | **972,621** | 868,967 |
| Inter-segment elimination | **(224,067)** | (160,570) |
| Reconciling items: | | |
| Deferred tax assets | **5,258** | 4,367 |
| Shares conversion scheme of subsidiaries *(note (d))* | **(163)** | (163) |
| Current income tax recoverable | **807** | 1,030 |
| Prepaid land appreciation tax included in income tax recoverable | **(111)** | (126) |
| Total consolidated assets, as reported | **754,345** | 713,505 |
| Segment liabilities | **822,819** | 727,343 |
| Inter-segment elimination | **(222,820)** | (157,553) |
| Reconciling items: | | |
| Deferred tax liabilities | **782** | 920 |
| Current income tax liabilities | **5,129** | 4,065 |
| Land appreciation tax payable included in current income tax liabilities | **(561)** | (508) |
| Total consolidated liabilities, as reported | **605,349** | 574,267 |

*Note:*

*(d) Loss on shares conversion scheme of subsidiaries is recorded in segment assets in segment reporting and is adjusted to other gains and losses in the consolidated statement of profit or loss and other comprehensive income in prior years.*

*For the Year Ended 31 December 2016*

## 6. Segment Information (continued)

### Other segment 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 2016** | | | | | | |
| Capital expenditure: | | | | | | |
| Property, plant and equipment | 8,538 | 241 | 1,015 | 829 | 1,036 | 11,659 |
| Land use rights | 1,311 | 1 | 222 | 997 | 300 | 2,831 |
| Investment properties | 5 | 1 | – | – | – | 6 |
| Intangible assets | 36 | 12 | 11 | 2 | 89 | 150 |
| Mining assets | – | – | – | – | 31 | 31 |
| Acquisition of subsidiaries | – | – | – | 6 | – | 6 |
| Total | 9,890 | 255 | 1,248 | 1,834 | 1,456 | 14,683 |
| Depreciation and amortisation: | | | | | | |
| Property, plant and equipment | 5,457 | 224 | 486 | 213 | 905 | 7,285 |
| Land use rights | 154 | 10 | 30 | 38 | 35 | 267 |
| Investment properties | 34 | 12 | 3 | 68 | 52 | 169 |
| Intangible assets | 29 | 7 | 52 | 4 | 766 | 858 |
| Mining assets | – | – | – | – | 133 | 133 |
| Other prepayments | 25 | 8 | 10 | – | 6 | 49 |
| | 5,699 | 261 | 581 | 323 | 1,897 | 8,761 |
| (Gain) loss on disposal and/or write-off of property, plant and equipment | (91) | 1 | (14) | – | (21) | (125) |
| Gain on disposal of land use rights | (444) | – | – | – | – | (444) |
| Recognition of expected losses on construction contracts | 150 | – | – | – | – | 150 |
| Gain on disposal of investment properties | (38) | – | – | – | – | (38) |
| Impairment loss on trade and other receivables | 430 | 14 | 17 | 16 | 481 | 958 |
| Impairment loss on other loans and receivables | – | – | – | – | 352 | 352 |
| Impairment loss on property, plant and equipment | – | – | – | – | 142 | 142 |
| Impairment loss on mining assets | – | – | – | – | 565 | 565 |
| Impairment loss on investment properties | – | – | – | 27 | – | 27 |
| Impairment loss on land use rights | – | – | – | 8 | – | 8 |
| Impairment loss on interests in associates | – | – | – | – | 345 | 345 |
| Impairment loss on available-for-sale financial assets | – | – | – | – | 263 | 263 |

## 6. Segment Information (continued)

### Other segment information (continued)

| | 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 2015** | | | | | | |
| Capital expenditure: | | | | | | |
| Property, plant and equipment | 6,521 | 153 | 671 | 177 | 1,040 | 8,562 |
| Land use rights | 81 | 26 | 283 | 202 | 13 | 605 |
| Investment properties | 1 | 1 | – | 2 | – | 4 |
| Intangible assets | 32 | 8 | 198 | 7 | 3,500 | 3,745 |
| Mining assets | – | – | – | – | 850 | 850 |
| Acquisition of subsidiaries | 133 | – | – | 1 | – | 134 |
| Total | 6,768 | 188 | 1,152 | 389 | 5,403 | 13,900 |
| Depreciation and amortisation: | | | | | | |
| Property, plant and equipment | 5,134 | 204 | 434 | 155 | 704 | 6,631 |
| Land use rights | 136 | 9 | 26 | 24 | 45 | 240 |
| Investment properties | 18 | 11 | 2 | 57 | 72 | 160 |
| Intangible assets | 37 | 7 | 37 | 4 | 596 | 681 |
| Mining assets | – | – | – | – | 101 | 101 |
| | 5,325 | 231 | 499 | 240 | 1,518 | 7,813 |
| (Gain) loss on disposal and/or write-off of property, plant and equipment | (82) | (2) | 10 | (18) | 1 | (91) |
| Gain on disposal of land use rights | (82) | – | – | – | – | (82) |
| Recognition of expected losses on construction contracts | 76 | – | – | – | – | 76 |
| Impairment loss on trade and other receivables | 248 | 2 | 65 | 57 | 1,525 | 1,897 |
| Impairment loss on other loans and receivables | – | – | – | – | 562 | 562 |
| Impairment loss on property, plant and equipment | – | – | – | – | 12 | 12 |
| Impairment loss on mining assets | – | – | – | – | 401 | 401 |
| Impairment loss on interests in associates | – | – | – | – | 308 | 308 |
| Impairment loss on available-for-sale financial assets | 8 | – | – | – | 10 | 18 |

*For the Year Ended 31 December 2016*

## 6. Segment Information (continued)

### Geographical information

| | Revenue from external customers Year ended | | Non-current Assets | |
|---|---|---|---|---|
| | **31/12/2016 RMB million** | 31/12/2015 RMB million | **31/12/2016 RMB million** | 31/12/2015 RMB million |
| Mainland China | **604,590** | 569,077 | **120,676** | 112,006 |
| Hong Kong and Macao | **706** | 719 | **3** | 178 |
| Overseas | **27,560** | 30,146 | **8,180** | 7,052 |
| | **632,856** | 599,942 | **128,859** | 119,236 |

*Note: Non-current assets excluded financial instruments and deferred tax assets.*

### Revenue from major customers

Revenue from a wholly state-owned enterprise of the PRC arising from infrastructure construction, survey, design and consulting service and engineering equipment and component manufacturing is approximately RMB191,940 million (2015: RMB191,513 million), which contributed 30% (2015: 32%) of the total revenue of the Group. Other than this customer, no other single customer contributed 10% or more to the Group's revenue for the years ended 31 December 2016 and 2015.

*For the Year Ended 31 December 2016*

## 7. Other Income and Expenses

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Other income from: | | |
| Dividend income | **127** | 184 |
| Government subsidies *(note (a))* | **421** | 440 |
| Compensation income | **57** | 37 |
| Relocation compensation income | **53** | 117 |
| Income from sundry operations *(note (b))* | **795** | 1,297 |
| Waiver of trade and other payables | **71** | 33 |
| Bargain purchase gain on acquisition | **–** | 8 |
| Amortisation of financial guarantee contracts | **–** | 1 |
| Others | **331** | 358 |
| | **1,855** | 2,475 |
| Other expenses on: | | |
| Research and development expenditure | **10,417** | 10,281 |
| | **10,417** | 10,281 |

*Notes:*

(a) *Government subsidies relating to expenses include various government subsidies received by the group entities from the relevant government bodies in connection with enterprise expansion, technology advancement, environmental protection measures enhancement and product development, etc. All subsidies were recognised at the time the Group fulfilled the relevant criteria and when the related expenses incurred.*

*Government subsidies relating to assets include government subsidies obtained by the group entities in relation to the acquisition of property, plant and equipment, which were included in the consolidated statement of financial position as deferred government grant and income and credited to profit or loss on a straight-line basis over the expected useful lives of the relevant assets.*

(b) *The balances comprise profits from sundry operations incidental to the main revenue-generating activities of the Group including sales of materials, rental income, transportation income and hotel operation income, etc.*

## 8. Other Gains and Losses

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Impairment loss recognised on financial assets | | |
| Available-for-sale financial assets | **(263)** | (18) |
| Trade and other receivables | **(958)** | (1,897) |
| Other loans and receivables | **(352)** | (562) |
| | **(1,573)** | (2,477) |
| Impairment loss on mining assets *(note (a))* | **(565)** | (401) |
| Impairment loss on property, plant and equipment | **(142)** | (12) |
| Impairment loss on land use rights | **(8)** | – |
| Impairment loss on investment properties | **(27)** | – |
| Impairment loss recognised on interests in associates *(note (b))* | **(345)** | (308) |
| Gain on disposal of subsidiaries *(Note 42)* | **427** | 83 |
| Gain (loss) on disposal and/or write-off of: | | |
| Property, plant and equipment | **125** | 91 |
| Land use rights | **444** | 82 |
| Available-for-sale financial assets | **44** | 17 |
| Investment properties | **38** | 3 |
| Interests in associates | **(1)** | 1 |
| Interests in joint ventures | **(5)** | 3 |
| Cumulative gain on disposal of available-for-sale investments | **23** | 76 |
| (Loss) gain arising on change in fair value of financial assets/liabilities classified as held-for-trading | **(80)** | 3 |
| Excess of fair value of the previously-held investments *(Note 41(a))* | **–** | 5 |
| Foreign exchange gains, net | **2,275** | 1,746 |
| | **630** | (1,088) |

*Notes:*

(a) *During the year, in view of the unfavourable future prospects of the relevant coal mines and mineral mines due to the forecasted low selling price and expected decrease in profit margin as a result of the slowdown of the global economy, the Group modified the investment and operation plan in relation to the Group's coal mines in Qinghai Province Muli area, and performed impairment assessment on the relevant cash-generating units within the Group's other businesses segment. As a result of impairment assessment, the Group recognised impairment loss on mining assets of RMB565 million during the year (2015: RMB401 million) (see Note 20).*

(b) *During the year, the Group also recognised an impairment loss on interest in an associate of RMB345 million (2015: RMB308 million), in view of reduction of coal production capacity and restructuring of coal industry. The associate is a company engaged in coal mining and development business which locates in Inner Mongolia. The recoverable amount is determined on the basis of its fair value less costs of disposal, since the Group intended to transfer the interest in this associate, together with the Company's subsidiary named 北京翼諾捷投資管理有限公司("翼諾捷") holding the interest, to CRECG during the year (see Note 42).*

*For the Year Ended 31 December 2016*

## 9. Interest Income and Expenses

| | 2016 RMB million | 2015 RMB million |
|---|---|---|
| Interest income from: | | |
| Cash and cash equivalents and restricted cash | **1,122** | 1,476 |
| Imputed interest income on retention receivables | **879** | 1,252 |
| Other loans and receivables | **196** | 284 |
| Total interest income | **2,197** | 3,012 |
| Interest expenses on: | | |
| Bank borrowings | **6,095** | 7,240 |
| Short-term debentures | **41** | 66 |
| Long-term debentures | **1,588** | 1,872 |
| Other short-term borrowings | **193** | 202 |
| Other long-term borrowings | **649** | 828 |
| Finance leases | **110** | 104 |
| | **8,676** | 10,312 |
| Imputed interest expenses on retention payables | **190** | 157 |
| Imputed interest expenses on defined benefit obligations | **112** | 155 |
| Bank charges | **158** | 127 |
| Total borrowing costs | **9,136** | 10,751 |
| Less: amount capitalised *(note)* | **(3,362)** | (4,567) |
| Total interest expenses | **5,774** | 6,184 |

*Note: Borrowing costs capitalised during the year are calculated by applying the capitalisation rates of 2.50%-13.92% (2015: 2.00%-13.92%) per annum on expenditure on qualifying assets.*

## 10. Income Tax Expense

| | 2016 RMB million | 2015 RMB million |
|---|---|---|
| Current tax | | |
| Enterprise Income Tax (“EIT”) | **5,959** | 4,830 |
| Land Appreciation Tax (“LAT”) | **1,099** | 710 |
| Overprovision in prior years | **(8)** | (5) |
| Deferred tax *(Note 40)* | **(981)** | (304) |
| | **6,069** | 5,231 |

The majority of the entities in the Group are located in Mainland China. Pursuant to the relevant laws and regulations, the statutory EIT rate of 25% (2015: 25%) is applied to the Group except for certain subsidiaries which were either exempted from EIT or entitled to the preferential tax rate of 12.5% or 15% (2015: 12.5% or 15%) for the year ended 31 December 2016.

## 10. Income Tax Expense (continued)

Certain of the Group's overseas entities are located in the Congo, South Africa, Hong Kong, Malaysia, Papua New Guinea and Ethiopia. Pursuant to the relevant laws and regulations of these jurisdictions, the EIT rate of 30%, 30%, 16.5%, 24%, 48% and 30% (2015: 30%, 30%, 16.5%, 25%, 30% and 30%) are applied to these entities respectively.

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.

The tax charge for the year can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Profit before tax | **18,772** | 17,017 |
| Tax at PRC EIT rate of 25% (2015: 25%) *(Note)* | **4,692** | 4,254 |
| Tax effect of: | | |
| Non-deductible expenses | **177** | 182 |
| Non-taxable income | **(166)** | (45) |
| Tax losses not recognised as deferred tax assets | **1,071** | 651 |
| Utilisation of tax losses previously not recognised as deferred tax assets | **(168)** | (340) |
| Utilisation of other deductible temporary differences previously not recognised as deferred tax assets | **(59)** | (71) |
| Other deductible temporary differences not recognised as deferred tax assets | **812** | 775 |
| Preferential tax rates on income of group entities and other income tax credits | **(950)** | (793) |
| Share of profits of joint ventures | **(30)** | (22) |
| Share of profits of associates | **(154)** | (40) |
| Deferred tax charges resulting from changes in applicable tax rates | **23** | (37) |
| LAT | **1,099** | 710 |
| Tax effect of LAT | **(275)** | (178) |
| Overprovision in respect of prior years | **(8)** | (5) |
| Others | **5** | 190 |
| Income tax expense for the year | **6,069** | 5,231 |

*Note: The PRC Enterprise Income Tax rate is used as it is the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.*

### Income tax recognised directly in other comprehensive income

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Deferred tax *(Note 40)* | | |
| Retirement and other supplemental benefit obligations | **8** | 36 |
| Fair value changes of available-for-sale financial assets | **31** | (29) |
| Total income tax recognised in other comprehensive income | **39** | 7 |

## 11. Profit For the Year

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Depreciation of property, plant and equipment | **7,285** | 6,631 |
| Depreciation of investment properties | **169** | 160 |
| Amortisation of: | | |
| Intangible assets (included in administrative expenses) | **121** | 73 |
| Intangible assets (included in cost of sales and services) | **737** | 608 |
| Other prepayments | **49** | 62 |
| Lease prepayments | **267** | 240 |
| Mining assets | **133** | 101 |
| Total depreciation and amortisation | **8,761** | 7,875 |
| Auditor's remuneration | **94** | 99 |
| Operating lease rentals in respect of | | |
| Rented premises (included in cost of sales and services) | **768** | 642 |
| Rented premises (included in administrative expenses) | **238** | 252 |
| Plant and machinery (included in cost of sales and services) | **25,132** | 25,370 |
| Rental income from investment properties: | | |
| Gross rental | **(503)** | (422) |
| Direct operating expenses (including depreciation of investment properties) | **279** | 240 |
| Net rental | **(224)** | (182) |
| Research and development expenditure (included in other expenses) | **10,417** | 10,281 |
| Cost of raw materials and consumables | **231,168** | 221,329 |
| Employee benefits expense: | | |
| Contributions payable to state-managed retirement plans | **4,716** | 4,303 |
| Contributions payable to supplementary defined contribution retirement schemes | **610** | 421 |
| Retirement and other supplemental pension benefit obligations | **114** | 135 |

## 12. Emoluments of Directors, Chief Executive, Supervisors and Employees

### Directors', Chief Executive's and Supervisors' Emoluments

Executive directors', independent directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

| Name of directors, chief executive or supervisors | 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 2016** | | | | | |
| **Executive directors** | | | | | |
| Li Changjin | – | 307 | 47 | – | 354 |
| Yao Guiqing | – | 308 | 47 | 474 | 829 |
| Zhang Zongyan | – | 298 | 47 | 237 | 582 |
| **Independent directors** | | | | | |
| Zheng Qingzhi | 160 | – | – | – | 160 |
| Guo Peizhang | 150 | – | – | – | 150 |
| Wen Baoman | 140 | – | – | – | 140 |
| NGAI Wai Fung | 128 | – | – | – | 128 |
| Directors' remunerations | 578 | 913 | 141 | 711 | 2,343 |
| **Supervisors** | | | | | |
| Liu Chengjun | – | 260 | 47 | 371 | 678 |
| Liu Jianyuan | – | 260 | 47 | 371 | 678 |
| Wang Hongguang | – | 420 | 47 | 215 | 682 |
| Chen Wenxin | – | 391 | 47 | 233 | 671 |
| Fan Jinghua | – | 379 | 47 | 233 | 659 |
| Total | 578 | 2,623 | 376 | 2,134 | 5,711 |

## 12. Emoluments of Directors, Chief Executive, Supervisors and Employees (continued)

### Directors', Chief Executive's and Supervisors' Emoluments (continued)

| Name of directors, chief executive or supervisors | 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 2015** | | | | | |
| **Executive directors** | | | | | |
| Li Changjin | – | 186 | 44 | 739 | 969 |
| Yao Guiqing | – | 186 | 44 | 739 | 969 |
| Zhang Zongyan (Appointed in July 2015, also chief executive) | – | 94 | 23 | – | 117 |
| Dai Hegen (Resigned in July 2015) | – | 93 | 25 | 722 | 840 |
| **Independent directors** | | | | | |
| Zheng Qingzhi | 167 | – | – | – | 167 |
| Guo Peizhang | 155 | – | – | – | 155 |
| Wen Baoman | 147 | – | – | – | 147 |
| NGAI Wai Fung | 130 | – | – | – | 130 |
| Directors' remunerations | 599 | 559 | 136 | 2,200 | 3,494 |
| **Supervisors** | | | | | |
| Liu Chengjun | – | 162 | 44 | 292 | 498 |
| Liu Jianyuan | – | 162 | 44 | 292 | 498 |
| Wang Hongguang | – | 212 | 44 | 279 | 535 |
| Chen Wenxin | – | 205 | 44 | 294 | 543 |
| Fan Jinghua | – | 193 | 44 | 294 | 531 |
| Total | 599 | 1,493 | 356 | 3,651 | 6,099 |

## 12. Emoluments of Directors, Chief Executive, Supervisors and Employees (continued)

### Directors', Chief Executive's and Supervisors' Emoluments (continued)

The executive directors', chief executive's and supervisors' emolument shown above were mainly for their services in connection with the management affairs of the Company and the Group. The independent directors' emoluments shown above were mainly for their services as directors of the Company.

During both years, none of the Directors, chief executive or supervisors of the Company had waived any emoluments and no emoluments had been paid by the Group to any of the Directors, chief executive or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

### Five Highest Paid Individuals

None of the Directors and the chief executive was amongst the five highest paid individuals during both years.

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

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Salaries and other benefits-in-kind | **6,251** | 4,623 |
| Contributions to retirement benefits schemes | **161** | 189 |
| Discretionary bonus *(note)* | **23,691** | 22,227 |
| | **30,103** | 27,039 |

Their emoluments were within the following bands:

| | **2016 No. of employees** | 2015 No. of employees |
|---|---|---|
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |
| HK$3,000,001 to HK$3,500,000 | **–** | 1 |
| HK$4,500,001 to HK$5,000,000 | **1** | – |
| HK$5,000,001 to HK$5,500,000 | **1** | 1 |
| HK$6,000,001 to HK$6,500,000 | **1** | – |
| HK$7,000,001 to HK$7,500,000 | **1** | – |
| HK$10,500,001 to HK$11,000,000 | **–** | 1 |
| HK$11,000,001 to HK$11,500,000 | **1** | – |
| HK$12,000,001 to HK$12,500,000 | **–** | 1 |

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

## 12. Emoluments of Directors, Chief Executive, Supervisors and Employees (continued)

### Employee Compensation and Benefits

| | 2016 RMB million | 2015 RMB million |
|---|---|---|
| Salaries, wages and bonuses | **30,278** | 27,065 |
| Contribution to pension plans classified as defined contribution plans *(Note 38)* | **5,326** | 4,724 |
| Retirement and other supplemental pension benefit obligations – interest cost *(Note 38)* | **112** | 155 |
| Past service cost and (gain) loss from settlements | **2** | (20) |
| Housing benefits *(note)* | **2,601** | 2,316 |
| Welfare, medical and other benefits-in-kind | **8,757** | 7,923 |
| | **47,076** | 42,163 |

*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.*

## 13. Dividend

The final dividend of RMB0.088 per share in respect of the year ended 31 December 2016 amounting to approximately RMB2,010 million in aggregate has been proposed by the Directors and is subject to approval by the shareholders in general meeting.

On 24 June 2016, final dividend of RMB0.086 per share (2015: RMB0.078 per share in respect of the year ended 31 December 2014) in respect of the year ended 31 December 2015, amounting to RMB1,965 million (2015: RMB1,661 million) in aggregate, was declared and subsequently paid in August 2016.

## 14. Earnings Per Share

Basic earnings per share for the year ended 31 December 2016 is calculated by dividing the profit attributable to owners of the Company of RMB11,808 million (2015: RMB11,675 million) by 22,844,301,543 shares (2015: weighted average number of shares of 22,023,441,545) in issue during the year.

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

## 15. 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 2016 | 24,061 | 36,862 | 11,293 | 6,467 | 2,700 | 3,698 | 6,827 | 91,908 |
| Exchange adjustments | 156 | 38 | 17 | 72 | 3 | 6 | 34 | 326 |
| Additions | 652 | 4,972 | 944 | 408 | 413 | 683 | 3,587 | 11,659 |
| Transfer within property, plant and equipment | 2,359 | 256 | 11 | 892 | 34 | 90 | (3,642) | – |
| Transfer from investment properties | 30 | – | – | – | – | – | – | 30 |
| Transfer from properties held for sale | 228 | – | – | – | – | – | – | 228 |
| Acquisition of subsidiaries *(Note 41)* | – | – | 2 | – | – | 1 | – | 3 |
| Disposal of subsidiaries *(Note 42)* | – | – | (9) | (1) | (2) | (7) | (371) | (390) |
| Write-offs/other disposals | (275) | (1,545) | (570) | (349) | (129) | (288) | (564) | (3,720) |
| Transfer to investment properties | (96) | – | – | – | – | – | – | (96) |
| At 31 December 2016 | 27,115 | 40,583 | 11,688 | 7,489 | 3,019 | 4,183 | 5,871 | 99,948 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2016 | 4,818 | 20,579 | 7,948 | 2,653 | 1,837 | 2,296 | 12 | 40,143 |
| Exchange adjustments | 47 | 33 | 11 | 4 | 1 | 1 | – | 97 |
| Provided for the year | 883 | 3,783 | 1,140 | 649 | 377 | 453 | – | 7,285 |
| Transfer from investment properties | 7 | – | – | – | – | – | – | 7 |
| Disposal of subsidiaries *(Note 42)* | – | – | (7) | (1) | (1) | (5) | – | (14) |
| Impairment losses recognised | – | – | – | – | – | – | 142 | 142 |
| Eliminated on write-offs/other disposals | (97) | (1,237) | (530) | (268) | (119) | (221) | – | (2,472) |
| Transfer to investment properties | (18) | – | – | – | – | – | – | (18) |
| At 31 December 2016 | 5,640 | 23,158 | 8,562 | 3,037 | 2,095 | 2,524 | 154 | 45,170 |
| CARRYING VALUES | | | | | | | | |
| At 31 December 2016 | 21,475 | 17,425 | 3,126 | 4,452 | 924 | 1,659 | 5,717 | 54,778 |

## 15. 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 2015 | 21,886 | 34,232 | 10,808 | 5,975 | 2,589 | 3,485 | 4,913 | 83,888 |
| Exchange adjustments | 61 | (54) | (24) | 29 | – | (8) | (13) | (9) |
| Additions | 750 | 3,495 | 929 | 404 | 265 | 451 | 2,268 | 8,562 |
| Transfer within property, plant and equipment | 1,620 | 323 | 59 | 258 | 2 | 85 | (2,347) | – |
| Transfer from investment properties | 8 | – | – | – | – | – | – | 8 |
| Transfer from properties held for sale | 237 | – | – | – | – | – | – | 237 |
| Transfer from properties under development | – | – | – | – | – | – | 2,490 | 2,490 |
| Acquisition of subsidiaries *(Note 41)* | 113 | – | 3 | 14 | – | 3 | – | 133 |
| Disposal of subsidiaries *(Note 42)* | – | – | (2) | (1) | (1) | (5) | (115) | (124) |
| Write-offs/other disposals | (218) | (1,134) | (480) | (212) | (155) | (313) | (369) | (2,881) |
| Transfer to investment properties | (396) | – | – | – | – | – | – | (396) |
| At 31 December 2015 | 24,061 | 36,862 | 11,293 | 6,467 | 2,700 | 3,698 | 6,827 | 91,908 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2015 | 4,173 | 18,143 | 7,248 | 2,300 | 1,696 | 2,162 | – | 35,722 |
| Exchange adjustments | (1) | (51) | (24) | (7) | – | (5) | – | (88) |
| Provided for the year | 797 | 3,422 | 1,170 | 546 | 284 | 412 | – | 6,631 |
| Transfer from investment properties | 1 | – | – | – | – | – | – | 1 |
| Disposal of subsidiaries *(Note 42)* | – | – | (2) | (1) | (1) | (4) | – | (8) |
| Impairment losses recognised | – | – | – | – | – | – | 12 | 12 |
| Eliminated on write-offs/other disposals | (134) | (935) | (444) | (185) | (142) | (269) | – | (2,109) |
| Transfer to investment properties | (18) | – | – | – | – | – | – | (18) |
| At 31 December 2015 | 4,818 | 20,579 | 7,948 | 2,653 | 1,837 | 2,296 | 12 | 40,143 |
| CARRYING VALUES | | | | | | | | |
| At 31 December 2015 | 19,243 | 16,283 | 3,345 | 3,814 | 863 | 1,402 | 6,815 | 51,765 |

Property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis over their estimated useful lives as follows:

| **Category** | **Estimated useful lives** |
|---|---|
| Buildings | 15–50 years |
| Infrastructure construction equipment | 8–15 years |
| Transportation equipment | 4–12 years |
| Manufacturing equipment | 8–18 years |
| Testing equipment and instruments | 5–10 years |
| Other equipment | 3–10 years |

## 15. Property, Plant and Equipment (continued)

The carrying values of infrastructure construction equipment include amounts of RMB517 million (2015: RMB1,943 million) in respect of assets held under finance leases.

