

RELATIONSHIP WITH CRCCG

OVERVIEW

The Company was established on 5 November 2007 with CRCCG as the sole promoter. CRCCG owned 100% of the share capital of the Company immediately prior to the A Share Listing. Immediately after the completion of the A Share Listing, CRCCG will own approximately 76.6% of the issued share capital of the Company. Immediately after the completion of the A Share Offering and the Global Offering, CRCCG will own approximately 64.4% of the issued share capital of the Company if the Over-allotment Option is not exercised (or approximately 62.9% if the Over-allotment Option is exercised in full), and will be the controlling shareholder of the Company.

Pursuant to the Restructuring Agreement, CRCCG transferred to the Company substantially all of its assets, liabilities and interests relating to its construction operations, survey, design and consultancy operations, manufacturing operations, real estate development, capital investment and logistics operations, with the exception of five BOT projects and certain other ancillary businesses. After the completion of the Restructuring, CRCCG itself no longer has the necessary licences to engage in our core businesses and will no longer have independent capability to engage in business which is similar to our core businesses, nor will it engage in any construction operations. CRCCG will function as our holding company and CRCCG will not conduct any business operations other than the Retained Operations.

Our core businesses are construction operations, survey, design and consultancy operations, manufacturing operations, real estate development, capital investment and logistics operations.

DELINEATION OF BUSINESS AND COMPETITION

As part of our Restructuring, certain businesses and operations have been retained by CRCCG, a summary of which is set out below.

The retained businesses and operations of CRCCG (the “Retained Operations”) principally include:

- *Retained BOT Projects* — CRCCG has retained controlling interests in five retained BOT project companies (the “Retained BOT Projects”). The Retained BOT Projects are retained by CRCCG because: (1) all concession agreements relating to the Retained BOT Projects have provisions restricting assignment during the building period, thereby prohibiting the transfer of CRCCG’s interests at the building stage; and (2) some projects are under negotiations with the relevant local authorities for increased amount of compensation with regard to expropriation of land, which results in the actual amount of such compensation paid exceeding the original budget. In addition to the above, upon completion of the projects, any future transfer of CRCCG’s interests is subject to the pre-emptive rights of the joint venture parties to the project agreements. Particulars of the Retained BOT Projects are as follows:
 - ▶ CRCCG owns an 80% equity interest in Chongqing Tiefu Suiyu Highway Co., Ltd., which has a 111.8 km highway project from Chongqing City to Suining City of Sichuan Province. The other investor in the project is an independent third party. The board of directors of the project company comprises six members, three (one member of senior management and two employees) of which are holding positions in the Company. Construction works of the project commenced in December 2003. Phase I of the