Bank borrowings amounting to RMB6 million as at 31 December 2016 (2015: RMB192 million) were secured by certain property, plant and equipment with an aggregate carrying value of RMB7 million (2015: RMB166 million) (see Note 36). Other borrowings amounting to RMB6 million as at 31 December 2016 (2015: Nil) were secured by certain property, plant and equipment with an aggregate carrying value of RMB6 million (2015: Nil) (see Note 36).

The Group is in the process of applying for the title certificates for certain of its buildings with an aggregate carrying value of RMB1,063 million (2015: RMB936 million) as at 31 December 2016. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use these buildings.

## 16. Lease Prepayments

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

| | **2016**<br>**RMB million** | 2015<br>RMB million |
|---|---|---|
| At beginning of year | **9,482** | 9,018 |
| Acquisition of subsidiaries *(Note 41)* | **3** | – |
| Additions | **2,831** | 605 |
| Transfer from properties held for sale | **385** | 218 |
| Transfer to properties held for sale | **(15)** | (3) |
| Disposals | **(185)** | (116) |
| Disposal of subsidiaries *(Note 42)* | **(1)** | – |
| Released to profit or loss as expenses | **(275)** | (240) |
| At end of year | **12,225** | 9,482 |
| Analysed for reporting purpose as: | | |
| – Non-current | **11,986** | 9,290 |
| – Current | **239** | 192 |
| | **12,225** | 9,482 |

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 RMB105 million (2015: RMB158 million) as at 31 December 2016. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use these land.

In 2016, bank borrowings amounting to RMB300 million (2015: Nil) were secured by land use rights with an aggregate carrying value of RMB793 million (2015: Nil) (see Note 36).

## 17. Deposits for Investments

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Deposits for investments in associates | **1,437** | – |
| Deposits for investment in a joint venture | **575** | – |
| | **2,012** | – |

## 18. Investment Properties

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| COST | | |
| At beginning of year | **4,438** | 3,233 |
| Additions | **6** | 4 |
| Transfer from property, plant and equipment | **96** | 396 |
| Transfer from properties held for sale | **1,009** | 846 |
| Transfer to property, plant and equipment | **(30)** | (8) |
| Transfer to properties held for sale | **(48)** | (30) |
| Disposals | **(5)** | (3) |
| At end of year | **5,466** | 4,438 |
| DEPRECIATION AND IMPAIRMENT | | |
| At beginning of year | **716** | 545 |
| Provided for the year | **196** | 160 |
| Transfer from property, plant and equipment | **18** | 18 |
| Transfer to property, plant and equipment | **(7)** | (1) |
| Transfer to properties held for sale | **(2)** | (4) |
| Eliminated on disposals | **(2)** | (2) |
| At end of year | **919** | 716 |
| CARRYING VALUES | | |
| At end of year | **4,547** | 3,722 |

The fair value of the Group's investment properties with carrying amount of RMB4,547 million (2015: RMB3,722 million) is RMB4,598 million (2015: RMB3,768 million). The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent valuers not connected with the Group, 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 key inputs are cost of construction and installation, survey and design expense and cost of superintendence.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

## 18. Investment Properties (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 are as follows:

| | Carrying amount as at 31/12/2016 RMB million | Fair value (Level 3) as at 31/12/2016 RMB million |
|---|---|---|
| Commercial property units located in Sichuan Province | 1,576 | 1,588 |
| Commercial property units located in Shandong Province | 584 | 587 |
| Commercial property units located in Guangdong Province | 411 | 417 |
| Commercial property units located in Beijing | 395 | 403 |
| Commercial property units located in Hubei Province | 368 | 378 |
| Commercial property units located in Jiangsu Province | 328 | 331 |
| Commercial property units located in Liaoning Province | 319 | 321 |
| Commercial property units located in other Provinces | 566 | 573 |
| | 4,547 | 4,598 |

The above investment properties are depreciated on a straight-line basis at the annual rates from 25 to 50 years.

The Group is in the process of applying for the title certificates for certain of its investment properties with an aggregate carrying value of RMB1,304 million (2015: RMB1,016 million) as at 31 December 2016. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use these investment properties.

## 19. Intangible Assets

| | Service concession arrangements RMB million | Non-patented technologies RMB | Patents RMB | Computer software RMB | Others RMB | Total RMB |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1 January 2016 | 39,778 | 93 | 8 | 288 | 965 | 41,132 |
| Additions | 72 | – | 4 | 62 | 12 | 150 |
| Write-offs/other disposals | – | – | – | (8) | (12) | (20) |
| At 31 December 2016 | 39,850 | 93 | 12 | 342 | 965 | 41,262 |
| AMORTISATION AND IMPAIRMENT | | | | | | |
| At 1 January 2016 | 3,222 | 74 | 7 | 171 | 111 | 3,585 |
| Provided for the year | 734 | 3 | 1 | 46 | 74 | 858 |
| Eliminated on write-offs/other disposals | – | – | – | (2) | – | (2) |
| At 31 December 2016 | 3,956 | 77 | 8 | 215 | 185 | 4,441 |
| CARRYING VALUES | | | | | | |
| At 31 December 2016 | 35,894 | 16 | 4 | 127 | 780 | 36,821 |

## 19. Intangible Assets (continued)

| | Service concession arrangements RMB million | Non-patented technologies RMB | Patents RMB | Computer software RMB | Others RMB | Total RMB |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1 January 2015 | 36,409 | 92 | 10 | 238 | 777 | 37,526 |
| Additions | 3,500 | 1 | – | 50 | 194 | 3,745 |
| Acquisition of a subsidiary *(Note 41)* | – | – | – | 1 | – | 1 |
| Write-offs/other disposals | (131) | – | (2) | (1) | (6) | (140) |
| At 31 December 2015 | 39,778 | 93 | 8 | 288 | 965 | 41,132 |
| AMORTISATION AND IMPAIRMENT | | | | | | |
| At 1 January 2015 | 2,618 | 70 | 6 | 142 | 69 | 2,905 |
| Provided for the year | 604 | 4 | 1 | 30 | 42 | 681 |
| Eliminated on write-offs/other disposals | – | – | – | (1) | – | (1) |
| At 31 December 2015 | 3,222 | 74 | 7 | 171 | 111 | 3,585 |
| CARRYING VALUES | | | | | | |
| At 31 December 2015 | 36,556 | 19 | 1 | 117 | 854 | 37,547 |

The Group has entered into a number of service concession arrangements with certain government authorities in the PRC on a "Build-Operate-Transfer" ("BOT") basis in respect of its toll road operations, sewage plants and other constructions. Pursuant to the service concession arrangement contracts, the Group (i) is responsible for the construction of toll roads, sewage plants and other constructions, and the acquisition of the related facilities and equipment; (ii) has the contractual obligations to maintain or restore the infrastructures at a specified level of serviceability; and (iii) is entitled to operate the toll roads, the sewage plants and other construction upon completion for a specified concession period from 19 to 38 years (2015: from 20 to 39 years) by charging users of the public service, which amounts are contingent on the extent that the public uses the service. The Group will not hold any residual interest in the toll roads, the sewage plants and other constructions upon expiration of the concession period. As such, the service concession arrangement contracts are accounted for as service concession arrangements and an intangible asset was recognised at an amount equals to the fair value of the consideration for provision of construction service upon initial recognition.

The rights in respect of toll road income under nine (2015: nine) concession agreements with an aggregate carrying amount of RMB35,098 million (2015: RMB35,792 million) are pledged to obtain bank borrowings amounting to RMB21,043 million (2015: RMB21,103 million) (see Note 36).

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment loss. Service concession arrangements are amortised on a units-of-usage basis, over their expected useful lives or the remaining concession period, whichever is the shorter, except for sewage plants which is amortised on a straight-line basis. Other intangible assets are amortised on a straight-line basis based on their estimated useful lives as follows:

| **Category** | **Estimated useful lives** |
|---|---|
| Non-patented technologies | 2 to 10 years |
| Patents | 2 to 10 years |
| Computer software | 2 to 10 years |
| Others | 3 to 50 years |

## 20. Mining Assets

| | Mining rights RMB million | Exploration and evaluation assets RMB million | Total RMB million |
|---|---|---|---|
| COST | | | |
| At 1 January 2016 | **5,770** | **408** | **6,178** |
| Additions | **31** | **–** | **31** |
| Disposal of a subsidiary *(Note 42)* | **(698)** | **(242)** | **(940)** |
| Exchange adjustments | **13** | **–** | **13** |
| At 31 December 2016 | **5,116** | **166** | **5,282** |
| AMORTISATION AND IMPAIRMENT | | | |
| At 1 January 2016 | **482** | **242** | **724** |
| Provided for the year | **133** | **–** | **133** |
| Exchange adjustments | **2** | **–** | **2** |
| Impairment losses recognised in profit of loss *(note)* | **565** | **–** | **565** |
| Disposal of a subsidiary *(Note 42)* | **(564)** | **(242)** | **(806)** |
| At 31 December 2016 | **618** | **–** | **618** |
| CARRYING VALUES | | | |
| At 31 December 2016 | **4,498** | **166** | **4,664** |

| | Mining rights RMB million | Exploration and evaluation assets RMB million | Total RMB million |
|---|---|---|---|
| COST | | | |
| At 1 January 2015 | 4,980 | 468 | 5,448 |
| Additions | 730 | 120 | 850 |
| Disposal of a subsidiary *(Note 42)* | – | (131) | (131) |
| Write-offs/other disposals | (3) | (49) | (52) |
| Exchange adjustments | 63 | – | 63 |
| At 31 December 2015 | 5,770 | 408 | 6,178 |
| AMORTISATION AND IMPAIRMENT | | | |
| At 1 January 2015 | 220 | – | 220 |
| Provided for the year | 101 | – | 101 |
| Exchange adjustments | 2 | – | 2 |
| Impairment losses recognised in profit of loss *(note)* | 159 | 242 | 401 |
| At 31 December 2015 | 482 | 242 | 724 |
| CARRYING VALUES | | | |
| At 31 December 2015 | 5,288 | 166 | 5,454 |

*For the Year Ended 31 December 2016*

## 20. Mining Assets (continued)

*Note: In view of the unfavourable future prospects of the relevant coal mines and mineral mines due to the forecasted low selling price and expected decrease in profit margin as a result of the slowdown of the global economy, the Directors performed impairment assessment on certain cash-generating units and exploration and evaluation assets within the Group's other businesses segment, in relation to the Group's coal mines in Qinghai Province Muli area. The recoverable amount is determined on the basis of its fair value less costs of disposal, since the Company intent to sell the mining rights to CRECG.*

*As a result of the impairment assessment, the Group recognised impairment loss on mining right of RMB565 million which have been recognised in profit or loss in the "Other gains and losses" line item. Subsequently the Group transferred all the mining rights and exploration and evaluation assets to 翼諾捷, which was disposed to CRECG, the ultimate holding company of the Company on 29 December 2016 (see Note 42).*

*The exploration and evaluation assets represent the expenditure on exploration and evaluation of mine projects at Inner Mongolia, Heilongjiang, Fujian, Guizhou, Mongolia, Australia and the Democratic Republic of the Congo. The Group did not have any attributable liabilities, income and expenses for both years. The investing cash outflows used in the exploration for and evaluation of mineral resources during the year are as follows:*

| | **2016**<br>**RMB million** | 2015<br>RMB million |
|---|---|---|
| *Investing cash outflows* | ***(31)*** | *(770)* |

## 21. Interests In Joint Ventures

Details of the Group's investments in joint ventures are as follows:

| | **31/12/2016**<br>**RMB million** | 31/12/2015<br>RMB million |
|---|---|---|
| Cost of unlisted investments | **5,465** | 2,574 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **64** | 71 |
| Accumulated impairment loss recognised | **(5)** | (5) |
| | **5,524** | 2,640 |

## 21. Interests In Joint Ventures (continued)

Details of Group's material joint ventures as at 31 December 2016 and 2015 are as follows:

| Name of joint venture | Place/country of establishment/ operations | Proportion of ownership interest held by the Group | | Principal activities |
|---|---|---|---|---|
| | | **2016** **%** | 2015 % | |
| 重慶渝鄰高速公路有限公司<br>Chongqing Yulin Expressway Co., Ltd. | PRC | **49** ***(note (a))*** | 49 *(note (a))* | Build-operate-transfer service concession arrangement |
| 重慶墊忠高速公路有限公司<br>Chongqing Dianzhong Expressway Co., Ltd. | PRC | **80** ***(note (b))*** | 80 *(note (b))* | Build-operate-transfer service concession arrangement |
| 新鐵德奧道岔有限公司<br>Chinese New Turnout Technologies Co., Ltd. ("CNTT") | PRC | **50** | 50 | High-speed turnout manufacturing |
| 深圳北站D2地塊物業合作開發項目<br>Shenzhen North Station D2 Jointly Property Development Project ("Shenzhen North Station") | PRC | **49** | 49 | Property development |

*Notes:*

(a) *Pursuant to the articles of association of Chongqing Yulin Expressway Co., Ltd. ("Chongqing Yulin"), the shareholders have joint control of Chongqing Yulin.*

(b) *Pursuant to the articles of association of Chongqing Dianzhong Expressway Co., Ltd. ("Chongqing Dianzhong"), the shareholders have joint control of Chongqing Dianzhong.*

## 21. Interests In Joint Ventures (continued)

### Summarised financial information of material joint ventures

Summarised financial information in respect of each of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures financial statements prepared in accordance with IFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

| | **31/12/2016** | | | | 31/12/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Chongqing Yulin RMB million (unaudited)** | **Chongqing Dianzhong RMB million (unaudited)** | **CNTT RMB million (unaudited)** | **Shenzhen North Station RMB million (unaudited)** | Chongqing Yulin RMB million (unaudited) | Chongqing Dianzhong RMB million (unaudited) | CNTT RMB million (unaudited) | Shenzhen North Station RMB million (unaudited) |
| Current assets | **17** | **11** | **825** | **2,443** | 112 | 12 | 745 | 477 |
| Non-current assets | **1,287** | **3,845** | **110** | **–** | 1,288 | 3,897 | 112 | – |
| Current liabilities | **174** | **393** | **380** | **300** | 173 | 292 | 377 | – |
| Non-current liabilities | **357** | **2,175** | **67** | **–** | 496 | 2,273 | 40 | – |
| The above amounts of assets and liabilities include the following: | | | | | | | | |
| Cash and cash equivalents | **3** | **9** | **171** | **34** | 102 | 10 | 240 | 25 |
| Current financial liabilities (excluding trade and other payables and provisions) | **–** | **359** | **–** | **–** | – | 274 | – | – |
| Non-current financial liabilities (excluding trade and other payables and provisions) | **350** | **2,171** | **–** | **–** | 496 | 2,269 | – | – |

## 21. Interests In Joint Ventures (continued)

### Summarised financial information of material joint ventures (continued)

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Chongqing Yulin RMB million (unaudited) | Chongqing Dianzhong RMB million (unaudited) | CNTT RMB million (unaudited) | Shenzhen North Station RMB million (unaudited) | Chongqing Yulin RMB million (unaudited) | Chongqing Dianzhong RMB million (unaudited) | CNTT RMB million (unaudited) | Shenzhen North Station RMB million (unaudited) |
| Revenue | 276 | 199 | 652 | – | 248 | 243 | 508 | – |
| Profit (loss) and total comprehensive income (expense) for the year | 120 | (56) | 151 | (2) | 90 | (17) | 120 | – |
| Dividends received | 47 | – | 53 | – | – | – | 33 | – |
| The above profit for the year includes the following: | | | | | | | | |
| Depreciation and amortisation | 66 | 90 | 16 | – | 61 | 67 | 17 | – |
| Interest income | – | – | 2 | – | – | – | 3 | – |
| Interest expense | 28 | 126 | – | – | 38 | 153 | – | – |
| Income tax expense | 21 | 4 | 50 | – | 16 | 6 | 40 | – |

Reconciliation of the above summarised financial information to the carrying amount of the interest in joint ventures recognised in the consolidated financial statements:

| | 31/12/2016 | | | | 31/12/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Chongqing Yulin RMB million (unaudited) | Chongqing Dianzhong RMB million (unaudited) | CNTT RMB million (unaudited) | Shenzhen North Station RMB million (unaudited) | Chongqing Yulin RMB million (unaudited) | Chongqing Dianzhong RMB million (unaudited) | CNTT RMB million (unaudited) | Shenzhen North Station RMB million (unaudited) |
| Net assets of joint ventures | 773 | 1,288 | 488 | 2,143 | 731 | 1,344 | 440 | 477 |
| Proportion of the Group's ownership interest | 49% | 80% | 50% | 49% | 49% | 80% | 50% | 49% |
| Other adjustments | (18) | 16 | 5 | – | (9) | 26 | 6 | – |
| Carrying amount of the Group's interest in joint ventures | 361 | 1,046 | 249 | 1,050 | 349 | 1,101 | 226 | 234 |

### Aggregate information of joint ventures that are not individually material

| | 2016 RMB million | 2015 RMB million |
|---|---|---|
| The Group's share of profit and total comprehensive income | 39 | 12 |

## 21A.JOINT OPERATION

In 2016, the Group has one joint operation in Hong Kong (2015: four) and has 30% share (2015: 30%, 40%, 40% and 40%) in the ownership of this construction project. The Group is entitled to a proportionate share of the assets, the liabilities and the construction revenue, and bears a proportionate share of the joint operation's expenses.

## 22. INTERESTS IN ASSOCIATES

Details of the Group's interests in associates are as follows:

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Cost of unlisted investments | **4,906** | 5,380 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **1,053** | 178 |
| Accumulated impairment loss recognised *(note)* | **(1)** | (309) |
| | **5,958** | 5,249 |

*Note: During the year, the Group transferred its interests in 蘇尼特左旗芒來礦業有限責任公司, 阿扎鐵路有限責任公司, 內蒙古郭白鐵路有限公司 and 臨策鐵路有限責任公司, together with its subsidiary named 翼諾捷 holding these interests, to CRECG (see Note 42).*

Details of Group's material associates as at 31 December 2016 and 2015 are as follows:

| **Name of associate** | **Place/country of establishment/ operations** | **Proportion of ownership interest held by the Group 2016 %** | **2015 %** | **Principal activities** |
|---|---|---|---|---|
| 鐵道第三勘察設計院集團有限公司<br>The Third Railway Survey and Design Institute Group Corporation ("the third RSDI") | PRC | **30** | 30 | Engineering survey and design |
| 武漢楊泗港大橋有限公司<br>Wuhan Yangsigang Bridge Co., Ltd. | PRC | **50 *(note (a))*** | 50 *(note (a))* | Project construction and operation |
| 武漢鸚鵡洲大橋有限公司<br>Wuhan Yingwuzhou Bridge Co., Ltd. | PRC | **50 *(note (b))*** | 50 *(note (b))* | Project construction and operation |

*Notes:*

(a) *Pursuant to the articles of association of Wuhan Yangsigang Bridge Co., Ltd. ("Yangsigang"), the Group does not have control or joint control of Yangsigang but still retains significant influence in this entity.*

(b) *Pursuant to the articles of association of Wuhan Yingwuzhou Bridge Co., Ltd. ("Yingwuzhou"), the Group does not have control or joint control of Yingwuzhou but still retains significant influence in the entity.*

## 22. Interests In Associates (continued)

### Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associates financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

| | 31/12/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | the third RSDI RMB million (unaudited) | Yangsigang RMB million (unaudited) | Yingwuzhou RMB million (unaudited) | the third RSDI RMB million (unaudited) | Yangsigang RMB million (unaudited) | Yingwuzhou RMB million (unaudited) |
| Current assets | **6,012** | **3,225** | **301** | 5,802 | 2,171 | 339 |
| Non-current assets | **707** | **–** | **1,845** | 614 | – | 3,619 |
| Current liabilities | **3,695** | **68** | **33** | 4,066 | 1,351 | 36 |
| Non-current liabilities | **37** | **2,007** | **941** | 30 | 367 | 2,750 |

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | the third RSDI RMB million (unaudited) | Yangsigang RMB million (unaudited) | Yingwuzhou RMB million (unaudited) | the third RSDI RMB million (unaudited) | Yangsigang RMB million (unaudited) | Yingwuzhou RMB million (unaudited) |
| Revenue | **6,705** | **–** | **437** | 5,997 | – | – |
| Profit and total comprehensive income for the year | **654** | **–** | **–** | 621 | – | – |
| Dividends received | **–** | **–** | **–** | – | – | – |

## 22. Interests In Associates (continued)

### Summarised financial information of material associates (continued)

| | 31/12/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | **the third RSDI RMB million (unaudited)** | **Yangsigang RMB million (unaudited)** | **Yingwuzhou RMB million (unaudited)** | the third RSDI RMB million (unaudited) | Yangsigang RMB million (unaudited) | Yingwuzhou RMB million (unaudited) |
| Net assets of associates | **2,987** | **1,150** | **1,172** | 2,320 | 453 | 1,172 |
| Proportion of the Group's ownership in associates | **30%** | **50%** | **50%** | 30% | 50% | 50% |
| Non-controlling interests of the associate's subsidiaries | **3** | **–** | **–** | 2 | – | – |
| | **895** | **575** | **586** | 695 | 227 | 586 |
| Other adjustments | **(2)** | **–** | **(19)** | 2 | (7) | (20) |
| Carrying amount of the Group's interest in associates | **893** | **575** | **567** | 697 | 220 | 566 |

### Aggregate information of associates that are not individually material

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| The Group's share of profits (losses) | **418** | (26) |
| The Group's share of other comprehensive income | **–** | – |
| The Group's share of total comprehensive income (expense) | **418** | (26) |
| Aggregate carrying amount of the Group's interests in these associates | **3,923** | 3,767 |
| The unrecognised share of loss of associates for the year | **59** | 42 |
| Cumulative unrecognised share of loss of associates | **195** | 136 |

## 23. Goodwill

| | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|
| COST | | |
| At beginning and end of year | **880** | 880 |
| IMPAIRMENT | | |
| At beginning and end of year | **51** | 51 |
| CARRYING VALUES | | |
| At end of year | **829** | 829 |

The carrying amount of goodwill at the end of the reporting period is attributable to acquisition of subsidiaries in the following subsidiaries (whose principal activities are disclosed in Note 47) and sub-groups headed by these subsidiaries:

| | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|
| China Railway No.1 Engineering Group Co., Ltd. | **66** | 66 |
| China Railway No.3 Engineering Group Co., Ltd. | **51** | 51 |
| China Railway No.4 Engineering Group Co., Ltd. | **95** | 95 |
| China Railway No.5 Engineering Group Co., Ltd. | **82** | 82 |
| China Railway No.8 Engineering Group Co., Ltd. | **26** | 26 |
| China Railway No.9 Engineering Group Co., Ltd. | **53** | 53 |
| China Railway No.10 Engineering Group Co., Ltd. | **26** | 26 |
| China Railway Major Bridge Engineering Group Co., Ltd. | **28** | 28 |
| China Railway Electrification Engineering Group Co., Ltd. | **26** | 26 |
| China Railway Construction Group Co., Ltd. | **88** | 88 |
| China Railway Tunnel Group Co., Ltd. | **19** | 19 |
| China Railway Trust Co., Ltd. | **206** | 206 |
| China Railway No.6 Survey and Design Institute Group Co., Ltd. | **24** | 24 |
| Other subsidiaries | **39** | 39 |
| | **829** | 829 |

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

China Railway Trust Co., Ltd., which is included in other businesses of the Group, 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 the most recent financial budgets of five years approved by management and an extrapolated financial budget for the following five years, and a discount rate of 15% (2015: 15%). A decreasing growth rate has been applied over the most recent financial budgets period and a nil growth rate for the extrapolation period. 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.

## 23. Goodwill (continued)

The recoverable amounts in respect of subsidiaries, which are principally engaged in infrastructure construction, survey, design and consulting services and engineering equipment and component manufacturing, other than China Railway Trust Co., Ltd., have been determined based on a value in use calculation. That calculation uses cash flow projections based on the most recent financial budgets of five years approved by management and an extrapolated financial budget for the following five years, and a discount rate of 11% (2015: 11%). One major assumption is annual growth rates in revenue which vary among different subsidiaries for the most recent financial budgets period and a nil growth rate for the extrapolation period. The growth rates are based on the relevant industry growth forecasts and do 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 the remaining subsidiaries to exceed its recoverable amount.

## 24. Available-For-Sale Financial Assets

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Unlisted open-end equity funds, at market prices | **809** | 509 |
| Unlisted entrusted products, at fair value | **6,321** | 6,254 |
| Listed equity investments in the PRC and Hong Kong, at market prices | **1,349** | 1,541 |
| Unlisted equity investments, at cost less impairment | **5,627** | 3,933 |
| Total | **14,106** | 12,237 |
| Analysed for reporting purpose as: | | |
| – Current | **1,210** | 3,886 |
| – Non-current | **12,896** | 8,351 |
| Total | **14,106** | 12,237 |

The above unlisted entrusted products are investment products mainly relating to property development projects, construction projects and energy projects in Mainland China and are debt instruments. The fair value of the entrusted products is determined based on discounted cash flow analysis.

The above unlisted equity investments are equity securities issued by private entities established in Mainland China. They are measured at cost less impairment at the end of the reporting period 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.

In the current year, the Group redeemed certain unlisted entrusted products upon maturity, disposed of certain listed equity investments and unlisted equity investments with an aggregate carrying amount of RMB7,306 million (2015: RMB6,618 million). A gain on disposal of RMB67 million (2015: RMB93 million) has been recognised in profit or loss for the current year.

## 25. Other Loans and Receivables

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Short-term loans and receivables | **10,561** | 7,212 |
| Long-term loans and receivables | **7,026** | 8,830 |
| | **17,587** | 16,042 |
| Less: Impairment on loans and receivables | **(961)** | (609) |
| Total other loans and receivables | **16,626** | 15,433 |
| Less: Amount due within one year included in current assets | **(9,650)** | (6,620) |
| Amount due after one year | **6,976** | 8,813 |

As at 31 December 2016, other loans and receivables amounting to RMB1,554 million (2015: RMB984 million) do not carry interest. The remaining other loans and receivables carry fixed-rate interests within a range of 3.73% to 43.2% (2015: 3.73% to 43.2%) per annum.

As at 31 December 2016, other loans and receivables amounting to RMB8,653 million (2015: RMB5,726 million) are secured by equity investments, property, plant and equipment, land use rights, or the rights to collect cash flows in relation to certain construction projects and/or guaranteed by a third party. The remaining balances are unsecured and unguaranteed. For those amounts without secured assets, the management takes into consideration of the credit history and solvency of the debtors and believes these amounts are recoverable.

The Group's loan receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| USD | **1,102** | 880 |

Movements in impairment on receivables are as follows:

| | 2016 RMB million | 2015 RMB million |
|---|---|---|
| At beginning of year | **609** | 47 |
| Impairment losses recognised during the year | **352** | 562 |
| At end of year | **961** | 609 |

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## 26. Properties Held for Sale/Properties Under Development for Sale

Properties under development for sale amounting to RMB18,526 million (2015: RMB22,609 million) have been pledged to secure bank borrowings amounting to RMB8,463 million (2015: RMB11,329 million) granted to the Group (see Note 36). Properties under development for sale amounting to RMB902 million (2015: Nil) have been pledged to secure other borrowings amounting to RMB425 million (2015: Nil) granted to the Group (see Note 36).

Properties under development for sale amounting to RMB13,474 million (2015: RMB15,354 million) are expected to be recovered beyond 12 months.

The Group's properties held for sale and properties under development for sale at the end of the reporting period are stated at the lower of cost and net realisable value.

## 27. Inventories

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Raw materials and consumables | **21,725** | 23,930 |
| Work in progress | **2,781** | 2,674 |
| Finished goods | **4,231** | 3,506 |
| | **28,737** | 30,110 |

## 28. 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.

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Trade receivables | **154,287** | 148,024 |
| Less: impairment | **(3,679)** | (3,348) |
| | **150,608** | 144,676 |
| Bills receivable | **11,771** | 1,971 |
| Trade and bill receivables | **162,379** | 146,647 |
| Other receivables (net of impairment) | **33,528** | 34,290 |
| Advance to suppliers | **43,531** | 32,453 |
| | **239,438** | 213,390 |
| Less: Amount due after one year included in non-current assets | **(5,209)** | (7,137) |
| Amount due within one year included in current assets | **234,229** | 206,253 |

## 28. Trade and Other Receivables (continued)

The Group's major customers are the wholly state-owned entities and other government-related enterprises, the majority of which have good credit standing and strong economic background. More than 90% of the trade receivables that are neither past due nor impaired are from customers with good payment history. Trade receivables due from the PRC government-related enterprises are disclosed in Note 46.

Included in trade and bills receivables are retention receivables of RMB47,961 million (2015: RMB50,160 million). Retention receivables are interest-free and recoverable at the end of the retention period of the respective construction contract. The Group's normal operating cycle with respect to this construction contract is usually more than one year.

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:

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Less than six months | **92,483** | 75,435 |
| Six months to one year | **28,676** | 24,802 |
| One year to two years | **23,037** | 26,098 |
| Two years to three years | **9,328** | 11,326 |
| More than three years | **8,855** | 8,986 |
| | **162,379** | 146,647 |

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 trade and other receivables during the year are as follows:

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| At beginning of year | **7,524** | 5,759 |
| Impairment loss recognised during the year | **958** | 1,897 |
| Written-off | **(30)** | (132) |
| Disposal of subsidiaries | **(6)** | – |
| At end of year | **8,446** | 7,524 |

The impairment loss recognised during the year attributable to trade receivables amounted to RMB352 million (2015: RMB352 million).

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period.

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## 28A. Transfer of Financial Assets

The following were the Group's financial assets as at 31 December 2016 and 31 December 2015 that were transferred to banks by discounting those bills receivable and factoring those trade receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured borrowings (see Note 36). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

| | **31/12/2016** | | |
|---|---|---|---|
| | **Bills receivable discounted to bank with full recourse RMB million** | **Trade receivables factoring to bank with full recourse RMB million** | **Total RMB million** |
| Carrying amount of transferred assets | **–** | **944** | **944** |
| Carrying amount of associated liabilities | **–** | **654** | **654** |
| Net position | **–** | **290** | **290** |

| | 31/12/2015 | | |
|---|---|---|---|
| | Bills receivable discounted to bank with full recourse RMB million | Trade receivables factoring to bank with full recourse RMB million | Total RMB million |
| Carrying amount of transferred assets | 37 | 2,333 | 2,370 |
| Carrying amount of associated liabilities | 37 | 1,503 | 1,540 |
| Net position | – | 830 | 830 |

## 29. Amounts Due from (to) Customers for Contract Work

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | **3,505,568** | 3,069,527 |
| Less: progress billings | **(3,406,729)** | (2,962,005) |
| | **98,839** | 107,522 |
| Analysed for reporting purpose as: | | |
| Amounts due from contract customers | **111,791** | 122,379 |
| Amounts due to contract customers | **(12,952)** | (14,857) |
| | **98,839** | 107,522 |

*For the Year Ended 31 December 2016*

## 30. Held-For-Trading Financial Assets (Liabilities)

### Held-for-trading financial assets

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Equity securities listed in Mainland China, at quoted prices | 98 | 83 |
| Equity securities listed in Hong Kong, at quoted prices | 19 | 60 |
| Derivative financial instruments – interest rate swaps *(note)* | 6 | 1 |
| | 123 | 144 |

### Held-for-trading financial liabilities

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Derivative financial instruments – interest rate swaps *(note)* | 157 | 185 |
| | 157 | 185 |

*Note: As at 31 December 2016 and 2015, the Group has two interest rate swap contracts. One Euro interest rate swap will mature in 2021 and one RMB interest rate swap will mature in 2017. Under the Euro contract, the Group will receive interest at fixed rates and pay interest at floating rates. Under the RMB contract, the Group would receive interest at fixed rates up to certain dates between December 2007 and December 2009 and will then receive interest at floating rates thereafter, and pay interest at fixed rates.*

## 31. Restricted Cash

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Restricted cash denominated in: | | |
| RMB | 9,085 | 7,334 |
| USD | 26 | 1 |
| Other currencies | 143 | 79 |
| | 9,254 | 7,414 |

The restricted cash was mainly included mandatory reserves due from central bank and the cash held in dedicated bank accounts under the names of the group entities, which are for the issue of performance bonds to customers and therefore classified as current assets. The restricted cash held in central bank and dedicated bank accounts carry interest at prevailing market interest rates.

## 32. Cash and Cash Equivalents

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Bank balances and cash denominated in: | | |
| RMB | **106,167** | 86,944 |
| USD | **6,116** | 3,702 |
| Other currencies | **2,547** | 2,658 |
| | **114,830** | 93,304 |

Bank balances carry interest at market rates which range from 0 to 8.00% (2015: 0 to 10.00% per annum) 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.

## 33. Share Capital of the Company

| | **Number of shares** | | **Nominal value** | |
|---|---|---|---|---|
| | **2016 '000** | 2015 '000 | **2016 RMB million** | 2015 RMB million |
| Registered capital | | | | |
| A Shares of RMB1.00 each | | | | |
| At beginning of year | **18,636,912** | 17,092,510 | **18,637** | 17,093 |
| Non-public offering | **–** | 1,544,402 | **–** | 1,544 |
| At end of year | **18,636,912** | 18,636,912 | **18,637** | 18,637 |
| H Shares of RMB1.00 each | | | | |
| At beginning and end of year | **4,207,390** | 4,207,390 | **4,207** | 4,207 |
| | **22,844,302** | 22,844,302 | **22,844** | 22,844 |
| Issued and fully paid | | | | |
| A Shares of RMB1.00 each | | | | |
| At beginning of year | **18,636,912** | 17,092,510 | **18,637** | 17,093 |
| Non-public offering | **–** | 1,544,402 | **–** | 1,544 |
| At end of year | **18,636,912** | 18,636,912 | **18,637** | 18,637 |
| H Shares of RMB1.00 each | | | | |
| At beginning and end of year | **4,207,390** | 4,207,390 | **4,207** | 4,207 |
| | **22,844,302** | 22,844,302 | **22,844** | 22,844 |

## 33. Share Capital of the Company (continued)

As at 31 December 2016, the A Shares (18,636,912,000 shares) and H Shares (4,207,390,000 shares) in issue are the ordinary shares in the share capital of the Company. 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 in the Company's Articles of Association.

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

The Company completed the non-public offering of 1,544,402,000 A shares in 2015 and no such event occurred in the current year.

## 34. Perpetual Notes

The Company issued three tranches of public perpetual notes on 1 July 2014, 21 January 2015 and 11 June 2015 with a total principal amount of RMB3 billion, RMB4 billion and RMB3 billion, respectively. In addition the Company issued the first tranche of private perpetual notes on 3 April 2015 with a total principal amount of RMB2 billion.

The notes have no fixed maturity and are redeemable at the Company's option on or after the fifth interest payment date, at their principal amounts together with any accrued, unpaid or deferred coupon payments.

As long as the compulsory interest payment events have not occurred, the Company has the right to choose to defer interests payment at each coupon date without times limit of deferral, which does not cause the Company for breach of contract.

The Company could not defer current interests and all deferred interests before 12 months of the interest payment date when below compulsory interest payment events occur:

- to declare and pay dividend to ordinary shareholders;
- to decrease share capital.

## 35. Trade and Other Payables

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Trade and bills payables | **298,715** | 258,879 |
| Advance from customers | **54,542** | 54,780 |
| Accrued payroll and welfare | **2,688** | 2,878 |
| Other taxes | **2,556** | 10,548 |
| Deposit received in advance | **140** | 144 |
| Dividend payables | **510** | 367 |
| Other payables | **48,953** | 38,280 |
| | **408,104** | 365,876 |
| Analysed for reporting purposes as: | | |
| Non-current | **686** | 631 |
| Current | **407,418** | 365,245 |
| | **408,104** | 365,876 |

The credit period on purchases of goods ranges from 180 days to 360 days. Included in trade and bills payables are retention payables of RMB6,548 million (2015: RMB5,770 million). Retention payables are interest-free and payable at the end of the retention period of the respective construction contract. The Group's normal operating cycle with respect to the construction contract is usually more than one year.

The balances of other payables mainly include payments made by the third parties on behalf of the Group, guarantee money payables and others.

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

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Less than one year | **269,171** | 228,672 |
| One year to two years | **18,217** | 18,432 |
| Two years to three years | **5,549** | 6,224 |
| More than three years | **5,778** | 5,551 |
| | **298,715** | 258,879 |

## 36. Borrowings

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Bank borrowings: | | |
| Secured | 30,466 | 34,442 |
| Unsecured | 91,760 | 92,503 |
| | 122,226 | 126,945 |
| Short-term debentures, unsecured | – | 3,000 |
| Long-term debentures, unsecured | 33,322 | 34,015 |
| Other short-term borrowings, unsecured | 8,755 | 8,755 |
| Other short-term borrowings, secured | 6 | 72 |
| Other long-term borrowings, unsecured | 7,591 | 7,635 |
| Other long-term borrowings, secured | 425 | – |
| | 172,325 | 180,422 |
| Analysed for reporting purposes: | | |
| Non-current | 92,308 | 96,213 |
| Current | 80,017 | 84,209 |
| | 172,325 | 180,422 |

| | 31/12/2016 RMB million | 31/12/2015 RMB million |
|---|---|---|
| Carrying amount repayable *(note)* | | |
| Within one year | 80,017 | 84,209 |
| More than one year but within two years | 28,117 | 19,783 |
| More than two years but within five years | 36,931 | 45,616 |
| More than five years | 27,260 | 30,814 |
| | 172,325 | 180,422 |

*Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements.*

## 36. Borrowings (continued)

On 28 January 2016, the Company issued the first tranche of the corporate bond, which was included in "long-term debentures, unsecured", of a principal amount of RMB2,120 million with a maturity date of 28 January 2026 and of a principal amount of RMB2,050 million with a maturity date of 28 January 2021 respectively. The bonds bear interest at a fixed rate of 3.80% and 3.07% per annum respectively. Interest is payable annually in arrears.

On 21 July 2016, China Railway Xunjie Co. Limited, the wholly-owned subsidiary of the Company, issued the first tranche of the notes guaranteed by the Company, in an aggregate principal amount of USD500 million. The notes will mature on 28 July 2026, unless earlier redeemed or purchased. The notes bear interest at a coupon rate of 3.25% per annum, payable semi-annually in arrears on 28 January and 28 July each year. The effective interest rate of the notes is 3.39% per annum.

On 24 July 2016, China Railway Real Estate Group Co., Ltd, the wholly-owned subsidiary of the Company, issued the first tranche of the private placement bond, which was included in "long-term debentures, unsecured", of a principal amount of RMB1,000 million with a maturity date of 24 September 2019. The bond bears interest at 4.80% per annum respectively. Interest is payable annually in arrears.

Bank borrowings carry interest at rates ranging from 1.12% to 9.00% (2015: 0.92% to 10.05%) per annum.

Short-term debentures were issued at fixed rates ranging from 2.80% to 4.50% (2015: 3.58% to 4.50%) per annum.

Other short-term borrowings carry interest at rates ranging from 1.00% to 7.98% (2015: 1.38% to 10.5%) per annum.

Long-term debentures were issued at fixed rates ranging from 3.07% to 6.40% (2015: 3.85% to 7.2%) per annum.

Other long-term borrowings carry interest at rates ranging from 4.75% to 7.80% (2015: 6.28% to 13.92%) per annum.

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

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| USD | **1,946** | 3,238 |
| EURO | **136** | 122 |
| Others | **164** | 163 |
| | **2,246** | 3,523 |

As at 31 December 2016, there were no rights to collect cash flows in relation to certain construction projects pledged to secure bank borrowings. (At 31 December 2015: the Group pledged its rights to collect cash flows in relation to certain construction projects with contract value of RMB525 million to secure bank borrowings amounting to RMB350 million).

## 36. Borrowings (continued)

The details of secured borrowings are set out below:

| | **31/12/2016** | | 31/12/2015 | |
|---|---|---|---|---|
| | **Secured borrowings RMB million** | **Carrying amount of pledged assets and contract value of certain rights RMB million** | Secured borrowings RMB million | Carrying amount of pledged assets and contract value of certain rights RMB million |
| Property, plant and equipment | **12** | **13** | 192 | 166 |
| Land use rights | **300** | **793** | – | – |
| Intangible assets | **21,043** | **35,098** | 21,103 | 35,792 |
| Properties under development for sale | **8,888** | **19,428** | 11,329 | 22,609 |
| Bills receivable | **–** | **–** | 37 | 37 |
| Accounts receivable | **654** | **944** | 1,503 | 2,333 |
| Rights to collect cash flows in relation to certain construction projects | **–** | **–** | 350 | 525 |
| Total | **30,897** | **56,276** | 34,514 | 61,462 |

## 37. Obligations Under Finance Leases

The Group's leased certain of its equipment under finance leases. The average lease term is 2 years (2015: 3 years). Interest rates underlying all obligations under finance lease are set as the interest rate quoted by the People's Bank of China. 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** | |
|---|---|---|---|---|
| | **31/12/2016 RMB million** | 31/12/2015 RMB million | **31/12/2016 RMB million** | 31/12/2015 RMB million |
| **Amounts payable under finance leases** | | | | |
| Within one year | **455** | 1,405 | **451** | 1,346 |
| In more than one year but not more than five years | **45** | 518 | **42** | 492 |
| | **500** | 1,923 | **493** | 1,838 |
| Less: future finance charges | **(7)** | (85) | **–** | – |
| Present value of lease obligations | **493** | 1,838 | **493** | 1,838 |
| Less: Amount due for settlement within twelve months (shown under current liabilities) | | | **(451)** | (1,346) |
| Amount due for settlement after twelve months | | | **42** | 492 |

## 38. Retirement and Supplemental Benefit Obligations

### State-managed retirement plans and supplementary defined contribution retirement schemes

The employees of the group entities 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 a certain percentage of payroll costs, depending on the applicable local regulations to the state-managed retirement plans. The Group also participates in supplementary defined contribution retirement schemes. The only obligation of these PRC companies with respect to the state-managed retirement plans and supplementary defined contribution retirement schemes is to make the specified contributions.

The total costs charged to profit or loss during the year were RMB4,716 million and RMB610 million respectively (2015: RMB4,303 million and RMB421 million respectively).

As at 31 December 2016, the amounts due in respect of the reporting period not yet paid to the state-managed retirement plans and supplementary defined contribution retirement schemes, and included in trade and other payables were RMB258 million and RMB38 million respectively (2015: RMB320 million and RMB45 million respectively).

### Retirement and other supplemental benefit obligations

The Group paid supplementary pension subsidies and other post-employment medical benefits 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.

The plan exposes the Group to actuarial risks such as interest rate risk, benefit risk and average medical expense risk.

| | |
|---|---|
| Interest rate risk | The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability. |
| Benefit risk | The present value of the defined benefit plan obligation is calculated by reference to the future benefits of plan participants. As such, an increase in the benefits of the plan participants will increase the plan liability. |
| Average medical expense risk | The present value of the defined benefit plan obligation is calculated by reference to the future average medical expense of plan participants. As such, an increase in the average medical expense of the plan participants will increase the plan liability. |

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2016 were carried out by an independent firm of actuaries, Willis Towers Watson. The present value of the defined benefit obligations, and the related current service cost and past cost were measured using the Projected Unit Credit Method.

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

| | Valuation at | |
|---|---|---|
| | **31/12/2016** | 31/12/2015 |
| Discount rate | **3.00%** | 3.00% |
| Early-retiree's salary and supplemental benefit inflation rate | **4.50%** | 4.50% |
| Medical cost trend rates | **8.00%** | 8.00% |

## 38. Retirement and Supplemental Benefit Obligations (continued)

### Retirement and other supplemental benefit obligations (continued)

Amounts recognised in the consolidated statement of profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Service cost | | |
| Past service cost and losses (gains) from settlements | **2** | (20) |
| Net interest expense | **112** | 155 |
| Components of defined benefit costs recognised in profit or loss | **114** | 135 |
| Remeasurement on the net defined benefit obligations: | | |
| Actuarial losses arising from changes in financial assumptions | **–** | 217 |
| Actuarial losses (gains) arising from experience adjustments | **24** | (58) |
| Components of defined benefit costs recognised in other comprehensive income | **24** | 159 |
| Total | **138** | 294 |

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss. The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Present value of unfunded defined benefit obligations | **3,919** | 4,273 |
| Net liability arising from defined benefit obligations | **3,919** | 4,273 |
| Less: Amount due within one year | **(466)** | (494) |
| Amount due after one year | **3,453** | 3,779 |

## 38. Retirement and Supplemental Benefit Obligations (continued)

### Retirement and other supplemental benefit obligations (continued)

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

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Opening defined benefit obligations | **4,273** | 4,523 |
| Interest cost | **112** | 155 |
| Remeasurement losses (gains): | | |
| Actuarial losses arising from changes in financial assumptions | **–** | 217 |
| Actuarial losses (gains) arising from experience adjustments | **24** | (58) |
| Past service cost and losses (gains) from settlements | **2** | (20) |
| Benefits paid | **(492)** | (544) |
| Closing defined benefit obligations | **3,919** | 4,273 |

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, benefit inflation rate and the average medical expense rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on benefit obligation increases (decreases) by 0.25%, the defined benefit obligation would decrease by RMB68 million (increase by RMB70 million) (2015: decrease by RMB75 million (increase by RMB78 million)).
- If the benefit inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB142 million (decrease by RMB125 million) (2015: increase by RMB157 million (decrease by RMB136 million)).
- If the average medical expenses rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB15 million (decrease by RMB15 million) (2015: increase by RMB18 million (decrease by RMB17 million)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligations liability recognised in the consolidated statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

## 38. Retirement and Supplemental Benefit Obligations (continued)

### Retirement and other supplemental benefit obligations (continued)

The average duration of the defined benefit obligation as at 31 December 2016 is 11.4 years (2015: 11.9 years). This number can be analysed as follows:

- civil retirees: 4.6 years (2015: 4.9 years);
- retired members: 11.6 years (2015: 12.2 years); and
- beneficiaries: 11.8 years (2015: 12.4 years).

## 39. Provisions

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| At beginning of year | **294** | 518 |
| Provided for the year | **71** | 33 |
| Utilisation for the year | **(17)** | (257) |
| At end of year | **348** | 294 |
| Analysed for reporting purpose as: | | |
| Non-current | **335** | 248 |
| Current | **13** | 46 |
| | **348** | 294 |

The balance represents the provision recognised for the toll roads' repair and maintenance obligation, product warranties, doubtful trust arising from structured entities and the probable losses to the Group on lawsuits when management can reasonably estimate the outcome of the lawsuits taking into account of the legal advice.

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## 40. Deferred Taxation

The following are the major deferred tax balances recognised and movements thereon during the current and prior years:

| | Tax losses RMB million | Impairment of assets RMB million (note (a)) | Excess of tax depreciation over accounting depreciation RMB million | Retirement and other supplemental benefit obligations RMB million | Fair value changes of available-for-sale financial assets RMB million | Mining assets RMB million | Others RMB million (note (b)) | Total RMB million |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | 518 | 890 | (304) | 838 | (121) | (192) | 1,549 | 3,178 |
| Credit (charge) to profit or loss | (19) | 123 | 48 | (71) | – | 19 | 167 | 267 |
| Credit (charge) to other comprehensive income | – | – | – | 36 | (29) | – | – | 7 |
| Acquisition of subsidiaries | 6 | – | – | – | – | – | – | 6 |
| Disposal of subsidiaries | (47) | (22) | – | – | – | – | – | (69) |
| Effect of change in tax rate credited to profit or loss | 5 | 10 | – | 3 | – | – | 19 | 37 |
| Effect of change in currency exchange rate | (1) | – | – | – | – | – | 22 | 21 |
| At 31 December 2015 | 462 | 1,001 | (256) | 806 | (150) | (173) | 1,757 | 3,447 |
| Credit (charge) to profit or loss | 296 | 236 | (68) | (71) | – | 20 | 591 | 1,004 |
| Credit to other comprehensive income | – | – | – | 8 | 31 | – | – | 39 |
| Effect of change in tax rate charged to profit or loss | – | (15) | – | (2) | – | – | (6) | (23) |
| Effect of change in currency exchange rate | 16 | – | (9) | – | – | (2) | 4 | 9 |
| At 31 December 2016 | 774 | 1,222 | (333) | 741 | (119) | (155) | 2,346 | 4,476 |

*Notes:*

(a) *Impairment of assets is mainly attributable to impairment loss on trade and other receivables, other loans and receivables, available-for-sale financial assets, property, plant and equipment, investment properties, recognition of expected losses on construction contracts and inventories.*

(b) *Others mainly represents unrealised profit arising from intragroup transactions.*

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Deferred tax assets | **5,258** | 4,367 |
| Deferred tax liabilities | **(782)** | (920) |
| | **4,476** | 3,447 |

## 40. Deferred Taxation (continued)

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

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| Tax losses recognised as deferred tax assets | **3,263** | 1,978 |
| Tax losses not recognised as deferred tax assets | **11,018** | 8,447 |
| Total tax losses | **14,281** | 10,425 |
| Other deductible temporary differences not recognised as deferred tax assets | **8,606** | 5,598 |
| Tax losses unrecognised as deferred tax assets that will expire in | | |
| 2016 | **–** | 822 |
| 2017 | **1,141** | 1,226 |
| 2018 | **1,211** | 1,553 |
| 2019 | **1,888** | 2,244 |
| 2020 | **2,495** | 2,602 |
| 2021 | **4,283** | – |
| Total | **11,018** | 8,447 |

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

## 41. Acquisition of Subsidiaries

### (a) Acquisition of businesses

During the year, in order to continue the expansion of the Group's activities, the Group performed the following acquisition.

| | Principal activity | Date of acquisition | Proportion of shares acquired (%) | Consideration RMB million |
|---|---|---|---|---|
| SMST有限責任公司<br>SMST Co., Ltd ("SMST") | Transportation | 30/03/2016 | 100% | 1 |
| | | | | 1 |

**Consideration transferred**

| | SMST RMB million |
|---|---|
| Cash | 1 |
| Total | 1 |

**Assets acquired and liabilities recognised at the date of acquisition**

| | SMST RMB million |
|---|---|
| Current assets | |
| Trade and other receivables | 11 |
| Non-current assets | |
| Property, plant and equipment | 1 |
| Lease prepayments | 1 |
| Current liabilities | |
| Trade and other payables | (12) |
| Total | 1 |
| Net assets acquired | 1 |
| Non-controlling interests | – |
| Total | 1 |

## 41. Acquisition of Subsidiaries (continued)

### (a) Acquisition of businesses (continued)

**Net cash outflows on acquisition of subsidiaries**

| | 2016<br>RMB million |
|---|---|
| Consideration paid in cash | **(1)** |
| *Less:* cash and cash equivalent balances acquired | **–** |
| | **(1)** |

In 2015, in order to continue the expansion of the Group's activities, the Group performed the following acquisitions. The Group held 50% interest in 寶雞保德利電氣設備有限責任公司, 49% interest in 瀋陽中鐵萬科祥盟置地有限公司, 30% interest in 天津華升文化交流有限公司, 20% interest in 上海融御實業有限公司 and 49% interest in 珠海中鐵諾德投資有限公司 before these acquisitions.

| | Principal activity | Date of acquisition | Proportion of shares acquired (%) | Consideration RMB million |
|---|---|---|---|---|
| 寶雞保德利電氣設備有限責任公司<br>Baoji Baodeli Electrification Equipment Co., Ltd（"Baoji Baodeli"） | Manufacturing | 30/06/2015 | 45 | 50 |
| 瀋陽中鐵萬科祥盟置地有限公司<br>Shenyang Zhongtie Wanke Xiangmeng Properties Co., Ltd ("Shenyang Xiangmeng") | Property Development | 30/12/2015 | 51 | 16 |
| 天津華升文化交流有限公司<br>Tianjin Huasheng Culture Communication Co., Ltd ("Tianjin Huasheng") | Property Development | 20/07/2015 | 70 | 1,350 |
| 成都潤宏府置業有限公司<br>Chengdu Runhongfu Properties Co., Ltd ("Chengdu Runhongfu") | Property Development | 31/08/2015 | 100 | 51 |
| 上海融御實業有限公司<br>Shanghai Rongyu Properties Co., Ltd ("Shanghai Rongyu") | Property Development | 17/09/2015 | 80 | 8 |
| 珠海中鐵諾德投資有限公司<br>Zhuhai Zhongtie Nuode Investment Co., Ltd ("Zhuhai Nuode") | Property Development | 02/11/2015 | 51 | 25 |
| | | | | 1,500 |

## 41. Acquisition of Subsidiaries (continued)

### (a) Acquisition of businesses (continued)

**Consideration transferred**

| | Baoji Baodeli RMB million | Shenyang Xiangmeng RMB million | Tianjin Huasheng RMB million | Shanghai Rongyu RMB million | Zhuhai Nuode RMB million | Chengdu Runhongfu RMB million | Total RMB million |
|---|---|---|---|---|---|---|---|
| Cash | 50 | – | 1,350 | 8 | 25 | 26 | 1,459 |
| Other receivables | – | 16 | – | – | – | – | 16 |
| Property, plant and equipment | – | – | – | – | – | 25 | 25 |
| Carrying amounts of previously-held investment | 52 | 22 | 5 | 2 | 25 | – | 106 |
| Excess of fair value of the previously-held investment | 4 | 1 | – | – | – | – | 5 |
| Total | 106 | 39 | 1,355 | 10 | 50 | 51 | 1,611 |

**Assets acquired and liabilities recognised at the date of acquisition**

| | Baoji Baodeli RMB million | Shenyang Xiangmeng RMB million | Tianjin Huasheng RMB million | Shanghai Rongyu RMB million | Zhuhai Nuode RMB million | Chengdu Runhongfu RMB million | Total RMB million |
|---|---|---|---|---|---|---|---|
| Current assets | | | | | | | |
| Cash and cash equivalents | 36 | 4 | 24 | 22 | 14 | 21 | 121 |
| Inventories | 72 | – | – | – | – | – | 72 |
| Properties under development for sale | – | 745 | 1,794 | 1,255 | 2,250 | – | 6,044 |
| Properties held for sale | – | – | – | – | – | 412 | 412 |
| Trade and other receivables | 203 | – | 1,062 | 8 | 1 | 27 | 1,301 |
| Non-current assets | | | | | | | |
| Intangible assets | 1 | – | – | – | – | – | 1 |
| Property plant and equipment | 18 | – | – | 1 | – | 1 | 20 |
| Deferred tax assets | – | 4 | 1 | 1 | – | – | 6 |
| Current liabilities | | | | | | | |
| Trade payables | (218) | (653) | (1,526) | (565) | (941) | (128) | (4,031) |
| Borrowings | – | (53) | – | (712) | – | – | (765) |
| Non-current liabilities | | | | | | | |
| Borrowings | – | – | – | – | (1,274) | (282) | (1,556) |
| Total | 112 | 47 | 1,355 | 10 | 50 | 51 | 1,625 |
| Net asset acquired | 106 | 47 | 1,355 | 10 | 50 | 51 | 1,619 |
| Non-controlling interests | 6 | – | – | – | – | – | 6 |
| Total | 112 | 47 | 1,355 | 10 | 50 | 51 | 1,625 |

# 41. Acquisition of Subsidiaries (continued)

## (a) Acquisition of businesses (continued)

**Bargain purchase gains arising on acquisition**

| | 2015<br>RMB Million |
|---|---|
| Consideration transferred | 1,611 |
| *Plus:* non-controlling interests | 6 |
| *Less:* fair value for identifiable net assets acquired | (1,625) |
| Bargain purchase gains arising on acquisition | (8) |

**Net cash outflows on acquisition of subsidiaries**

| | 2015<br>RMB Million |
|---|---|
| Consideration paid in cash | (1,459) |
| *Less:* cash and cash equivalent balances acquired | 121 |
| | (1,338) |

## (b) Acquisition of a subsidiary not constituting a business

In 2016, the Group acquired certain assets through acquisition of interest in 重慶合景實業集團有限公司 ("Chongqing Hejing"). Chongqing Hejing was the Group's former joint venture. Pursuant to the revised articles of association of Chongqing Hejing, the Group has control of it, so it became a subsidiary of the Company in current year. The acquisition was accounted for as acquisition of assets and liabilities as this subsidiary is not a business.

| | **2016<br>RMB million** |
|---|---|
| Fair value of net assets acquired: | |
| Property, plant and equipment | **2** |
| Lease prepayments | **2** |
| Trade and other receivables | **67** |
| Properties under development for sale | **533** |
| Borrowings | **(448)** |
| Trade and other payables | **(63)** |
| Net assets acquired | **93** |
| Non-controlling interests | **(46)** |
| | **47** |

## 41. Acquisition of Subsidiaries (continued)

### (b) Acquisition of a subsidiary not constituting a business (continued)

**Consideration transferred**

| | 2016<br>RMB million |
|---|---|
| Cash | – |
| Total | – |

**Net cash outflows arising from acquisitions**

| | 2016<br>RMB million |
|---|---|
| Consideration paid in cash | – |
| *Less:* cash and cash equivalent balances acquired | – |
| Total | – |

In 2015, the Group acquired certain assets through acquisition of a 51% interest in 海南鴻安農場有限公司 ("Hainan Hongan") for a consideration of RMB37 million, a 51% interest in 海南勝安農場有限公司 ("Hainan Shengan") for a consideration of RMB62 million, and a 100% interest in 北京恒達中建網絡科技有限公司 ("Beijing Hengda") for a consideration of RMB113 million, The acquisitions were accounted for as acquisition of assets and liabilities as the subsidiaries are not businesses.

The carrying amounts of net assets acquired are as follows:

| | Hainan Hongan<br>RMB million | Hainan Shengan<br>RMB million | Beijing Henda<br>RMB million | Total<br>RMB million |
|---|---|---|---|---|
| Fair value of net assets acquired: | | | | |
| Properties under development for sale | 74 | 129 | – | 203 |
| Trade and other receivables | 3 | 4 | – | 7 |
| Property, plant and equipment | – | – | 113 | 113 |
| Trade and other payables | (5) | (12) | – | (17) |
| Net assets acquired | 72 | 121 | 113 | 306 |
| Non-controlling interests | (35) | (59) | – | (94) |
| | 37 | 62 | 113 | 212 |

## 41. Acquisition of Subsidiaries (continued)

### (b) Acquisition of assets through acquisition of subsidiaries (continued)

**Consideration transferred**

| | **Hainan Hongan** RMB million | **Hainan Shengan** RMB million | **Beijing Henda** RMB million | **Total** RMB million |
|---|---|---|---|---|
| Cash | 37 | 62 | 113 | 212 |
| Total | 37 | 62 | 113 | 212 |

**Net cash outflows arising from acquisitions**

| | **Hainan Hongan** RMB million | **Hainan Shengan** RMB million | **Beijing Henda** RMB million | **Total** RMB million |
|---|---|---|---|---|
| Consideration paid in cash | (37) | (62) | (113) | (212) |
| *Less:* cash and cash equivalent balances acquired | – | – | – | – |
| Total | (37) | (62) | (113) | (212) |

## 42. Disposal of Subsidiaries

During the year, an independent third party made capital injection to a subsidiary of the Group, 北京中鐵華興房地產開發有限公司 and the Group's equity interest therein was diluted from 100% to 50% leading to loss of control over the entity, but the Group still has joint control of this entity. The remaining equity interests in above entity was measured at fair value at the date when the control was lost, and were accounted for as interest in a joint venture from that date onwards.

翼諾捷 used to be a wholly owned subsidiary of China Railway Resources Group Co., Ltd. (China Railway Resources), a wholly owned subsidiary of the Company. To comply with the national policy of "address overcapacity, reduce inventory, deleverage, lower costs, and bolster areas of weakness" and the relevant guidelines, the Group transferred all interests in a former associate, 臨策鐵路有限責任公司, held by the Company, and twelve investments related to coal mines held by China Railway Resources, to 翼諾捷. On 29 December 2016, according to the share transfer agreement signed by China Railway Resources and CRECG, the ultimate holding company of the Company, China Railway Resources transferred 100% interests in 翼諾捷 to CRECG for a consideration of RMB2,456 million fully paid in cash.

## 42. Disposal of Subsidiaries (continued)

### Consideration received

| | 2016<br>RMB million |
|---|---|
| Consideration received in cash and cash equivalents | 2,456 |
| Total consideration received | 2,456 |

### Analysis of asset and liabilities over which control was lost

| | 2016<br>RMB million |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 122 |
| Trade and other receivables | 450 |
| Other loans and receivables | 921 |
| Properties under development for sale | 4,658 |
| Inventories | 9 |
| **Non-Current assets** | |
| Property, plant and equipment | 376 |
| Other prepayments | 59 |
| Lease prepayments | 1 |
| Mining assets | 134 |
| Interests in associates | 428 |
| Available-for-sale financial assets | 178 |
| Trade and other receivables | 1 |
| **Current liabilities** | |
| Trade and other payables | (326) |
| Borrowings | (200) |
| **Non-Current liabilities** | |
| Borrowings | (4,420) |
| Net assets disposed of | 2,391 |

## 42. Disposal of Subsidiaries (continued)

### Gain on disposal of subsidiaries

| | 2016 RMB million |
|---|---|
| Consideration received | 2,456 |
| Net assets disposed of | (2,391) |
| Non-controlling interests | (7) |
| Interest in a joint venture | 24 |
| Gain on disposal | 82 |
| Reclassification of previously recognised non-proportional capital contribution from other shareholders of an associate to profit or loss upon disposal | 345 |
| Total gains on disposal | 427 |

### Net cash inflow on disposal of subsidiaries

| | 2016 RMB million |
|---|---|
| Consideration received in cash and cash equivalents | 2,456 |
| *Less:* cash and cash equivalent balances disposed of | (122) |
| | 2,334 |

In 2015, a third party made additional capital contribution to 貴州中宏置業有限公司 and the Group's interest therein was diluted from 100% to 15% leading to loss of control over the entity, but the Group still has significant influence on the entity. The remaining equity interests in above entity was measured at fair value at the date when the control was lost, and were accounted for as interest in an associate from that date onwards. the Group also disposed of its entire equity interests in 蚌埠恒遠置業有限公司, 湖南青竹湖置業有限公司, 瀋陽中鐵萬科朗榆置地有限公司, 成都華信天宇實業有限公司, 中鐵電化集團南京有限公司 and 中鐵資源集團雲山石墨礦業有限公司 for a total consideration of RMB2,407 million.

### Consideration received

| | 2015 RMB million |
|---|---|
| Consideration received in cash and cash equivalents | 1,038 |
| Consideration receivable | 1,369 |
| Total consideration received | 2,407 |

## 42. Disposal of Subsidiaries (continued)

### Analysis of asset and liabilities over which control was lost

| | 2015<br>RMB million |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 752 |
| Trade and other receivables | 829 |
| Amounts due from customers for contract work | 9,018 |
| Properties held for sale | 243 |
| Properties under development for sale | 1,641 |
| Current income tax recoverable | 41 |
| **Non-Current assets** | |
| Property, plant and equipment | 116 |
| Mining assets | 131 |
| Deferred tax assets | 69 |
| **Current liabilities** | |
| Trade and other payables | (2,932) |
| **Non-Current liabilities** | |
| Borrowings | (6,640) |
| Net assets disposed of | 3,268 |

### Gain on disposal of subsidiaries

| | 2015<br>RMB million |
|---|---|
| Consideration received | 2,407 |
| Net assets disposed of | (3,268) |
| Non-controlling interests | 942 |
| Interest in an associate | 2 |
| Gain on disposal | 83 |

### Net cash inflow on disposal of subsidiaries

| | 2015<br>RMB million |
|---|---|
| Consideration received in cash and cash equivalents | 1,038 |
| *Less:* cash and cash equivalent balances disposed of | (752) |
| | 286 |

## 43. Contingent Liabilities

| | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|
| Pending lawsuits | | |
| – arising in the ordinary courseof business *(note (a) & note (b))* | **987** | 1,458 |
| – overseas lawsuits *(note (c) & note (d))* | **381** | 854 |
| | **1,368** | 2,312 |

*Notes:*

*(a) 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 (see Note 39). No provision has been made for those pending lawsuits where the management considered that the claims will not be successful. The aggregate sum of these unprovided claims is disclosed in the table above.*

*(b) The indirectly owned subsidiary of the Company, China Railway Resources Haixi Coal Co., Ltd. ("CRRH"), was transferred to 翼諾捷. Due to the disposal of 翼諾捷 to CRECG, the Group no longer bears any responsibility for all pending litigation relevant with CRRH.*

*(c) Two subsidiaries of the Company, China Overseas Engineering Group Co., Ltd. ("COVEC") and China Railway Tunnel Group Co., Ltd., established a consortium (the "Consortium") with another two independent parties in 2009 for the design and construction of certain sections of the A2 motorway Stryków – Konotopa, which is owned by the Polish General Directorate for National Roads and Motorways in Poland ("PGDNRM"). The Group's share of the total contract amount is approximately Polish Zloty ("PLN") 1,160 million (equivalent to approximately USD402 million or RMB2,741 million). The parties in the Consortium also issued a letter of performance guarantee and paid for a performance bond. During the construction work, the construction contract incurred losses due to various factors. The Consortium sent termination notices dated 3 June 2011 to PGDNRM and PGDNRM sent termination notices dated 13 June 2011 to the Consortium.*

*On 29 September 2011, PGDNRM applied to the Poland Warsaw District Court for a payment order demanding COVEC, Poland branch of COVEC and another independent party in the Consortium collectively or individually for penalties and interests of an aggregate amount of PLN129 million (equivalent to approximately USD42 million or RMB263 million), whereas all parties in the Consortium bear liabilities jointly and severally. The lawyer of the Consortium then raised an objection to the payment order and the payment order became void under Polish law. The relevant parties have since commenced to resolve the matter in dispute under litigation procedures.*

*In 2014, the Consortium began to settle the above case through the negotiation with PGDNRM by coordination of relevant parties.*

*On 25 February 2015, the Poland Warsaw District Court decided to suspend the lawsuit procedure for one year. On 26 February 2016, as the suspension of the lawsuit procedure expired, PGDNRM applied to resume the lawsuit procedure. To proceed the settlement of this case, the Group made effort to negotiate with PGDNRM and all parties agreed to apply for suspension in 2016. On 25 April 2016, the trial of this case was suspended again.*

*On 25 February 2017, as the suspension of the lawsuit procedure expired, the Poland Warsaw District Court resumed the lawsuit procedure. On 24 March 2017, the Group applied to the Poland Warsaw District Court for suspension together with PGDNRM.*

*There is no significant progress up to the date of issuance of these consolidated financial statements. At this stage, the Directors consider it premature to assess the outcome of this case.*

## 43. Contingent Liabilities (continued)

*Notes: (continued)*

*(d) Exploitations Artisanales Au Congo ("EXACO") was a former shareholder of La Miniere De Kalumbwe Myunga sprl ("MKM"), an indirectly owned subsidiary of the Company. As at 30 August 2011, EXACO had disposed of its entire interests in MKM.*

*On 1 September 2015, EXACO filed an arbitration application to International Court of Arbitration of the International Chamber of Commerce due to MKM's failure of fulfilling its contractual obligation, and claimed for a compensation from MKM amounting to USD55 million (equivalent to approximately RMB356 million) including the loss caused by previous 43.5% share transfer and previous 11.5% share forced sale with the interests due to delayed payment since November 2012, and all arbitration fees and other expenses EXACO has paid for the arbitration proceedings. EXACO also requested that China Railway Resources Global Holding Limited ("CRRG"), the holding company of MKM, and China Railway Resources, the holding company of CRRG, bear joint liabilities as to the obligations of above compensations.*

*On 7 January 2016, the International Court of Arbitration of the International Chamber of Commerce appointed 3 arbitrators for this arbitration and the arbitration tribunal was formed on 12 May 2016. According to the arbitration arrangements, this case will be heard for the first time on 22 May 2017.*

*On 10 February 2017, EXACO submitted its Statement of Defense and counterclaims to the arbitration tribunal. In the Statement of Defense and counterclaims, EXACO amended the amount of loss caused by 43.5% share transfer from USD55 million (equivalent to approximately RMB356 million) to USD53 million (equivalent to approximately RMB370 million).*

*Given this case is still pending, the Directors consider that it is premature to assess the outcome of this case.*

The Group has provided guarantees to banks in respect of banking facilities utilised by certain related companies and third parties. The maximum exposure of these financial guarantees to the Group is as follows.

| | **31/12/2016** | | 31/12/2015 | |
|---|---|---|---|---|
| | **RMB million** | **Expiry period** | RMB million | Expiry period |
| Guarantees given to banks in respect of banking facilities to: | | | | |
| Associates | **5,467** | **2017-2023** | 4,011 | 2016-2025 |
| Joint ventures | **400** | **2017-2018** | 2,230 | 2016-2020 |
| Other government-related enterprise | **61** | **2017** | 57 | 2016 |
| Property purchasers | **21,005** | **2017-2025** | 17,920 | 2016-2021 |
| An investee of the Group | **–** | **N/A** | 5 | 2016 |
| A former subsidiary | **928** | **2022** | 541 | 2021-2022 |
| Two former associates | **1,363** | **2020-2024** | – | |
| | **29,224** | | 24,764 | |

## 44. Commitments

### Capital expenditure

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| Contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | **1,242** | 1,042 |

### Investment commitment

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

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| Investment commitment to an associate *(Note)* | **18,383** | 17,260 |
| Investment commitment to joint ventures | **3,617** | 792 |
| | **22,000** | 18,052 |

Note: *The amount represents the Group's commitment in respect of the Group's investment in certain mining projects (including development and construction expenditures) in the Democratic Republic of the Congo pursuant to co-operation agreements signed between the co-operation partners. The co-operation partners have been discussing the mining project details and negotiating the investment amounts. The negotiation was still in progress as at the date of issuance of these consolidated financial statements. The amount of investment commitment disclosed above was based on the latest status of the negotiation between the co-operation partners which is subject to change based on the project and the negotiation progress in the future.*

### Operating lease commitments

**The Group as lessor**

Rental income earned in respect of investment properties was set out in Note 11. The investment properties held for rental purposes are expected to generate rental yields of 7.57% to 16.67% (2015: 6.56% to 16.67%) on an ongoing basis. The tenancy periods are for a term of one to ten years. At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| Within one year | **261** | 282 |
| In the second to fifth year, inclusive | **694** | 781 |
| After five years | **605** | 657 |
| | **1,560** | 1,720 |

## 44. Commitments (continued)

### Operating lease commitments (continued)

**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.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| Within one year | **593** | 398 |
| In the second to fifth year, inclusive | **119** | 177 |
| After five years | **35** | 37 |
| | **747** | 612 |

## 45. Capital Management and Financial Instruments

### Capital 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 group entities and to maximise the return to the owners of the Company through optimisation of debt and equity balance. The capital structure of the Group consists of the borrowings and obligations under finance leases disclosed in Notes 36 and 37, net of cash and cash equivalents, and total equity of the Group.

The Directors review the capital structure on a quarterly basis. As part of this review, the Directors consider the cost of capital and the risks associated 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 debts as well as the redemption of existing debts.

### Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale 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, and held-for-trading financial liabilities. Details of these financial instruments are disclosed in the respective notes. The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

## 45. Capital Management and Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Foreign currency risk management**

The functional currency of majority 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, settle purchases of machinery and equipment suppliers and certain expenses. Certain bank balances and borrowings which are denominated in foreign currencies 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 | |
|---|---|---|---|---|
| | **2016 RMB million** | 2015 RMB million | **2016 RMB million** | 2015 RMB million |
| Group | | | | |
| USD | **8,169** | 7,647 | **8,141** | 8,619 |
| EURO | **163** | 134 | **442** | 306 |
| HKD | **12** | 61 | **859** | 1,321 |
| Others | **2,530** | 3,128 | **6,817** | 4,342 |
| Inter-company balances | | | | |
| USD | **2,549** | 3,511 | **71** | 2,932 |
| HKD | **7** | – | **155** | 724 |
| Others | **156** | 23 | **726** | 171 |

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

The following table details the Group's sensitivity to a reasonably possible change of 6% (2015: 6%) in exchange rate of each foreign currency against RMB while all other variables are held constant. 6% (2015: 6%) 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 outstanding foreign currency denominated monetary items as well as inter-company balances and loans to foreign operations that form part of a net investment where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower and adjusts their translation at the end of the reporting period for a 6% (2015: 6%) change in foreign currency rates.

## 45. Capital Management and Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Foreign currency risk management (continued)**

An analysis of sensitivity to foreign currency risk is as follows:

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Increase (decrease) in post-tax profit for the year *(note (a))* | | |
| if RMB weakens against foreign currencies | **246** | 123 |
| if RMB strengthens against foreign currencies | **(246)** | (123) |
| Increase (decrease) in Equity *(note (b))* | | |
| if RMB weakens against foreign currencies | **156** | 108 |
| if RMB strengthens against foreign currencies | **(156)** | (108) |

*Notes:*

*(a) This is mainly attributable to the exposure outstanding on foreign currencies receivables and payables not subject to cash flow hedges and inter-company balances at year end.*

*(b) This is as a result of exchange differences on loans to foreign operations that form part of a net investment.*

**Interest rate risk management**

The fair value interest rate risk relates primarily to the Group's fixed-rate bank borrowings, other loans and receivables, and certain interest rate swaps. The cash flow interest rate risks of the Group relates primarily to floating-rate bank borrowing and obligations under finance lease, interest rate swaps and available-for-sale financial assets of unlisted entrusted products, measured at fair value. The Group currently does not have an interest rate 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 interest rate risk is prepared assuming the amount of floating-rate financial liabilities at the end of the reporting period were outstanding and the amount of available-for-sale financial assets of unlisted debt related entrusted products at the end of the reporting period retained for the whole year. A 25 (2015: 50) basis point increase or decrease in variable-rate bank borrowings, variable-rate finance lease payable, variable-rate other borrowings and interest rate swap are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

## 45. Capital Management and Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Interest rate risk management (continued)**

| | **2016** | 2015 |
|---|---|---|
| Reasonably possible change in interest rate | **25 basis points** | 50 basis points |

| | **2016**<br>**RMB million** | 2015<br>RMB million |
|---|---|---|
| Increase (decrease) in post-tax profit for the year | | |
| as a result of increase in interest rate | **(178)** | (357) |
| as a result of decrease in interest rate | **178** | 357 |
| Increase (decrease) in other comprehensive income | | |
| as a result of increase in interest rate | **14** | 25 |
| as a result of decrease in interest rate | **(14)** | (25) |

**Other price risks**

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 30 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.

For sensitivity analysis purpose, the sensitivity rate is changed to 6% (2015: 5%) in the current year due to change in market conditions.

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

| | **2016** | 2015 |
|---|---|---|
| Reasonably possible change in equity price | **6%** | 5% |

| | **2016**<br>**RMB million** | 2015<br>RMB million |
|---|---|---|
| Increase (decrease) in post-tax profit for the year | | |
| as a result of increase in equity price | **5** | 6 |
| as a result of decrease in equity price | **(5)** | (6) |
| Increase (decrease) in other comprehensive income | | |
| as a result of increase in equity price | **80** | 78 |
| as a result of decrease in equity price | **(80)** | (78) |

## 45. Capital Management and Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Credit risk management**

As at 31 December 2016, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in Note 43.

In order to minimise the credit risk, the management of the Group has delegated the teams 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 material individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. One major customer (including its controlled entities), which is a wholly state-owned enterprise, contributes a significant portion of the revenue and receivables of the Group. The management considers that the credit risk in respect of this customer is limited.

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 would 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.

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 represent 33% (2015: 35%) and 36% (2015: 40%) of the total trade receivables respectively.

The Group has concentration of credit risk in respect of other loans and receivables as the Group's largest other loans and receivables and the five largest other loans and receivables represent 13% (2015: 14%) and 43% (2015: 53%) of the total loans and receivables respectively.

**Liquidity risk management**

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. As at 31 December 2016, the Group has available unutilised short-term bank borrowing facilities of RMB518,242 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 could be required to pay.

## 45. Capital Management and Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

#### Liquidity risk management (continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

| | On demand or 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 2016** | | | | | | | | |
| Trade and other payables *(note)* | 338,159 | 1,201 | 4,512 | 159 | 115 | 36 | 344,182 | 344,027 |
| Borrowings | 86,626 | 31,863 | 18,430 | 15,687 | 9,018 | 32,738 | 194,362 | 172,325 |
| Obligations under finance leases | 455 | 40 | 5 | – | – | – | 500 | 493 |
| Financial guarantee contracts | 29,224 | – | – | – | – | – | 29,224 | – |
| | 454,464 | 33,104 | 22,947 | 15,846 | 9,133 | 32,774 | 568,268 | 516,845 |
| **At 31 December 2015** | | | | | | | | |
| Trade and other payables *(note)* | 296,190 | 1,252 | 659 | 335 | 45 | 187 | 298,668 | 298,430 |
| Borrowings | 92,042 | 24,124 | 31,133 | 8,566 | 14,098 | 37,246 | 207,209 | 180,422 |
| Obligations under finance leases | 1,405 | 470 | 46 | 2 | – | – | 1,923 | 1,838 |
| Financial guarantee contracts | 24,764 | – | – | – | – | – | 24,764 | – |
| | 414,401 | 25,846 | 31,838 | 8,903 | 14,143 | 37,433 | 532,564 | 480,690 |

*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.*

As at 31 December 2016 and 2015, there is no bank borrowing that contains a repayment on demand clause.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 45. Capital Management and Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Liquidity risk management (continued)**

The following table details the Group's expected maturity of its non-derivative financial assets other than those classified as available-for-sale and held-for-trading financial assets. The table below has been drawn up based on the undiscounted cash flows of financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

| | 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 2016** | | | | | | | | |
| Trade and other receivables *(note)* | 143,835 | 17,289 | 22,320 | 3,793 | 2,452 | 1,930 | 191,619 | 189,160 |
| Other loans and receivables | 11,351 | 1,993 | 1,596 | 119 | 119 | 3,292 | 18,470 | 16,626 |
| Restricted cash | 9,254 | – | – | – | – | – | 9,254 | 9,254 |
| Cash and cash equivalents | 114,830 | – | – | – | – | – | 114,830 | 114,830 |
| | 279,270 | 19,282 | 23,916 | 3,912 | 2,571 | 5,222 | 334,173 | 329,870 |
| **At 31 December 2015** | | | | | | | | |
| Trade and other receivables *(note)* | 146,504 | 14,691 | 9,703 | 5,419 | 1,415 | 1,918 | 179,650 | 177,675 |
| Other loans and receivables | 7,165 | 6,475 | 506 | 1,765 | 33 | 693 | 16,637 | 15,433 |
| Restricted cash | 7,414 | – | – | – | – | – | 7,414 | 7,414 |
| Cash and cash equivalents | 93,304 | – | – | – | – | – | 93,304 | 93,304 |
| | 254,387 | 21,166 | 10,209 | 7,184 | 1,448 | 2,611 | 297,005 | 293,826 |

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

The following table details the Group's liquidity analysis for its derivative financial instruments that are settled on a net basis. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on the derivative instruments. Since the amount payable is not fixed, the amount disclosed has been determined with reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of the derivatives.

## 45. Capital Management and Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Liquidity risk management (continued)**

| | 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 2016** | | | | | | | | |
| Net cash outflows of | | | | | | | | |
| – interest rate swaps | (160) | – | – | – | – | – | (160) | (151) |
| **At 31 December 2015** | | | | | | | | |
| Net cash outflows of | | | | | | | | |
| – interest rate swaps | (129) | (74) | – | – | – | – | (203) | (185) |

### Categories and fair value measurement

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

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Held-for-trading financial assets | **123** | 144 |
| Loans and receivables: | | |
| Other loans and receivables | **16,626** | 15,433 |
| Trade and other receivables | **189,160** | 177,675 |
| Restricted cash | **9,254** | 7,414 |
| Cash and cash equivalents | **114,830** | 93,304 |
| | **329,870** | 293,826 |
| Available-for-sale financial assets | **14,106** | 12,237 |
| Financial liabilities at fair value through profit or loss: | | |
| Held-for-trading financial liabilities | **157** | 185 |
| Other financial liabilities: | | |
| Trade and other payables | **344,027** | 298,430 |
| Borrowings | **172,325** | 180,422 |
| Obligations under finance leases | **493** | 1,838 |
| | **516,845** | 480,690 |

# 45. Capital Management and Financial Instruments (continued)

## Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

| Financial assets/ financial liabilities | Fair value as at (RMB in million) 31/12/2016 | | 31/12/2015 | | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|---|
| 1) Interest rate swaps classified as held-for-trading financial assets/liabilities | **Assets/Liabilities** | **Amount** | Assets/Liabilities | Amount | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties. | N/A | N/A |
| | **Assets** | **6** | Assets | 1 | | | | |
| | **Liabilities** | **157** | Liabilities | 185 | | | | |
| 2) Listed equity securities classified as held-for-trading financial assets | **Listed equity securities in Mainland China and Hong Kong:** | | Listed equity securities in Mainland China and Hong Kong: | | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| | **Industry** | **Amount** | Industry | Amount | | | | |
| | **Mining** | **–** | Mining | 42 | | | | |
| | **Manufacturing** | **18** | Manufacturing | 20 | | | | |
| | **Transportation** | **19** | Transportation | 19 | | | | |
| | **Construction** | **–** | Construction | 17 | | | | |
| | **Finance** | **30** | Finance | 8 | | | | |
| | **Others** | **50** | Others | 37 | | | | |
| | **Total** | **117** | Total | 143 | | | | |
| 3) Listed equity securities classified as available-for-sale financial assets | **Listed equity securities in Mainland China:** | | Listed equity securities in Mainland China: | | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| | **Industry** | **Amount** | Industry | Amount | | | | |
| | **Finance** | **668** | Finance | 936 | | | | |
| | **Manufacturing** | **65** | Manufacturing | 73 | | | | |
| | **Total** | **733** | Total | 1,009 | | | | |

# 45. Capital Management and Financial Instruments (continued)

## Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

| Financial assets/ financial liabilities | Fair value as at (RMB in million) 31/12/2016 | | 31/12/2015 | | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|---|
| 4) Listed equity securities classified as available-for-sale financial assets | **Listed equity securities in Hong Kong:** | | Listed equity securities in Hong Kong: | | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| | **Industry** | **Amount** | Industry | Amount | | | | |
| | **Construction** | **615** | Construction | 531 | | | | |
| | **Mining** | **1** | Mining | 1 | | | | |
| | **Total** | **616** | Total | 532 | | | | |
| 5) Unlisted open-end equity funds classified as available-for-sale financial assets | **Unlisted open-end equity funds in Mainland China:** | | Unlisted open-end equity funds in Mainland China: | | | | | |
| | **Industry** | **Amount** | Industry | Amount | | | | |
| | **Finance** | **183** | Finance | 262 | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| | **Finance** | **626** | Finance | 247 | Level 3 | Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. | Expected future cash flow<br>Discount rates that correspond to the expected risk level. | The higher the future cash flow, the higher the fair value.<br>The lower the discount rate, the higher the fair value. |
| | **Total** | **809** | Total | 509 | | | | |
| 6) Unlisted entrusted products classified as available-for-sale financial assets | **Unlisted entrusted products in Mainland China:** | | Unlisted entrusted products in Mainland China: | | Level 3 | Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. | Expected future cash flow<br>Discount rates that correspond to the expected risk level. | The higher the future cash flow, the higher the fair value.<br>The lower the discount rate, the higher the fair value. |
| | **Industry** | **Amount** | Industry | Amount | | | | |
| | **Construction** | **3,461** | Construction | 2,044 | | | | |
| | **Real estate** | **1,115** | Real estate | 1,647 | | | | |
| | **Manufacture** | **31** | Manufacture | 223 | | | | |
| | **Finance** | **1,131** | Finance | 759 | | | | |
| | **Mining** | **20** | Mining | 40 | | | | |
| | **Others** | **563** | Others | 1,541 | | | | |
| | **Total** | **6,321** | Total | 6,254 | | | | |

## 45. Capital Management and Financial Instruments (continued)

### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

The Group owns equity interest in North Asia Resources Holding Limited ("North Asia") which is classified as available-for sale investment and measured at fair value at each reporting date. Being in the lock up period, the fair value of the investment as at 31 December 2014 was measured with reference to the quoted prices with an adjustment of discount for lack of marketability and was classified as Level 2 of the fair value hierarchy. The look up period of North Asia was lapsed in 2015, the fair value of the investment as at 31 December 2015 was determined based on a quoted price on HKSE and was classified as Level 1 of the fair value hierarchy.

There were no transfers between Level 1 and 2 during the year of 2016.

Reconciliation of Level 3 fair value measurements:

| | **Available-for-sale unlisted entrusted products RMB million** | **Available-for-sale open-end funds RMB million** | **Total RMB million** |
|---|---|---|---|
| At 1 January 2016 | **6,254** | **247** | **6,501** |
| Total gains: | | | |
| – in other comprehensive income | **90** | **–** | **90** |
| – cumulative gain reclassified from equity to profit or loss on disposal and impairment provided for the year | **(263)** | **–** | **(263)** |
| Purchases | **8,186** | **457** | **8,643** |
| Settlements | **(7,946)** | **(78)** | **(8,024)** |
| At 31 December 2016 | **6,321** | **626** | **6,947** |

| | Available-for-sale unlisted entrusted products RMB million | Available-for-sale open-end funds RMB million | Total RMB million |
|---|---|---|---|
| At 1 January 2015 | 5,954 | – | 5,954 |
| Total gains: | | | |
| – in other comprehensive income | 1 | – | 1 |
| – cumulative gain reclassified from equity to profit or loss on disposal | (52) | – | (52) |
| Purchases | 6,724 | 247 | 6,971 |
| Settlements | (6,373) | – | (6,373) |
| At 31 December 2015 | 6,254 | 247 | 6,501 |

## 45. Capital Management and Financial Instruments (continued)

### Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB million | Fair value RMB million | Fair value hierarchy Level | Carrying amount RMB million | Fair value RMB million | Fair value hierarchy Level |
| **Financial assets** | | | | | | |
| Loan receivables – fixed rate | **16,626** | **17,689** | **2** | 15,433 | 15,151 | 2 |
| **Financial liabilities** | | | | | | |
| Bank borrowings – fixed rate | **1,502** | **1,516** | **2** | 1,449 | 1,466 | 2 |
| Long-term debentures – fixed rate | **33,322** | **34,106** | **2** | 34,015 | 35,840 | 2 |
| Other long-term borrowings – fixed rate | **7,192** | **7,533** | **2** | 6,534 | 6,718 | 2 |

The fair value hierarchy of the fair value of fixed rate loan receivables, bank borrowings, long-term debentures and other long-term borrowings are included in the level 2. The fair values of above financial assets and liabilities included in the level 2 category have been determined based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

## 46. Related Party Transactions

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or under significant influence by the PRC government ("government-related entities"). In addition, the Group itself is part of a larger group of companies under CRECG (CRECG and its subsidiaries other than the Group are referred to as the "CRECG Group") which is controlled by the PRC government.

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or organisations (collectively "State-owned Enterprises"). During the year, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of infrastructure construction services and purchases of services. The Directors consider that the transactions with these State-owned Enterprises are activities in the ordinary course of the Group's business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for services and products, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationship, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

## 46. Related Party Transactions (continued)

The following is a summary of significant related party transactions between the Group and its related parties (other than transactions with government-related entities which are not individually or collectively significant) during the year and balances arising from related party transactions at the end of the reporting period.

### Significant related party transactions

The Group had the following significant transactions with related parties:

| | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|
| **Transactions with the CRECG Group** | | |
| Disposal of a subsidiary (see Note 42) | 2,456 | – |
| Revenue from construction contracts | 132 | 84 |
| Revenue from sale of goods | – | 95 |
| Service expenses paid | 30 | 30 |
| Rental expense | 33 | 34 |
| Interest expenses | 19 | 72 |
| Interest income | 1 | – |
| **Transactions with joint ventures** | | |
| Revenue from construction contracts | 123 | – |
| Revenue from sales of goods | 28 | 64 |
| Rental income | 1 | – |
| Interest income | 34 | 46 |
| Interest expense | 1 | 6 |
| Purchases | 2,330 | 1,952 |
| Progress billing on behalf of customers | 7,032 | 8,348 |
| **Transactions with associates** | | |
| Revenue from construction contracts | 1,082 | 1,193 |
| Revenue from sales of goods | 1,104 | 877 |
| Interest income | 35 | 61 |
| Progress billing on behalf of customers | 7,216 | 6,510 |
| Rental income | 6 | 5 |
| Revenue from rendering of services | – | 2 |
| Purchases | 1,416 | – |
| Service expense paid | 1 | 12 |

## 46. Related Party Transactions (continued)

### Balances with related parties

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| **ASSETS** | | |
| *Balances with the CRECG Group* | | |
| Trade receivables | 57 | 3 |
| Other receivables | – | 2 |
| Advance to supplier | 128 | 74 |
| Loan receivables | 1,584 | – |
| *Balances with joint ventures* | | |
| Trade receivables | 2,179 | 643 |
| Other receivables | 712 | 803 |
| Advance to suppliers | 3 | 53 |
| Amounts due from customers for contract work | 311 | 994 |
| Loan receivables | 574 | 400 |
| Dividend receivables | – | 17 |
| *Balances with associates* | | |
| Trade receivables | 2,654 | 2,939 |
| Other receivables | 862 | 1,062 |
| Advance to suppliers | 116 | – |
| Loan receivables | 1,937 | 2,493 |
| Dividends receivable | 16 | 39 |
| Amounts due from customers for contract work | – | 1,303 |
| **LIABILITIES** | | |
| *Balances with the CRECG Group* | | |
| Trade payables | 9 | 9 |
| Other payables | 96 | 155 |
| Advance from customers | – | 2 |
| Borrowings – current | 56 | 1,944 |
| *Balances with joint ventures* | | |
| Trade payables | 312 | 196 |
| Other payables | 311 | 112 |
| Advance from customers | 45 | 127 |
| Borrowings – current | 551 | 1 |
| *Balances with associates* | | |
| Trade payables | 29 | 15 |
| Other payables | 161 | 78 |
| Advance from customers | 237 | 129 |
| Borrowings – current | 8 | 172 |
| Borrowings – non-current | – | 240 |

In addition, the Group provided guarantees to banks in respect of banking facilities utilised by three associates, two joint ventures, an investee of the Group, a former subsidiary, two former associates and a government-related enterprise, the maximum exposure of which are disclosed in Note 43.

## 46. 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:

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Basic salaries, allowances and other benefits-in-kind | **3,194** | 2,113 |
| Contributions to pension plans classified as defined contribution plans | **463** | 445 |
| Discretionary bonus | **3,430** | 6,844 |
| | **7,087** | 9,402 |

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 the respective individuals and the market trends.

### Guarantees and security

At the end of the reporting period, details of amount of borrowings of the Group guaranteed by a related party were as follows:

| | **31/12/2016** **RMB million** | 31/12/2015 RMB million |
|---|---|---|
| CRECG | **11,000** | 11,000 |

## 47. Subsidiaries

### General information of subsidiaries

As at 31 December 2016 and 2015, the Company had the following principal subsidiaries:

| Name of subsidiary | Country/place of establishment and operation | Issued and paid in capital '000 | Class of capital | Proportion of interest and voting power held by the Group 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 中鐵一局集團有限公司 China Railway No.1 Engineering Group Co., Ltd. | PRC | RMB2,790,164 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵二局集團有限公司 China Railway No.2 Engineering Group Co., Ltd. | PRC | RMB1,663,820 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵三局集團有限公司 China Railway No.3 Engineering Group Co., Ltd. | PRC | RMB2,347,980 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵四局集團有限公司 China Railway No.4 Engineering Group Co., Ltd. | PRC | RMB3,668,531 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵五局集團有限公司 China Railway No.5 Engineering Group Co., Ltd. | PRC | RMB2,294,587 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵六局集團有限公司 China Railway No.6 Engineering Group Co., Ltd. | PRC | RMB1,706,806 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵七局集團有限公司 China Railway No.7 Engineering Group Co., Ltd. | PRC | RMB1,727,122 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵十局集團有限公司 China Railway No.10 Engineering Group Co., Ltd. | PRC | RMB1,999,943 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵大橋局集團有限公司 China Railway Major Bridge Engineering Group Co., Ltd. | PRC | RMB2,149,503 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵電氣化局集團有限公司 China Railway Electrification Engineering Group Co., Ltd. | PRC | RMB2,008,223 | Registered | 100 | 100 | Infrastructure construction |
| 中鐵建工集團有限公司 China Railway Construction Group Co., Ltd. | PRC | RMB2,385,003 | Registered | 100 | 100 | Infrastructure construction |

## 47. Subsidiaries (continued)

### General information of subsidiaries (continued)

| Name of subsidiary | Country/place of establishment and operation | Issued and paid in capital '000 | Class of capital | Proportion of interest and voting power held by the Group 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 中鐵隧道集團有限公司 China Railway Tunnel Group Co., Ltd. | PRC | RMB2,333,103 | Registered | **100** | 100 | Infrastructure construction |
| 中鐵國際集團有限公司 China Railway International Group Co., Ltd. | PRC | RMB1,000,000 | Registered | **100** | 100 | Infrastructure construction |
| 中鐵二院工程集團有限責任公司 China Railway Eryuan Engineering Group Co. Ltd. | PRC | RMB1,195,038 | Registered | **100** | 100 | Survey and design |
| 中鐵山橋集團有限公司 China Railway Shanhaiguan Bridge Group Co., Ltd. | PRC | RMB1,670,000 | Registered | **100** | 100 | Bridge steel structure manufacturing |
| 中鐵置業集團有限公司 China Railway Real Estate Group Co., Ltd. | PRC | RMB5,000,011 | Registered | **100** | 100 | Property development |
| 中鐵資源集團有限公司 China Railway Resources Group Co., Ltd. | PRC | RMB5,427,127 | Registered | **100** | 100 | Mining |
| 中鐵交通投資集團有限公司 China Railway Communications Investment Group Co., Ltd. | PRC | RMB6,000,000 | Registered | **100** | 100 | Build-operate-transfer service concession arrangement |
| 中鐵信託有限責任公司 China Railway Trust Co., Ltd. ("China Railway Trust") | PRC | RMB3,200,000 | Registered | **93** | 93 | Financial trust management |
| 中鐵財務有限責任公司 China Railway Finance Co., Ltd. | PRC | RMB4,000,000 | Registered | **95** | 95 | Comprehensive financial service |

All the above subsidiaries were established as limited liability companies in the PRC, which have similar characteristics of limited liability company incorporated under the 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.

## 47. Subsidiaries (continued)

### Information of debt securities

As at 31 December 2016, the Group had outstanding issued debt securities as follows:

| Name | Face value of debt securities RMB Million | Maturity date |
|---|---|---|
| China Railway Group Limited | **5,000** | **27/01/2020** |
| | **2,500** | **19/10/2020** |
| | **3,500** | **19/10/2025** |
| | **4,659** | **23/03/2021** |
| | **1,660** | **17/10/2018** |
| | **2,050** | **28/01/2021** |
| | **2,120** | **28/01/2026** |
| China Railway Real Estate Group Co., Ltd. | **1,000** | **24/07/2019** |
| China Railway Resources Group Co., Ltd | **3,469** | **05/02/2023** |
| | **2,000** | **19/06/2018** |
| | **1,000** | **14/05/2018** |
| China Railway Xunjie Co. Limited | **3,469** | **21/07/2026** |

As at 31 December 2015, the Group had outstanding issued debt securities as follows:

| Name | Face value of debt securities RMB Million | Maturity date |
|---|---|---|
| China Railway Group Limited | 5,000 | 27/01/2020 |
| | 2,500 | 19/10/2020 |
| | 3,500 | 19/10/2025 |
| | 8,000 | 23/03/2021 |
| | 4,000 | 17/10/2018 |
| | 1,000 | 24/09/2017 |
| China Railway No.2 Engineering Group Co., Ltd | 600 | 26/02/2016 |
| | 600 | 05/03/2016 |
| | 600 | 13/03/2016 |
| | 600 | 21/03/2016 |
| | 300 | 25/03/2016 |
| | 600 | 01/05/2016 |
| | 500 | 07/11/2016 |
| China Railway No.6 Engineering Group Co., Ltd. | 500 | 13/05/2016 |
| China Railway No.8 Engineering Group Co., Ltd. | 500 | 25/03/2016 |
| China Railway Major Bridge Engineering Group Co., Ltd. | 800 | 17/05/2016 |
| China Railway Construction Group Co., Ltd. | 1,000 | 24/05/2016 |
| China Railway Resources Group Co., Ltd | 3,247 | 05/02/2023 |
| | 2,000 | 19/06/2018 |
| | 1,000 | 14/05/2018 |
| China Railway Communications Investment Group Co., Ltd | 250 | 05/06/2016 |

## 47. Subsidiaries (continued)

### Information of debt securities (continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. Most of these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarised as follows:

| Principal activities | Country/Place of establishment and operation | Number of subsidiaries | |
|---|---|---|---|
| | | **31/12/2016** | 31/12/2015 |
| Infrastructure construction | PRC | **14** | 12 |
| Survey, design and consulting services | PRC | **5** | 5 |
| Engineering equipment and component manufacturing | PRC | **3** | 3 |
| Property development | PRC | **1** | 1 |
| Other businesses | PRC | **5** | 3 |
| | | **28** | 24 |

### Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Country/ place of establishment and operation | Proportion of interest and voting power held by non-controlling interests | | (Loss) profit attributable to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2016 %** | 2015 % | **2016 million** | 2015 million | **2016 million** | 2015 million |
| 中鐵高新工業股份有限公司 China Railway Hi-Tech Industry Co., Ltd. *(note)* (原名：中鐵二局股份有限公司) former name: China Railway Erju Co., Ltd. ("Erju") | PRC | **50** | 50 | **(48)** | (180) | **3,344** | 3,348 |
| 雲南富硯高速公路有限公司 Yunnan Fuyan Expressway Co., Ltd. | PRC | **10** | 10 | **(8)** | (14) | **1,319** | 1,327 |
| 廣西岑興高速公路發展有限公司 Guangxi Cenxing Expressway Development Co., Ltd. | PRC | **34** | 34 | **116** | 105 | **789** | 804 |
| 中國中鐵香港投資有限公司 China Railway Hong Kong Investment Co., Ltd. | Hong Kong | **30** | 30 | **22** | 8 | **624** | 554 |
| | | | | | | **6,076** | 6,033 |

*Note: The summarised financial information disclosed below comprised the financial information of China Railway Hi-Tech Industry Co., Ltd. ("Hi-Tech Industry"), its wholly owned subsidiaries and non-wholly subsidiaries. In the opinion of the Directors, the non-controlling interest of each of those non-wholly owned subsidiaries is not material.*

## 47. Subsidiaries (continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

**Hi-Tech Industry and its subsidiaries**

| | **31/12/2016 RMB million** | 31/12/2015 RMB million |
|---|---|---|
| Current assets | **51,564** | 51,688 |
| Non-current assets | **4,582** | 4,759 |
| Current liabilities | **44,079** | 44,551 |
| Non-current liabilities | **5,582** | 5,454 |
| Equity attributable to owners of the Company | **6,243** | 6,162 |
| Non-controlling interests of Hi-Tech Industry | **3,102** | 3,068 |
| Non-controlling interests of Hi-Tech Industry's subsidiaries | **242** | 280 |

| | **2016 RMB million** | 2015 RMB million |
|---|---|---|
| Revenue | **50,908** | 55,610 |
| Expenses | **50,865** | 55,707 |
| Profit (loss) and total comprehensive income (expense) for the year | **43** | (97) |
| Attributable to owners of the Company | **168** | 168 |
| Attributable to non-controlling interests of Hi-Tech Industry | **77** | 85 |
| Attributable to non-controlling interests of Hi-Tech Industry's subsidiaries | **(125)** | (265) |
| Dividends paid to non-controlling interests of Hi-Tech Industry | **44** | 44 |
| Net cash inflow (outflow) from operating activities | **1,368** | (5,053) |
| Net cash inflow from investing activities | **93** | 336 |
| Net cash (outflow) inflow from financing activities | **(1,968)** | 5,655 |
| Net cash (outflow) inflow | **(507)** | 938 |

## 47. Subsidiaries (continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

**Yunnan Fuyan Expressway Co., Ltd. ("Fuyan")**

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| Current assets | 71 | 53 |
| Non-current assets | 7,150 | 7,292 |
| Current liabilities | 2,048 | 832 |
| Non-current liabilities | 4,074 | 5,336 |
| Net asset of Fuyan | 1,099 | 1,177 |
| Non-controlling interests of Fuyan | 1,319 | 1,327 |

| | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|
| Revenue | 417 | 384 |
| Expenses | 494 | 527 |
| Loss and total comprehensive expense for the year | (77) | (143) |
| Attributable to non-controlling interests of Fuyan | (8) | (14) |
| Dividends paid to non-controlling interests of Fuyan | – | – |
| Net cash inflow from operating activities | 370 | 334 |
| Net cash outflow from investing activities | (2) | (2) |
| Net cash outflow from financing activities | (354) | (343) |
| Net cash inflow (outflow) | 14 | (11) |

## 47. Subsidiaries (continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

**Guangxi Cenxing Expressway Development Co., Ltd. ("Cenxing")**

| | 31/12/2016<br>RMB million | 31/12/2015<br>RMB million |
|---|---|---|
| Current assets | **983** | 1,009 |
| Non-current assets | **4,251** | 4,367 |
| Current liabilities | **278** | 219 |
| Non-current liabilities | **2,634** | 2,790 |
| Net asset of Cenxing | **2,322** | 2,367 |
| Non-controlling interests of Cenxing | **789** | 805 |

| | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|
| Revenue | **685** | 675 |
| Expenses | **343** | 366 |
| Profit and total comprehensive income for the year | **342** | 309 |
| Attributable to non-controlling interests of Cenxing | **116** | 105 |
| Dividends paid to non-controlling interests of Cenxing | **132** | – |
| Net cash inflow from operating activities | **606** | 583 |
| Net cash outflow from investing activities | **(1)** | (7) |
| Net cash outflow from financing activities | **(617)** | (225) |
| Net cash (outflow) inflow | **(12)** | 351 |

## 47. Subsidiaries (continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

**China Railway Hong Kong Investment Co., Ltd. ("HK Investment")**

| | 31/12/2016 RMB million (unaudited) | 31/12/2015 RMB million (unaudited) |
|---|---|---|
| Current assets | **1,243** | 1,242 |
| Non-current assets | **840** | 606 |
| Net asset of HK Investment | **2,083** | 1,848 |
| Non-controlling interests of HK Investment | **624** | 554 |

| | 2016 RMB million (unaudited) | 2015 RMB million (unaudited) |
|---|---|---|
| Revenue | **–** | – |
| Expenses | **(72)** | (26) |
| Profit for the year | **72** | 26 |
| Profit attributable to non-controlling interests of HK Investment | **22** | 8 |
| Other comprehensive income attributable to owners of the Company | **163** | (12) |
| Other comprehensive income attributable to non-controlling interests of HK Investment | **48** | (4) |
| Total comprehensive income attributable to owners of the Company | **235** | 14 |
| Total comprehensive income attributable to non-controlling interests of HK Investment | **70** | 4 |
| Dividends paid to non-controlling interests of HK Investment | **–** | – |
| Net cash inflow (outflow) from investing activities | **73** | (1,945) |
| Net cash inflow from financing activities | **–** | 1,284 |
| Net cash inflow (outflow) | **73** | (661) |

## 47. Subsidiaries (continued)

### Consolidation of the structured entities

To determine whether to consolidate the structured entities (mainly the unlisted entrust products) or not, the main factor considered by the Group is the ability to control these structured entities. For those structured entities managed and invested by China Railway Trust, the directly owned subsidiary of the Company, the Group consolidated those structured entities when the Group is exposed to significant variable returns and has the ability to affect the variable returns, including the returns of its interests in these structured entities as investor and trust commission fee earned from these structured entities as manager.

As at 31 December 2016, the scale of the consolidated structured entities amounted to RMB6,630 million (2015: RMB6,840 million), and the interests of other investors in these structured entities amounted to RMB3,967 million (2015: RMB3,336 million).

As at 31 December 2016 and 2015, there is no commitment or financial obligation to these consolidated structured entities.

### Interests in unconsolidated structured entities

China Railway Trust serves as manager of unconsolidated structured entities (mainly the unlisted entrust products) and earns trust commission fee. In the opinion of the Directors, the variable returns the Group exposed to over these unlisted entrust products that the Group has interests are not significant. The Group therefore did not consolidate these structured entities.

As at 31 December 2016, the maximum loss the Group exposed to and the net amount recognised in the consolidated financial statements over these unconsolidated structured entities which the Group has interests in amounted to RMB2,797 million (2015: RMB3,353 million).

As at 31 December 2016, the scale of the unconsolidated structured entities established by the Group amounted to RMB400,479 million (2015: RMB360,677 million).

As at 31 December 2016 and 2015, there is no commitment or financial obligation to these unconsolidated structured entities.

## 48. Events After the Reporting Period

Subsequent to 31 December 2016, the following significant events took place:

The Company and Hi-Tech Industry entered into an asset restructuring and asset purchase through shares offering agreement, pursuant to which the Company agreed to sell to Hi-Tech Industry 100% equity interests held by the Company in China Railway Shanhaiguan Bridge Group Co., Ltd., China Railway Baoji Bridge Group Co., Ltd., China Railway Science & Industry Group Co., Ltd. and China Railway Engineering Equipment Group Co., Ltd. (the "Disposed Assets"), and Hi-Tech Industry agreed to swap with the Company its 100% equity interests in China Railway Erju Engineering Co., Ltd. (the "Acquired Assets"), the difference in the price of the swapped assets shall be paid by Hi-Tech Industry through issuance of new A shares to the Company by means of a non-public offering. Hi-Tech Industry received the approval issued by China Securities Regulatory Commission on 20 September 2016, approving relevant matters in relation to the material asset restructuring and asset purchase through shares offering.

The Company and Hi-Tech Industry completed the formalities of transfer of equity interests and change of business registration regarding acquiring and disposing assets for the material asset restructuring on 5 January 2017 (the "delivery date"). On the delivery date, all the rights, obligations and risks in connection with the Disposed Assets and the Acquired Assets were transferred.

After the completion of transfer of equity interests, the Company holds 60.42% equity interest in Hi-Tech Industry directly and indirectly, which is added up to 1,113,577,137 A shares.

Erju changed its name to China Railway Hi-Tech Industry Co., Ltd. ("Hi-Tech Industry") on 24 January 2017 after completing registration changes. Hi-Tech Industry replaced stock abbreviation "China Railway Erju" with "China Railway Industry" on 2 March 2017.

The non-public issuance of 378,548,895 A shares ("Issuance") completed on 27 March 2017. The total proceeds raised through the Issuance amounted to RMB6,000 million. After deducting the underwriting fees for the Issuance of RMB90 million, Hi-Tech Industry received RMB5,910 million from Issuance. After the Issuance, the Company holds 50.13% equity interest in Hi-Tech Industry directly and indirectly.

## 49. Information About the Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period includes:

| | 2016<br>RMB million | 2015<br>RMB million |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Amounts due from subsidiaries | **5,528** | 9,824 |
| Other non-current assets | **8,006** | 5,271 |
| Unlisted investments in subsidiaries | **95,499** | 83,554 |
| | **109,033** | 98,649 |
| **Current assets** | | |
| Amounts due from subsidiaries | **53,470** | 56,497 |
| Other current assets | **17,182** | 11,250 |
| Bank balances and cash | **47,036** | 40,286 |
| | **117,688** | 108,033 |
| **Total assets** | **226,721** | 206,682 |
| **EQUITY** | | |
| Share capital *(Note 33)* | **22,844** | 22,844 |
| Perpetual notes *(Note 34)* | **12,038** | 12,123 |
| Share premium and reserves | **84,291** | 75,892 |
| **Total equity** | **119,173** | 110,859 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Borrowings | **23,205** | 25,708 |
| Other non-current liabilities | **18** | 15 |
| | **23,223** | 25,723 |
| **Current liabilities** | | |
| Amounts due to subsidiaries | **75,842** | 61,809 |
| Other current liabilities | **8,483** | 8,291 |
| | **84,325** | 70,100 |
| **Total liabilities** | **107,548** | 95,823 |

## 49. Information About the Statement of Financial Position of the Company (continued)

### Movement in reserves

| | Share premium RMB million | Capital reserve RMB million | Statutory reserve RMB million | Retained profits RMB million | Total RMB million |
|---|---|---|---|---|---|
| At 1 January 2015 | 33,647 | 7,739 | 2,745 | 16,238 | 60,369 |
| Profit and total comprehensive income for the year | – | – | – | 7,347 | 7,347 |
| Issuance of shares upon non-public offering | 10,456 | – | – | – | 10,456 |
| Share issuance expenses | (121) | – | – | – | (121) |
| Transfer to reserves | – | – | 756 | (756) | – |
| Dividend recognised as distribution | – | – | – | (1,661) | (1,661) |
| Dividend declared to perpetual notes holders | – | – | – | (498) | (498) |
| At 31 December 2015 | 43,982 | 7,739 | 3,501 | 20,670 | 75,892 |
| Profit and total comprehensive income for the year | – | – | – | 11,150 | 11,150 |
| Transfer to reserves | – | – | 1,183 | (1,183) | – |
| Dividend recognised as distribution | – | – | – | (1,965) | (1,965) |
| Dividend declared to perpetual notes holders | – | – | – | (786) | (786) |
| At 31 December 2016 | 43,982 | 7,739 | 4,684 | 27,886 | 84,291 |

# • SIGNIFICANT EVENTS

## I. The Plan for Profit Distribution on Ordinary Shares or Capitalisation of Capital Reserves

### 1. Formulation, implementation or adjustment of the cash dividend policy

**(1) Implementation of the cash dividend policy during the reporting period**

Profits are distributed in cash under the profit distribution plan of the Company in 2015. Pursuant to the profit distribution plan considered and passed at the 2015 annual general meeting convened on 24 June 2016, a cash dividend of RMB0.86 (tax inclusive) per 10 shares based on the total share capital of 22,844,301,543 shares as at 31 December 2015 was declared, totaling RMB1,964,609,932.70 and representing around 16% of net profit attributable to the listed company's shareholders for the year 2015 under the consolidated financial statements of the Company. The announcement on the profit distribution of A shares was published on 5 August 2016 on the websites of China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily and the Shanghai Stock Exchange. As at 18 August 2016, the implementation of the profit distribution plan of the Company for 2015 has been completed.

**(2) Profit distribution plan for 2016**

Pursuant to the relevant requirements of the Company Law and the Articles of Association, and in accordance with the "Resolution on the Profit Distribution Plan for 2016 of China Railway Group Limited" which was passed at the 31st meeting of the third session of the Board, taking into account factors such as shareholder returns and the capital requirements of the Company for its business development, the retained profits of the parent company at the beginning of 2016 was RMB20,903,465,237.71 based on the audited financial report of the Company for 2016. After adding the net profit realised by the parent company of RMB11,830,171,236.15 during the year and deducting the cash dividends for 2015 and interest payments on perpetual notes amounting to RMB2,751,776,599.36, and with 10% of the net profit of the parent company, i.e. RMB1,183,017,123.62, being appropriated to its statutory surplus reserve, the distributable profit of the parent company to shareholders amounted to RMB28,798,842,750.88 for the year. A cash dividend of RMB0.88 per 10 shares (tax inclusive) is proposed to be distributed. Based on the Company's total share capital of 22,844,301,543 shares as at 31 December 2016, the total amount of such dividend is RMB2,010,298,535.78, representing 16% of net profit attributable to the listed company's shareholders for the current year under the consolidated financial statements of the Company. Upon the distribution, the remaining retained profit of the parent company amounting to RMB26,788,544,215.10 will be carried forward to the next year.

The independent directors of the Company have expressed their opinion on the plan, and the above plan is still subject to the approval of the 2016 annual general meeting of the Company. Minority shareholders will be offered sufficient opportunities to express their views and requests at the 2016 annual general meeting of the Company through the combination of on-site open voting and online voting to ensure that their legal rights are fully safeguarded.

# I. The Plan for Profit Distribution on Ordinary Shares or Capitalisation of Capital Reserves (continued)

## 1. Formulation, implementation or adjustment of the cash dividend policy (continued)

### (3) Information on the profit distribution for 2016

(i) The Company intends to distribute less than 30% of the net profits attributable to shareholders for the year as cash dividends due to the following reasons: (1) Considering the international infrastructure construction market, the in-depth development of the Belt and Road Initiative received positive response from the world, with more than 100 participating countries and international organisations. China has entered into the Belt and Road Initiative cooperation agreements with more than 30 Belt and Road countries. Financial cooperation, represented by the Asia Infrastructure Investment Bank and Silk Road Fund, will continue to take root and present immense opportunities for our overseas expansion. Domestically, the domestic infrastructure construction market will continue to flourish. According to the "Three-Year Action Plan on Major Transportation Infrastructure Construction Projects", 303 key projects on railways, highways, waterways, airports and urban rail transports will be launched from 2016 to 2018, with a total investment of approximately RMB4,700 billion. 2017 will be a critical year for the implementation of the "Three-Year Action Plan on Major Transportation Infrastructure Construction Projects". A number of projects will be rolled out during the year and there will also be an increase in the number of different types of PPP-led investment projects. All these will present beneficial opportunities to the sustainable development of the Company. The Company will need sufficient cash reserves to be in a position to seize suitable opportunities, meet new challenges and implement further developments. (2) The construction industry is extremely competitive, where comparatively low profit margins, comparatively high debt gearing ratios, comparatively large amounts of receivables and inventory are not uncommon. Moreover, due to the extensive locations and scope of projects and the large scale of each single project, the working capital requirements of the Company to maintain its ordinary course of operations are relatively high. Therefore, a high cash dividend payout policy is not appropriate for the Company.

(ii) All independent directors of the Company have issued their independent opinions on the reasonableness of the above profit distribution plan for 2016 as follows: (1) Taking into account various factors, including the characteristics of the industry in which the Company is operating, its development stage, business model and capital requirements, the Company's profit distribution plan for 2016 has been formulated in line with the Company's circumstances and requirements. (2) The amount of cash dividends accounts for 16% of net profit attributable to the listed company's shareholders for the year 2016 under the consolidated financial statements of the Company. This percentage ratio has remained the same as from the previous year, with such stability supporting the continuity and sustainability of the Company's profit distribution policy and is in line with the cash dividend policy stipulated in the Articles of Association and the mid- to long-term plan for shareholders' return. Not only does the plan offer reasonable returns to investors, it also supports the continuing operation of the Company. As such, the profit distribution plan of the Company for 2016 is reasonable and they agreed to such plan.

## I. The Plan for Profit Distribution on Ordinary Shares or Capitalisation of Capital Reserves (continued)

### 2. The plan for profit distribution for ordinary shares or capitalisation of capital reserves of the Company for the latest three years (including the reporting period)

*Unit: Hundred million Currency: RMB*

| Year of dividend distribution | Number of bonus shares for every 10 shares *(share)* | Dividend amount per 10 shares (tax inclusive) *(RMB)* | Number of shares for every 10 shares *(share)* | Amount of cash dividend (tax inclusive) | Net profit attributable to the listed company's ordinary shareholders during the year of dividend distribution under the consolidated financial statements | Percentage in net profit attributable to the listed company's ordinary shareholders under the consolidated financial statements *(%)* |
|---|---|---|---|---|---|---|
| 2016 | – | 0.88 | – | 20.10 | 125.09 | 16 |
| 2015 | – | 0.86 | – | 19.65 | 122.58 | 16 |
| 2014 | – | 0.78 | – | 16.61 | 103.6 | 16 |

*Note: Implementation of the 2016 profit distribution plan is subject to approval at the shareholders' general meeting.*

### 3. The inclusion of shares repurchased through cash offer in cash dividend

Not applicable

### 4. If profits for the reporting period and profit distributable to ordinary shareholders are positive and no ordinary profit distribution plan in cash for the ordinary shares is proposed, the Company should disclose the reasons as well as the use and intended use of the retained profits

Not applicable

## II. Performance Status of Undertakings

### 1. Undertakings made by the Company, shareholders holding more than 5% of the shares of the Company, controlling shareholders and ultimate controller given or subsisting in the reporting period or continuing during the reporting period

| Undertaking background | Type of undertaking | Undertaking party | Contents of the undertaking | Timing and duration of undertaking | Whether there is a deadline for performance | Whether duly complied | If not duly complied, describe the specific reasons | If not duly complied, describe future plans |
|---|---|---|---|---|---|---|---|---|
| IPO-related undertakings | Dealing with competition in the industry | CRECG | Upon the establishment of China Railway in accordance with the law, CRECG and its subsidiaries (other than China Railway) will not in any form, directly or indirectly, engage in or participate in or assist in the engagement or participation in any business that competes, or is likely to compete with the core businesses of China Railway and its subsidiaries. If CRECG or its subsidiaries (other than China Railway) become(s) aware of any new business opportunity which directly or indirectly competes, or is likely to compete, with the principal businesses of China Railway, it shall notify China Railway in writing of such business opportunity immediately upon becoming aware of it, and undertakes that priority and a preemptive right of first refusal in respect of the business opportunity shall be available to China Railway or its subsidiaries. If CRECG or any of its subsidiaries intends to transfer, sell, lease or license or otherwise assign to any third parties or permit them any new business opportunity, assets or interests that it may acquire in future and which may compete or is likely to compete, directly or indirectly, with the core businesses of China Railway, CRECG warrants that such business opportunity, assets or interests will first be offered to China Railway or its subsidiaries. | No | No | Yes | / | / |
| Undertakings related to refinancing | Other undertakings | CRECG | If China Railway is subject to administrative penalties or currently under formal investigation due to any undisclosed violation of laws and regulations in respect of the delay in developing acquired land, land speculation, hoarding of properties and driving up of property prices by price-rigging, which cause losses to China Railway and its investors, the Company shall bear the liability for compensation according to the requirements of the relevant laws and administrative regulations and as required by the securities regulatory authorities. | Long term | No | Yes | / | / |

*Note: For details of the relevant undertakings made by the Company and CRECG during the material asset restructuring of China Railway Erju Co., Ltd. (renamed to China Railway Hi-Tech Industry Co., Ltd. in January 2017, stock code: 600528), a subsidiary of the Company, please refer to the Report on the Material Asset Swap and Share Issuance for Asset Acquisition, Fundraising and Related Party Transaction of China Railway Erju Co., Ltd. (Revision) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) on 21 September 2016. The Company and CRECG are currently duly complying with all the undertakings.*

### 2. If the Company has made a profit estimate as to its assets or projects, and the profit estimate period is within the reporting period, the Company's explanation on whether its assets or projects would meet its profit forecast and the reasons

Not applicable

## III. Fund Occupancy and Progress of Collection During the Reporting Period

Not applicable

## IV. Explanation of the Company on the "Modified Audit Report" from Auditors

Not applicable

## V. Analysis and Explanation of the Company on the Reasons for and Impacts of the Changes in Accounting Policies or Accounting Estimates or Correction of Material Accounting Errors

### 1. Analysis and explanation of the Company on the reasons for and impacts of the changes in accounting policies, accounting estimates or calculation methods

Not applicable

### 2. Analysis and explanation of the Company on the reasons for and impacts of correction of material accounting mistakes of the prior periods

Not applicable

### 3. Communications with former auditors

Not applicable

### 4. Others

Not applicable

## VI. Appointment and Removal of Auditors

*Unit: Ten thousand Currency: RMB*

| | Current appointment |
|---|---|
| Name of domestic auditors | Deloitte Touche Tohmatsu CPA LLP |
| Remuneration of domestic auditors | 4,050 |
| Term of domestic auditors | 10 years |
| Name of international auditors | Deloitte Touche Tohmatsu |
| Remuneration of international auditors | 250 |
| Term of international auditors | 10 years |

| | Name | Remuneration |
|---|---|---|
| Auditors for internal control audit | Deloitte Touche Tohmatsu CPA LLP | 251 |

## VI. Appointment and Removal of Auditors (continued)

### 1. Explanation on the appointment and removal of auditors

Deloitte Touche Tohmatsu CPA LLP and Deloitte Touche Tohmatsu have been providing annual audit services for the Company for ten years. To ensure the objectivity and independence of the auditors, the Company intends to change both the auditors for annual audit and the internal control auditors for 2017. On 30 March 2017, according to the "Resolution on the appointment of auditors of the Company for 2017" and "Resolution on the appointment of internal control auditors for 2017" which were passed at the 31st meeting of the third session of the Board, the Company proposed to engage PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the auditors of the Company for 2017 and engage PricewaterhouseCoopers Zhong Tian LLP as the internal control auditors for 2017. Such changes of auditors will have to be submitted to the 2016 annual general meeting of the Company for consideration. For details of such changes, please refer to the Announcement on the Change of Auditors for Annual Audit published by the Company on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) on 31 March 2017.

### 2. Explanation on the change of auditors during the audit period

Not applicable

## VII. Risk of Suspension of Listing

### 1. Reason for suspension of listing and response measures to be adopted by the Company

Not applicable

## VIII. Delisting and the reasons thereof

Not applicable

## IX. Matters Relating to Insolvency or Restructuring

Not applicable

# X. Material Litigation and Arbitration

## 1. Litigation and arbitration which were disclosed in an announcement without subsequent progress

| Outline and nature | Information link |
|---|---|
| Poland A2 Highway construction disputes: The Consortium comprising COVEC and China Railway Tunnel Group Co., Ltd. (subsidiaries of the Company) and two third-party companies terminated the contract and had dispute with PGDNRM, the project owner, in respect of the bid won for sections A and C of Poland A2 Highway. | 2011 Interim Report and subsequent periodic reports of the Company. |

During the reporting period, the progress of the abovementioned lawsuit is set out as below:

Given the intention of the Consortium and PGDNRM to reach a settlement, on 25 February 2015, the Poland Warsaw District Court adjourned the proceedings. As this further adjournment would exceed the applicable extension deadline, PGDNRM applied to the Poland Warsaw District Court to resume legal proceedings on 26 February 2016. The Consortium and PGDNRM have conducted proactive communication and in order to avoid the legal proceedings affecting the progress of the settlement discussions, on 25 April 2016, according to the application proposed by PGDNRM and the consent of both parties, the Warsaw District Court suspended the trial procedures again. On 25 February 2017, as the suspension of the lawsuit procedure expired, the Poland Warsaw District Court resumed the lawsuit procedure. On 24 March 2017, the Consortium, together with PGDNRM, applied to the Poland Warsaw District Court for suspension.

## 2. Litigation and arbitration which were undisclosed in announcement or might have had subsequent progress

Not applicable

## 3. Others

Not applicable

# XI. Penalty and Rectification Order against the Listed Company and its Directors, Supervisors, Senior Management, Controlling Shareholders, Ultimate Controller and Acquirer

Not applicable

# XII. Integrity of the Company and its Controlling Shareholders and Ultimate Controllers during the Reporting Period

During the reporting period, the Company and its controlling shareholder and ultimate controller have no outstanding obligations pursuant to any judgement made by a court nor have they failed to repay substantial debts that have become due and outstanding.

## XIII. Share Incentive Scheme, Employee Stock Ownership Plan and Other Incentive Schemes and the Impacts Thereof

### 1. Incentives which were disclosed in announcement without subsequent progress or changes

Not applicable

### 2. Incentives which were undisclosed in announcement or might have had subsequent progress

Not applicable

## XIV. Significant Related Party Transactions

### 1. Related party transactions in ordinary course of business

#### (1) Matters which were disclosed in announcement without subsequent progress or changes

Not applicable

#### (2) Matters which were disclosed in announcement with subsequent progress or changes

*Unit: Thousand Currency: RMB*

| Related parties | Related relationship | Type of related party transaction | Particulars of the related party transaction | Pricing method of related party transaction | Price of related party transaction | Amount of related party transaction | Percentage of transaction value to the same type of transactions (%) |
|---|---|---|---|---|---|---|---|
| China Railway Hongda Asset Management Center | Wholly owned subsidiary of parent company | Receipt of labor services | Lease of office premises, etc. | Contract price | 32,628 | 32,628 | Less than 1% |
| China Railway Hongda Asset Management Center | Wholly owned subsidiary of parent company | Receipt of labor services | Receipt of comprehensive services | Contract price | 29,595 | 29,595 | Less than 1% |
| Total | | | | | 62,223 | 62,223 | |

| | |
|---|---|
| Description of related party transactions | The above two transactions resulted from the implementation of the Comprehensive Services Agreement and Premises Leasing Agreement renewed by the Company and CRECG on 30 December 2015. The terms of both agreements are three years. The total transaction amount involved was within the authority of the Board and was approved at the 15th meeting of the third session of the Board, which complied with the relevant requirements of The Rules Governing the Listing of Stock on Shanghai Stock Exchange. Meanwhile, the Premises Leasing Agreement and Comprehensive Services Agreement were exempted from the requirements of reporting, annual review, announcement and independent shareholders' approval as the annual caps of such transactions were within the de minimis exemption under the Listing Rules. |

#### (3) Matters undisclosed in announcement

Not applicable

# XIV. Significant Related Party Transactions (continued)

## 2. Related party transactions in relation to acquisition and disposal of assets or equity interests

### (1) Matters which were disclosed in announcement without subsequent progress or changes

| Description | Information link |
| --- | --- |
| In 2016, in order to follow the national policy of "cutting industrial capacity, lowering corporate costs, reducing property inventories, deleveraging, and improving weak links" and to implement the national guidance on eliminating overcapacity in coal industry, the Company transferred all its equity interests in Lince Railway and 12 coal-related assets and the relevant equity interests held by China Railway Resources Group Co., Ltd. ("**CRR**"), its wholly-owned subsidiary, to Beijing Yinuojie Investment Management Co., Ltd., a wholly-owned subsidiary of CRR. On 29 December 2016, CRR and CRECG, the controlling shareholder of the Company, entered into the Agreement on the Transfer of Equity Interests in Beijing Yinuojie Investment Management Co., Ltd., pursuant to which CRR agreed to transfer its 100% equity interests in Beijing Yinuojie Investment Management Co., Ltd. to CRECG at a consideration of RMB2,456.336 million. | For details, please refer to the Announcement on the Related Party Transaction of China Railway Group Limited published on the website of Shanghai Stock Exchange at http://www.sse.com.cn on 30 December 2016. |

### (2) Matters which were disclosed in announcement with subsequent progress or changes

Not applicable

### (3) Matters undisclosed in announcement

Not applicable

### (4) If agreement upon performance is involved, the performance achievements during the reporting period shall be disclosed

Not applicable

## 3. Significant related party transactions in relation to joint external investment

### (1) Matters which were disclosed in announcement without subsequent progress or changes

Not applicable

### (2) Matters which were disclosed in announcement with subsequent progress or changes

Not applicable

### (3) Matters undisclosed in announcement

Not applicable

## XIV. Significant Related Party Transactions (continued)

### 4. Amounts due from/to related parties

**(1) Matters which were disclosed in announcement without subsequent progress or changes**

Not applicable

**(2) Matters which were disclosed in announcement with subsequent progress or changes**

Not applicable

**(3) Matters undisclosed in announcement**

Not applicable

### 5. Others

**(1) Related party guarantees**

*Unit: Thousand Currency: RMB*

| Guarantor | Guarantee | Guaranteed amount | Commencement date of guarantee | Expiry date of guarantee | Guarantee fully fulfilled |
|---|---|---|---|---|---|
| China Railway *(Note 1)* | Lince Railway Co., Ltd. | 697,600 | June 2008 | June 2024 | No |
| CRECG *(Note 2)* | China Railway | 5,000,000 | January 2010 | January 2020 | No |
| CRECG *(Note 2)* | China Railway | 3,500,000 | October 2010 | October 2025 | No |
| CRECG *(Note 2)* | China Railway | 2,500,000 | October 2010 | October 2020 | No |

*Note 1: At the 2007 annual general meeting of the Company held on 25 June 2008, the Proposal of Provision of a Guarantee with Respect to the Loans for Lince Railway Co., Ltd. and China Railway Engineering Sunite Railway Co., Ltd. was considered and approved, in which it was agreed that a guarantee would be provided with respect to the bank loan for Lince Railway Co., Ltd. in the amount of RMB820.7 million for a guarantee period of 17 years. In June 2008, the Company and Huhhot Xincheng Dongjie Sub-branch of the Industrial and Commercial Bank of China Limited entered into a guarantee contract agreeing that a guarantee in the total amount of RMB783 million (product of the total loan amount of RMB2.7 billion multiplied by the shareholding percentage of 29%) with a joint and several liability and a guarantee period commencing on 30 June 2008 and ending on 20 June 2025 should be provided to Lince Railway Co., Ltd. As at 31 December 2016, Chen Wenxin, a supervisor of the Company, remained as a director of Lince Railway Co., Ltd. Lince Railway Co., Ltd. is a related party of the Company according to the Listing Rules of the Shanghai Stock Exchange. Therefore, these guarantees remained as related party guarantees of the Company.*

*Note 2: These are unconditional and irrevocable joint and several liability guarantees provided by CRECG for the entire amount of the 10-year corporate bonds issued by the Company in January 2010 and the 10-year and 15-year corporate bonds issued by the Company in October 2010. As at 31 December 2016, the remaining payable amount of above-mentioned corporate bonds was RMB10,969.480 million (31 December 2015: RMB10,963.668 million).*

# XIV. Significant Related Party Transactions (continued)

## 5. Others (continued)

### (2) Related party transactions in respect of financial services

*Unit: Thousand Currency: RMB*

| Item | Related Party | Amount for the Current Year | Amount for the Previous Year |
|---|---|---|---|
| Loans *(Note)* | CRECG | **1,600,000** | – |

*Unit: Thousand Currency: RMB*

| Item | Related Party | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| Deposit-taking *(Note)* | CRECG | **55,311** | 1,938,956 |
| | China Railway Hongda Asset Management Center | **571** | 5,013 |

*Note: In order to increase the utilisation efficiency of funds, reduce settlement fees, lower interest expenses and obtain funding support, the Proposal on the Financial Services Framework Agreement between China Railway Finance Co., Ltd. and CRECG was considered and passed at the 15th meeting of the third session of the Board convened by the Company on 2 December 2015, in which it was agreed that China Railway Finance Co., Ltd., a subsidiary of the Company, would sign the Financial Services Framework Agreement (the agreement would expire on 31 December 2018) with CRECG, the controlling shareholder of the Company, and provide deposits, loans and other financial services to CRECG and its subsidiaries pursuant to the agreement. For details, please see the relevant announcement of the Company dated 30 December 2015 published on the website of the Shanghai Stock Exchange.*

*On 29 December 2016, China Railway Finance Co., Ltd. provided CRECG with a loan of RMB1.6 billion to supplement CRECG's liquid capital. The daily loan balance (including interest accrued) obtained by CRECG from China Railway Finance Co., Ltd. did not exceed the maximum amount stipulated in the Financial Services Framework Agreement.*

*During the reporting period, the maximum daily amount of deposits (including interest accrued) provided by China Railway Finance Co., Ltd. to CRECG and its subsidiaries did not exceed the maximum amount stipulated in the Financial Services Framework Agreement.*

### (3) Other related party transactions

*Unit: Thousand Currency: RMB*

| Items | Related party | January to December 2016 | January to December 2015 |
|---|---|---|---|
| Interest income *(Note 1)* | CRECG | **492** | – |
| Interest expenses *(Note 2)* | CRECG | **18,651** | 72,456 |
| Interest expenses *(Note 2)* | China Railway Hongda Asset Management Center | **56** | 18 |

*Note 1: The interest income represent the interest receivable by the Company from CRECG for the loans to CRECG.*

*Note 2: The interest expenses represent the interest payable by the Company to CRECG for the entrusted loan and the interest payable by China Railway Finance Co., Ltd., a subsidiary of the Company, to CRECG and its subsidiary, China Railway Hongda Asset Management Center, for deposit-taking.*

# XV. Material Contracts and Their Performance

## 1. Trusteeship, contracting and leasing

Not applicable

## 2. Guarantees

*Unit: Thousand  Currency: RMB*

| Guarantee provided by the Company (excluding those provided to subsidiaries) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Guarantor | Relationship between guarantor and listed company | Guarantee | Guaranteed amount | Commencement date of guarantee (agreement execution date) | Commencement date of guarantee | Expiry date of guarantee | Type of guarantee | Guarantee fully fulfilled | Overdue | Overdue amount | Counter-guarantee available | Guarantee provided to related parties | Related party relationship |
| China Railway | The same entity | Lince Railway Co., Ltd. | 697,600 | 2008/06/30 | 2008/06/30 | 2024/06/20 | Suretyship of joint and several liability | No | No | – | No | Yes | Others |
| China Railway | The same entity | Inner Mongolia Sunite Railway Co., Ltd | 200,000 | 2008/11/24 | 2008/11/24 | 2020/11/30 | Suretyship of joint and several liability | No | No | – | No | No | / |
| China Railway Major Bridge Engineering Group Co., Ltd. | Wholly-owned subsidiary | Wuhan Yingwuzhou Bridge Co., Ltd. | 470,500 | 2013/04/23 | 2013/04/23 | 2019/06/12 | Suretyship of joint and several liability | No | No | – | No | No | / |
| China Railway Major Bridge Engineering Group Co., Ltd. | Wholly-owned subsidiary | Wuhan Mobei Road & Bridge Co., Ltd. | 173,355 | 2014/09/23 | 2014/09/23 | 2019/12/28 | Suretyship of joint and several liability | No | No | – | No | No | / |
| China Railway Major Bridge Engineering Group Co., Ltd. | Wholly-owned subsidiary | Yichang Miaozui River Bridge Construction Engineering Co., Ltd. | 400,000 | 2013/12/20 | 2013/12/20 | 2018/12/19 | Suretyship of joint and several liability | No | No | – | No | No | / |
| China Railway Major Bridge Engineering Group Co., Ltd. | Wholly-owned subsidiary | Wuhan Yangsigang Bridge Co., Ltd. | 1,003,500 | 2015/12/24 | 2015/12/24 | 2023/11/24 | Suretyship of joint and several liability | No | No | – | No | No | / |
| China Railway Electrification Engineering Group Co., Ltd. | Wholly-owned subsidiary | Nanjing China Railway Electrification Investment Co., Ltd | 290,000 | 2012/07/16 | 2012/07/16 | 2022/12/20 | Suretyship of joint and several liability | No | No | – | No | No | / |
| China Railway Tunnel Group Co., Ltd. | Wholly-owned subsidiary | China Shanghai (Group) Corporation for Foreign Economic & Technological Cooperation | 61,045.6 | 2012/12/29 | 2012/12/29 | 2017/12/31 | Suretyship of joint and several liability | No | No | – | No | No | / |

| | |
|---|---|
| Total guarantee incurred during the reporting period (excluding those provided to subsidiaries) | –3,258,118.08 |
| Total balance of guarantee as at the end of the reporting period (A) (excluding those provided to subsidiaries) | 3,296,000.60 |
| **Guarantee provided by the Company and its subsidiaries to its subsidiaries** | |
| Total guarantee to subsidiaries incurred during the reporting period | 5,989,628.15 |
| Total balance of guarantee to subsidiaries as at the end of the reporting period (B) | 36,350,962.95 |
| **Aggregate guarantee of the Company (including those provided to subsidiaries)** | |
| Aggregate guarantee (A+B) | 39,646,963.55 |
| Percentage of aggregate guarantee to net assets of the Company (%) | 28.25 |
| Representing: | |
| Amount of guarantee provided for shareholders, ultimate controller and their related parties (C) | – |
| Amount of debts guarantee directly or indirectly provided to guaranteed parties with gearing ratios over 70% (D) | 35,070,276.55 |
| Excess amount of aggregate guarantee over 50% of net assets (E) | – |
| Aggregate amount of the above three categories (C+D+E) | 35,070,276.55 |
| Statement on the contingent joint and several liability in connection with unexpired guarantee | Not applicable |
| Statement on guarantee | As at 31 December 2016, the aggregate guarantee of China Railway Group Limited (combined) in relation to real estate mortgage was RMB21,004.790 million. |

## XV. Material Contracts and Their Performance (continued)

### 3. Management of cash assets entrusted to third parties

#### (1) Entrusted wealth management

Not applicable

#### (2) Entrusted loans

*Unit: Yuan Currency: RMB*

| Name of borrower | Amount of entrusted loan | Term of loan | Interest rate | Use of loan | Collateral or guarantor | Overdue or not | Related party transaction or not | Extended or not | Involved in a litigation or not | Related party relationship | Profit and loss of investment |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Chongqing Dianzhong Expressway Co., Ltd. | 36,000,000.00 | 1 year | 4.35% | Daily working capital | No | No | No | No | No | – | 1,257,150.00 |
| Chongqing Dianzhong Expressway Co., Ltd. | 80,000,000.00 | 1 year | 4.35% | Daily working capital | No | No | No | No | No | – | 2,532,666.67 |
| Chongqing Dianzhong Expressway Co., Ltd. | 25,000,000.00 | 1 year | 4.35% | Daily working capital | No | No | No | No | No | – | 311,145.83 |
| Chongqing Dianzhong Expressway Co., Ltd. | 73,000,000.00 | 1 year | 4.35% | Daily working capital | No | No | No | No | No | – | 379,295.83 |
| Changsha Metro Group Co., Ltd. | 100,000,000.00 | 5 years | Benchmark interest rate +10% on the effective date | Construction of the railway transport project in Changsha | No | No | No | No | No | – | 1,242,694.44 |

## XV. Material Contracts and Their Performance (continued)

### 3. Management of cash assets entrusted to third parties (continued)

#### (3) Other investments in wealth management products and derivatives

*Unit: Yuan Currency: RMB*

| No. | Type of investment | Parties | Investment amount | Term of investment | Product type | Profit and loss of investment | Involved in a litigation or not |
|---|---|---|---|---|---|---|---|
| 1 | Derivative | China Construction Bank | / | 10 years | Interest rate swap | – | No |
| 2 | Derivative | Bank of Communications | / | 15 years | Interest rate swap | – | No |
| 3 | Derivative | Industrial and Commercial Bank of China, China Merchants Bank | Investment position corresponding to a guaranteed deposit not exceeding RMB470 million | 3 months, rollover | Futures contract | –178,794,616.10 | No |
| 4 | Derivative | Yingda Futures Co., Ltd., GF Futures Co., Ltd. | Investment position corresponding to a guaranteed deposit not exceeding RMB133 million | 3 months, rollover | Futures contract | 2,629,500.00 | No |
| 5 | Other investment | Jianxin Trust Co., Ltd. | 15 million units | 5 years | Trust product | 1,825,900.00 | No |
| 6 | Other investment | Jianxin Trust Co., Ltd. | 50 million units | 2 years | Trust product | – | No |
| 7 | Other investment | Jianxin Trust Co., Ltd. | 160 million units | 7 years | Trust product | – | No |
| 8 | Other investment | Jianxin Trust Co., Ltd. | 15 million units | 4.5 years | Trust product | 1,784,395.83 | No |
| 9 | Other investment | Jianxin Trust Co., Ltd. | 10 million units | 6.5 years | Trust product | 1,067,694.44 | No |
| 10 | Other investment | Jianxin Trust Co., Ltd. | 50 million units | 2 years | Trust product | 3,389,907.77 | No |
| 11 | Other investment | Jianxin Trust Co., Ltd. | 75 million units | 2 years | Trust product | – | No |
| 12 | Other investment | Jianxin Trust Co., Ltd. | 43.90 million units | 2 years | Trust product | – | No |
| 13 | Other investment | Jianxin Trust Co., Ltd. | 121.35 million units | 3 years | Trust product | – | No |
| 14 | Other investment | Jianxin Trust Co., Ltd. | 7.50 million units | 3 years | Trust product | 815,875.00 | No |
| 15 | Other investment | Tianjin Trust Co., Ltd. | 279 million units | 3 years | Trust product | 17,161,286.59 | No |
| 16 | Other investment | Tianjin Trust Co., Ltd. | 279 million units | 3 years | Trust product | – | No |
| 17 | Other investment | China Railway Trust Co., Ltd. | 52.45 million units | 6 years | Trust product | – | No |
| 18 | Other investment | China Railway Trust Co., Ltd. | 150 million units | 5.95 years | Trust product | – | No |
| 19 | Other investment | China Railway Trust Co., Ltd. | 99 million units | 5.72 years | Trust product | – | No |
| 20 | Other investment | China Railway Trust Co., Ltd. | 99 million units | 5.46 years | Trust product | – | No |
| 21 | Other investment | China Railway Trust Co., Ltd. | 99 million units | 5.2 years | Trust product | – | No |
| 22 | Other investment | China Railway Trust Co., Ltd. | 99 million units | 4.96 years | Trust product | – | No |
| 23 | Other investment | China Railway Trust Co., Ltd. | 300 million units | 6 years | Trust product | – | No |
| 24 | Other investment | China Railway Trust Co., Ltd. | 385 million units | 6 years | Trust product | – | No |
| 25 | Other investment | CITIC Trust Co., Ltd. | 1 million units | 2 years | Trust product | – | No |
| 26 | Other investment | CITIC Trust Co., Ltd. | 66 million units | 3 years | Trust product | 20,000,000.00 | No |
| 27 | Other investment | Zhonghai Trust Co., Ltd. | 10 million units | 5 years | Trust product | – | No |
| 28 | Other investment | CITIC Prudential Asset Management Co., Ltd. | 75 million units | 3 years | Specialised Asset Management Scheme | – | No |
| 29 | Other investment | Jianxin Trust Co., Ltd. | 64 million units | 15 years | Trust product | – | No |
| 30 | Other investment | Shanghai Xing Yan Ju He Investment Management Center (Limited Partnership) | 1,430 million units | 7 years | Trust product | – | No |
| 31 | Other investment | Jianxin Trust Co., Ltd. and China Railway Central – South Investment Development Co., Ltd. | 20 million units | 12 years | Trust product | 302,222.22 | No |
| 32 | Other investment | Jianxin Trust Co., Ltd. | 329.25 million units | 5 years | Trust product | – | No |
| 33 | Other investment | Jianxin Trust Co., Ltd. | 340 million units | 7 years | Trust product | – | No |
| 34 | Other investment | Jianxin Trust Co., Ltd. | 115 million units | 7 years | Trust product | – | No |

## XV. Material Contracts and Their Performance (continued)

### 4. Other material contracts

#### (1) New material construction contracts

(i) Material contracts executed before the reporting period but remaining effective during the reporting period:

(A) Infrastructure construction business

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| **Railway** | | | | | | |
| 1 | China Railway No. 1 Engineering, China Railway No. 2 Engineering, China Railway No. 3 Engineering, China Railway No. 4 Engineering, China Railway No. 5 Engineering, China Railway No. 6 Engineering, China Railway No. 8 Engineering, China Railway No. 10 Engineering, China Railway Tunnel, China Railway Harbor Bureau, China Railway Airport, China Railway Shanghai, China Railway Electrification | Mengxi-Huazhong Railway Co., Ltd. | The civil engineering of the new coal transportation railway channel from west Inner Mongolia to Central China MHTJ-10 Section, MHTJ-28 Section, MHTJ-24 Section, MHTJ-3 Section, MHTJ-15 Section, MHTJ-17 Section, MHTJ-19 Section, MHTJ-6 Section, MHTJ-9 Section, MHTJ-30 Section, MHTJ-31 Section, MHTJ-16 Section; key monitoring project MHSS-3 Section, MHSS-5 Section and MHSS-6 Section; MHQG-2 Section of the relocation and alteration of the telecommunication cables, radio and TV cables and electric power lines | 2015/02 2015/07 | 3,068,982 | 55-60 months |
| 2 | China Railway No. 3 Engineering, China Railway No. 4 Engineering, China Railway No. 6 Engineering, China Railway No. 8 Engineering, China Railway Tunnel, China Railway Electrification Engineering, China Railway Airport, China Railway Shanghai | Jingfu Passenger Railway Line Anhui Co., Ltd. | Before-station construction project of Sections SHZQ-3, SHZQ-5, SHZQ-8, SHZQ-10, SHZQ-11, SHZQ-13, SHZQ-15 and SHZQ-16 of the new Shangqiu-Hefei-Hangzhou Railway (Anhui, Zhejiang Section) | 2015/11 | 2,041,162 | 59.4 months |
| 3 | China Railway Major Bridge Engineering | Fujian Fuping Railway Co., Ltd. | Before-station construction project of Section FPZQ-3 of the new Fuzhou-Pingtan Railway | 2013/10 | 879,909 | 2,007 calendar days |

## XV. Material Contracts and Their Performance (continued)

### 4. Other material contracts (continued)

#### (1) New material construction contracts (continued)

(i) Material contracts executed before the reporting period but remaining effective during the reporting period: (continued)

(A) Infrastructure construction business (continued)

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| **Highway** | | | | | | |
| 1 | China Railway Major Bridge Engineering | Bangladesh Ministry of Transportation Bridge Authority | Main Bridge of Bangladesh Padma Multi-Purpose Bridge Project | 2014/06 | 967,490 | 3.5 years |
| 2 | China Railway | Jingxin Highway Linhe-Baigeda Section (in Alxa League) Construction Management Office | Jingxin Highway Linhe-Baigeda (in Alxa League) LBAMSG-2 Section | 2014/12 | 869,121 | 30 months |
| 3 | China Railway No. 1 Engineering, COVEC | East Timor Public Affairs Bureau and Petroleum and Mineral Resources Bureau | Construction project of Suai-Beaco Highway Road, Section 1: Suai-Fatukai/ Mola Section, East Timor | 2015/01 | 182,741 | 730 calendar days |
| **Municipal works** | | | | | | |
| 1 | China Railway | Chengdu Metro Co., Ltd. | Investment and financing construction project of Phases 2 and 3 of Chengdu Metro Line 3 | 2015/10 | 787,310 | 39 months |
| 2 | China Railway | Nanning City Railway Group Co. Ltd. | Construction Contract of Section 02 of Phase one of Line 3 of Nanning City Railway (Keyuan Road and Pingle Road) | 2015/06 | 456,913 | 1,340 calendar days |
| 3 | China Railway Construction | Jiangxi Zhengsheng Shidai Property Co., Ltd. | EPC contract for construction project of Zhengsheng Taigugang Commercial City, Nanchang | 2015/09 | 320,000 | 1,000 calendar days |

## XV. Material Contracts and Their Performance (continued)

### 4. Other material contracts (continued)

#### (1) New material construction contracts (continued)

(i) Material contracts executed before the reporting period but remaining effective during the reporting period: (continued)

(B) Survey, design and consulting services business

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| 1 | China Railway Eryuan Engineering | Shanghai-Kunming Railway Passenger Line Guizhou Co., Ltd. | Survey and design contract of the new Changsha-Kunming Railway Passenger Line (Guizhou Section) | 2010/09 | 112,604 | 72 months |
| 2 | China Railway Eryuan Engineering | Chengdu-Lanzhou Railway Co., Ltd. | Survey and design contract of the new Chengdu-Lanzhou Railway | 2011/01 | 84,100 | 72 months |
| 3 | China Railway Eryuan Engineering | Russia "High-speed Rail" Open Joint Stock Company | Working contract of project survey, regional land survey and design, and construction design document preparation for Moscow-Kazan High-speed Rail | 2015/06 | 81,900 | 18 months |

# XV. Material Contracts and Their Performance (continued)

## 4. Other material contracts (continued)

### (1) New material construction contracts (continued)

(i) Material contracts executed before the reporting period but remaining effective during the reporting period: (continued)

(C) Engineering equipment and component manufacturing business

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| **Steel structure** | | | | | | |
| 1 | China Railway Baoji Bridge | Hunan Dayue Highway Dongtinghu Bridge Construction Development Co., Ltd. | Construction project of main bridge steel truss girder of Hang Rui National Highway Hunan Linxiang (Xiang E Border) – Yueyang Highway Dongtinghu Bridge | 2015/08 | 51,105 | 22 months |
| 2 | China Railway Baoji Bridge | Hutong Yangtze River Bridge Project Manager Department of CCCC Second Harbour Engineering Company Ltd. | GL01 Package production and installation for steel truss girder (arch) of New Hutong Railway Hutong Yangtze River Bridge HTQ-1 Section | 2014/11 | 49,048 | 41 months |
| **Turnout** | | | | | | |
| 1 | China Railway Baoji Bridge | China Railway Corporation Hajia Passengers Railway Co., Ltd. | New Harbin – Jiamusi Railway Project Contract with loans from the World Bank | 2015/08 | 40,847 | / |
| 2 | China Railway Shanhaiguan Bridge | Shanghai Railway Bureau | High-speed turnouts for the new Lianyungang – Yancheng Railway Project | 2015/05 | 17,005 | 12 months |
| **Construction machinery** | | | | | | |
| 1 | China Railway Engineering Equipment | Zhongtian Construction Group | Shield Sales & Purchase Contract | 2015/07 | 14,560 | 6-10 months |
| 2 | China Railway Baoji Bridge | Beijing Enterprises Holdings Maglev Technology Development Co., Ltd. | Procurement and installation of turnout system for the demonstration line of medium-low speed magnetic levitation transit (Line S1) in Beijing | 2015/09 | 11,935 | / |

# XV. Material Contracts and Their Performance (continued)

## 4. Other material contracts (continued)

### (1) New material construction contracts (continued)

(i) Material contracts executed before the reporting period but remaining effective during the reporting period: (continued)

(D) Property development business

| No. | Project name | Project location | Project type | Planning area ('0,000 $m^2$) |
|---|---|---|---|---|
| 1 | China Railway • Yidu International | Guiyang, Guizhou | Residential | 230.60 |
| 2 | Bairuijing Central Living Area | Wuhan, Hubei | Residential | 105.54 |
| 3 | Nobel Mingdu | Jinan, Shandong | Residential | 89.34 |
| 4 | Qingdao West Coast Project | Qingdao, Shandong | Comprehensive | 78.86 |
| 5 | Dalian Nobel Binhai Garden | Dalian, Liaoning | Residential | 53.45 |
| 6 | China Railway West Town | Beijing | Residential | 49.36 |

(E) Other businesses

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum (RMB'0,000) | Construction period | Operation (Repurchase) term |
|---|---|---|---|---|---|---|---|
| **BOT** | | | | | | | |
| 1 | China Railway | Yulin Municipal Government | BOT Project of Yulin (Shaanxi) – Shenmu Expressway | 2007/10 | 517,000 | 36 months | 30 years |
| 2 | China Railway | Guangxi Department of Communications | BOT Project of the Guangxi Cenxi-Xingye Expressway | 2005/08 | 516,361 | 36 months | 28 years |
| 3 | China Railway | Yunnan Department of Communications | BOT Project of the Yunnan Funing-Guangnan, Guangnan-Yanshan Expressway | 2005/12 | 644,000 | 36 months | 27 years |

# XV. Material Contracts and Their Performance (continued)

## 4. Other material contracts (continued)

### (1) New material construction contracts (continued)

(ii) Material contracts signed during the reporting period

(A) Infrastructure construction business

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum (RMB'0,000) | Construction period |
|---|---|---|---|---|---|---|
| **Railway** | | | | | | |
| 1 | China Railway | Bangladesh Ministry of Railways | Bangladesh Padma Bridge Rail Link Project | 2016/08 | 2,080,897 | 54 months |
| 2 | China Railway No. 5 Engineering, China Railway No. 1 Engineering, China Railway No. 4 Engineering, China Railway Shanghai, China Railway Airport, China Railway No. 3 Engineering | Xi'an-Chengdu High Speed Railway Shanxi Co., Ltd., Yinchuan-Xi'an Railway Co., Ltd. | Before-station construction project of Sections 1, YXZQ-3, YXZQ-4 and YXZQ-7 of the new Yinchuan-Xi'an Railway (Shaanxi Section) and Before-station construction project of Sections YX-SG-ZQ4, YX-SG-ZQ6, YX-SG-ZQ7, X-SG-ZQ8 and YX-SG-ZQ9 of the Ganning Section | 2016/09 | 1,678,004 | 47-52 months |
| 3 | China Railway No. 6 Engineering, China Railway Tunnel, China Railway No. 4 Engineering, China Railway No. 5 Engineering, China Railway No. 10 Engineering, China Railway No. 8 Engineering, China Railway Shanghai, China Railway No. 3 Engineering, China Railway No. 2 Engineering, China Railway Electrification | Kunming Railway Bureau | Before-station construction project of Sections YMZQ-1, YMZQ-3, YMZQ-5, YMZQ-6, YMZQ-11, YMZQ-13, YMZQ-14, YMZQ-16 and YMZQ-22, and temporary electricity supply project of Sections YMLD-I and YMLD-II of the new Yuxi-Mohan Railway | 2016/04/05 | 1,323,803 | 12-56 months |

# XV. Material Contracts and Their Performance (continued)

## 4. Other material contracts (continued)

### (1) New material construction contracts (continued)

(ii) Material contracts signed during the reporting period (continued)

(A) Infrastructure construction business (continued)

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| **Highway** | | | | | | |
| 1 | China Railway Tunnel | Shantou Su'ai Passage Construction Investment and Development Co., Ltd. | EPC contract of construction project of Su'ai Passage, Shantou | 2016/02 | 388,377 | / |
| 2 | China Railway Major Bridge Engineering | People's Government of Xianning, Hubei | Construction contract of Chibi Yangtze River Highway Bridge | 2016/04 | 210,000 | 43 months |
| 3 | China Railway No. 1 Engineering, China Railway Tunnel | Xiamen Construction Bureau | Construction project of Sections A3 and A1 of No.2 West Passage, Xiamen | 2016/03 | 132,669 | 42 months |
| **Municipal works** | | | | | | |
| 1 | China Railway No. 7 Engineering | Xiangtan Urban and Rural Construction Development Group Co., Ltd. | Construction contract of the Xiangjiang River Scenery Zone Project in Xiangtan (Shaoyao Port-Xiang Gangtieniu Wharf Heavy Plate Pier-Shuangyong Road) | 2016/12 | 428,000 | 730 days |
| 2 | China Railway Tunnel | Shenzhen Transportation Infrastructure Management Center | EPC contract of construction of Spring Breeze Tunnel, Shenzhen | 2016/12 | 387,456 | 35 months |
| 3 | China Railway No. 8 Engineering | Kunming Airport Investment and Development Co., Ltd. | Construction project of Chenghuang Road in Kunming (Economic Development Zone to Airport Express Section) | 2016/06 | 218,248 | / |
| 4 | China Railway No. 7 Engineering, China Railway Major Bridge Engineering | Outside Road Project Department of Zhengzhou Railway Bureau | Construction project of Sections NYLDJSG-2 and NYLDJSG-1 of Expressway of Agriculture Road in Zhengzhou | 2016/04 | 133,419 | 18 months |

# XV. Material Contracts and Their Performance (continued)

## 4. Other material contracts (continued)

### (1) New material construction contracts (continued)

(ii) Material contracts signed during the reporting period (continued)

(B) Survey, design and consulting services business

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| 1 | China Railway Engineering Consulting Group | Management Office of Urban Rail Transit Construction of Wuhu | Survey, design and EPC contract of Phase One of Wuhu Metro Line 1 and Line 2 | 2016/07 | 18,220 | 2020/06 |
| 2 | China Railway Major Bridge Design Institute | Lian-Zhen Railway Construction Headquarters of Shanghai Railway Bureau | Survey and design contract of the new Lianyungang-Zhenjiang Railway Project (Wufengshan Yangtze River Grand Bridge) | 2016/03 | 17,741.0 | 32 months |
| 3 | China Railway Major Bridge Design Institute | Wuhan Urban Construction Investment and Development Group Co., Ltd. | Design contract of the Wuhan Yangsigang Yangtze River Bridge Project | 2016/03 | 13,897.3 | 60 months |

(C) Engineering equipment and component manufacturing business

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| **Steel structure** | | | | | | |
| 1 | China Railway Baoji Bridge | Beijing Urban Construction Group Co., Ltd. | Fabrication and installation contract of the steel box girder and steel tower of Yongding River Grand Bridge on the west extension of Chang'an Avenue (including equipment repairing, purchasing and installation) | 2015/12 | 46,727 | 33 months |
| 2 | China Railway Baoji Bridge | Dali-Ruili Railway Project Manager Department of China Railway 18th Bureau Group, the Second Engineering Co., Ltd. | Steel truss arch and steel box girder project construction and professional subcontracting contract for the Nujiang four-lined extra-large bridge of the before-station civil engineering construction project of Section 1 of Nujiang-Longling Section of the new Dali-Ruili Railway | 2016/03 | 40,775 | 32 months |

# XV. Material Contracts and Their Performance (continued)

## 4. Other material contracts (continued)

### (1) New material construction contracts (continued)

(ii) Material contracts signed during the reporting period (continued)

(C) Engineering equipment and component manufacturing business (continued)

| No. | Signatory | Owner | Name of contract | Date of contract | Contract sum *(RMB'0,000)* | Construction period |
|---|---|---|---|---|---|---|
| **Turnout** | | | | | | |
| 1 | China Railway Shanhaiguan Bridge | Chengdu – Guiyang High-Speed Railway Co., Ltd. | The full length of the main line of the project is 515.02 kilometers, of which 258.577 kilometers are located in Sichuan Province and 177.144 kilometers are located in Guizhou Province. It is a dual passenger railway line with electric traction. It has a designed running speed of 250 kilometers/hour and 13 new stations | 2016/11 | 31,712 | 24 months |
| 2 | China Railway Baoji Bridge | Huning Intercity Railway Co., Ltd. | 100 units of high-speed turnout | 2016/03 | 21,694 | From March 2016 to the completion of construction |
| **Construction machinery** | | | | | | |
| 1 | China Railway Baoji Bridge | Yan'an Travel Group Huangling Investment Co., Ltd. | EPC agreement of the sightseeing train project of the tourist service center in Yellow Emperor Mausoleum Scenic Area | 2016/05 | 16,974 | 24 months |
| 2 | China Railway Engineering Equipment | CCCC Fourth Harbor Engineering | Shield Sales & Purchase Contract | 2016/10 | 14,478.50 | 7 months |

## XV. Material Contracts and Their Performance (continued)

### 4. Other material contracts (continued)

#### (1) New material construction contracts (continued)

(ii) Material contracts signed during the reporting period (continued)

(D) Particulars of material properties

*Property held for investment*

| Name | Location | Use | Tenure | Interests of the Company and its subsidiaries |
|---|---|---|---|---|
| Tanmulin Hotel | No. 2, Xinhua Neighbourhood, Dongxing Temple Road, Ziliujing District, Zigong City, Sichuan | Hotel | Medium term | 100% |
| Huaxi Changan Center Building A1, Floor 1-2 | No. 69 Fuxing Road, Haidian District, Beijing | Commercial | Medium term | 100% |
| Gongti Building 3/F Section 2 | Restaurant No. 3, 3/F Section 2, Workers Stadium Building, Chaoyang District, Beijing | Commercial | Medium term | 100% |
| Huilong Bay Yichulianghua Mall | No. 1 Shawan Road, Jinniu District, Chengdu, Sichuan | Commercial | Medium term | 100% |
| Beijing Chaowai Research Building and Ancillary Space | No. 227, Chaowai Road, Chaoyang District, Beijing | Commercial | Medium term | 100% |
| Tianyu Shopping Center | No. 17 North Part of Yanta Road, Xi'an City | Commercial | Medium term | 100% |
| Celebrity Resort Huashuiwan | Huashuiwan Town, Dayi County, Chengdu, Sichuan | Hotel | Medium term | 100% |
| 15-17/F, Jingxin Building | A2 Dongsanhuanbei Road, Chaoyang District, Beijing | Commercial | Medium term | 100% |
| China Railway Consultation Mansion | No. 15 Guangan Road, Fengtai District, Beijing | Commercial | Medium term | 100% |

*Property held for development and/or sale*

| Name of building or project | Location | Current land use | Site area *(sq. m.)* | Floor area *(sq. m.)* | State of completion | Expected completion date | Interests of the Company and its subsidiaries |
|---|---|---|---|---|---|---|---|
| China Railway International Eco City (Phase I) | Gujiao Town, Longli County, Guizhou | Comprehensive | 8,000,000 | 6,150,000 | Under construction | 2019 | 100% |
| China Railway International Eco City (Phase II) | Gujiao Town, Longli County, Guizhou | Comprehensive | 3,000,000 | 5,260,000 | Under construction | 2022 | 100% |
| Guiyang China Railway • Yidu International | No. 1 North Part Jinyang Avenue, Jinyang District, Guiyang | Commercial, residential | 1,060,600 | 2,425,300 | Under construction | 2018 | 80% |
| Bairuijing Central Living Area | No. 586, Wuluo Road, Wuchang District, Wuhan, Hubei | Residential | 528,000 | 1,141,400 | Under construction | 2018 | 67% |
| Qingdao West Coast Project | West Coast Central Vitality Zone, Qingdao | Comprehensive | 863,900 | 1,482,700 | Under construction | 2029 | 100% |

# XV. Material Contracts and Their Performance (continued)

## 4. Other material contracts (continued)

### (2) Material infrastructure investment projects

| No. | Signatory | Owner | Shareholding of the project company | Project name | Date of investment agreement or date of winning the bid | Total investment amount of the project *(RMB100 million)* | Construction period | Concession period |
|---|---|---|---|---|---|---|---|---|
| 1 | China Railway, China Railway Construction | People's Government of Chengdu | 50% | BOT project of Pujiang-Dujiangyan Segment of Ring Expressway of Chengdu Economic Region and the new Airport Expressway of Chengdu | 2016/04 | 355.59 | 36 months | 29.5 years |
| 2 | China Railway and Urumqi Urban Metro Group Co., Ltd | Urumqi Urban Metro Group Co., Ltd | 51% | PPP project of Phase One of the Urumqi Metro Line 3 | 2016/11 | 173.88 | 58 months | 30 years |
| 3 | China Railway and other parties | Office of Construction and Management of Airport and Railway of Hohhot | 49% | PPP project of Hohhot Metro Line 1 Phase One | 2016/08 | 146.8 | 57 months | 30 years |
| 4 | China Railway and other parties | Management Office of Urban Rail Transit Construction of Wuhu | 14% | Phase One of Wuhu Metro Line 1 and Line 2 project | 2016/12 | 146 | 3 years | 27 years |
| 5 | China Railway and other parties | People's Government of Ziyang, People's Government of Chengdu | 49% | BOT project of Ziyang-Tongnan (within the territory of Sichuan) Highway | 2016/11 | 135.2 | 3 years | 29 years and 11 months |
| 6 | China Railway and other parties | People's Government of Yulin, People's Government of Yan'an | 65% | PPP project of the Suide – Yanchuan Motorway (including Qingjian – Zichang High-speed Connection Line) in Shaanxi Province | 2016/09 | 131 | 39 months | 30 years |
| 7 | China Railway and other parties | Transportation Bureau of Shantou, Transportation Bureau of Jieyang of Guangdong Province | 60% | BOT project of Shantou-Jiexi Segment of Shantou-Zhanjiang Highway | 2016/09 | 117.46 | 3 years | 25 years |

## XVI. Explanation for Other Significant Events

To follow the "Guidelines on Deepening the Reform of State-owned Enterprises" of the CPC Central Committee and State Council and to proactively implement the strategies deployed in "Made in China 2025" to facilitate the structural optimization and upgrading of our engineering equipment and component manufacturing business segment through tactics such as mergers, acquisitions and restructuring in the capital market, the Company and China Railway Erju (stock code: 600528), a listed subsidiary controlled by the Company, conducted a material asset swap and an asset purchase through non-public share offering of China Railway Erju (the "**Transaction**"), with a view to building up a listed company platform in our engineering equipment and component manufacturing business segment.

At the 15th meeting of the third session of the Board and the 20th meeting of the third session of the Board, the relevant proposals, including Proposal on Material Asset Reorganization Regarding an Asset Swap and Share Issuance for Acquisition of Assets Between the Company and China Railway Erju and the Fundraising of China Railway Erju, were considered and approved. The relevant documents were disclosed on the website of the Shanghai Stock Exchange and the designated newspapers for information disclosure of the Company. The Transaction was approved by the SASAC of the State Council on 5 May 2016 and was considered and unconditionally approved by the 2016 56th work meeting of the Review Board for Mergers, Acquisitions, and Restructuring of Listed Companies of the CSRC held on 29 July 2016. An approval was received from the CSRC on 20 September 2016. The formalities of the transfer of equity interests and change of business registration regarding the acquired assets and disposed assets under the Transaction were completed on 5 January 2017. On 12 January 2017, China Railway Erju completed registering the 383,802,693 A shares issued to China Railway as consideration for the purchase of assets. The change of business registration regarding the change of name to China Railway Hi-Tech Industry Corporation Limited was completed on 24 January 2017, and the stock short name was changed from "China Railway Erju" to "China Railway Industry" on 2 March 2017. As approved by the CSRC, China Railway Industry conducted the fundraising through non-public share offering to not more than 10 designated investors in March 2017 and eventually issued 378,548,895 shares at RMB15.85 per share for total proceeds of RMB5,999,999,985.75. Registration was completed for these new shares on 27 March 2017. Subsequent to the Transaction, the equity interests in China Railway Industry held directly and indirectly by the Company was changed to 50.13% as at the date of this annual report.

## XVII. Proactive Fulfilment of Social Responsibilities

### 1. Poverty relief efforts of the listed company

Under the arrangements of the Leading Group Office of Poverty Alleviation and Development of the State Council, CRECG has been participating in various targeted poverty relief programmes since 2002. For more than a decade, upholding its values and mission, CRECG has been devoted to targeted poverty relief by considering the real needs of the local people. Ever since its listing, China Railway has been actively participating in the precision poverty alleviation programmes organised by CRECG, who has been focusing on poverty alleviation through cadre and education. CRECG sent 34 cadres to the targeted areas, including Rucheng County and Guidong County of Hunan Province and Baode County of Shanxi Province, to act as deputy county head, with a focus on improving the educational infrastructures and helping students from poor families to go to school in the targeted counties. CRECG helped 13 primary and secondary schools in the targeted counties by renovating, redeveloping and expanding their teaching buildings, stadiums, dormitories and canteens, etc.

### 2. Social responsibility commitments

As a leader in the construction industry, the Company has always been a practitioner, promoter and leader of corporate social responsibilities. Since 2008, China Railway has started setting up a rational, regulated, systematic and effective mechanism for corporate social responsibility management. Based on the ten aspects of social responsibility planning, namely legal corporate governance, quality services, efficiency creation, employee development, safety supervision, technological advancement, environmental protection, charity, win-win cooperation and overseas responsibilities, a series of corporate social responsibility activities was launched in the headquarters and subsidiaries of the Company, with an aim to achieve the goals of complete coverage, full performance, gradual improvement and industry leadership in social responsibilities, making continuous and irreplaceable contribution to the society. During the reporting period, the Company donated a total of RMB5,219,000 (2015: RMB4,306,000) for the fulfillment of social responsibilities. For details in relation to the social responsibility commitments of the Company, please see the Social Responsibility Report of China Railway Group Limited for 2016 as published on the website of Shanghai Stock Exchange at http://www.sse.com.cn.

### 3. Descriptions on environmental protection of listed company and its subsidiaries falling into the category of heavily polluting industries designated by national environmental authorities

Not applicable

## XVIII. Convertible Corporate Bonds

Not applicable

# • DEFINITION AND GLOSSARY OF TECHNICAL TERMS

| | | |
|---|---|---|
| 1 | the Company, China Railway | China Railway Group Limited |
| 2 | the Group | the Company and its subsidiaries |
| 3 | CRECG | China Railway Engineering Corporation |
| 4 | BT | "Build-Transfer" mode |
| 5 | BOT | "Build-Operate-Transfer" mode |
| 6 | PPP | "Public-Private-Partnership" mode |
| 7 | Turnout | a component used for changing the route of a train where a single track splits into two tracks. Turnout is applied in railway and track transportation etc |
| 8 | BIM | Building Information Technology, a new tool in architecture, engineering and civil engineering |
| 9 | Engineering method | an integrated construction method with application of systematic construction principles to combine advanced technology and scientific management, under which certain engineering practices will be applied to the construction in line with technology |
| 10 | Five Major Development Concepts | Innovate, liaise, green, open, sharing |
| 11 | Four Awarenesses | politics awareness, overall situation awareness, core awareness and alignment awareness |
| 12 | Four Comprehensives | finish building a moderately prosperous society; deepen reform; advance the law-based governance of China; and strengthen Party self-discipline |
| 13 | the Belt and Road Initiative | the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" |
| 14 | Four developing regions | the development of West China, revitalisation of Northeast China, rise of Central China and leading position of East China |
| 15 | Three supporting belts | "One belt, one road", co-development of Beijing-Tianjin-Hebei and Yantze River Economic Belt |
| 16 | AIIB | Asian Infrastructure Investment Bank |
| 17 | SASAC | State-owned Assets Supervision and Administration Commission of the State Council |
| 18 | CSRC | China Securities Regulatory Commission |

# • COMPANY INFORMATION

## Directors

### Executive Directors
LI Changjin *(Chairman)*
YAO Guiqing
Zhang Zongyan

### Independent Non-executive Directors
GUO Peizhang
WEN Baoman
ZHENG Qingzhi
NGAI Wai Fung

## Supervisors

LIU Chengjun *(Chairman)*
LIU Jiangyuan
WANG Hongguang
CHEN Wenxin
FAN Jinghua

## Joint Company Secretaries

YU Tengqun
TAM Chun Chung *CPA, FCCA*

## Authorized Representatives

YAO Guiqing
TAM Chun Chung *CPA, FCCA*

## Audit and Risk Management Committee

ZHENG Qingzhi *(Chairman)*
WEN Baoman
NGAI Wai Fung

## Remuneration Committee

GUO Peizhang *(Chairman)*
WEN Baoman
ZHENG Qingzhi

## Strategy Committee

LI Changjin *(Chairman)*
YAO Guiqing
Zhang Zongyan
GUO Peizhang
ZHENG Qingzhi

## Nomination Committee

LI Changjin *(Chairman)*
Zhang Zongyan
GUO Peizhang
WEN Baoman
ZHENG Qingzhi

## Safety, Health and Environmental Protection Committee

Zhang Zongyan *(Chairman)*
YAO Guiqing
GUO Peizhang
WEN Baoman
NGAI Wai Fung

## Registered Office

918, Block 1
No. 128 South 4th Ring Road West
Fengtai District
Beijing 100070
PRC

## Principal Place of Business in Hong Kong

Unit 1201-1203
12/F, APEC Plaza
49 Hoi Yuen Road, Kwun Tong
Kowloon, Hong Kong

## Auditors

### Domestic

Deloitte Touche Tohmastu CPA LLP
8/F, Tower W2
The Towers, Oriental Plaza
1 East Chang An Avenue
Beijing, PRC

### International

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

## Legal Advisors

### For PRC Law

Jia Yuan Law Firm
F407, Ocean Plaza
158, Fuxing Men Nei Street
Beijing 100031
PRC

### For Hong Kong Law

Linklaters
10/F, Alexandra House
Chater Road
Hong Kong

## 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
PRC

### H Shares

Computershare Hong Kong Investor Services Limited
17M Floor, 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

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
China CITIC Bank

## Company Website

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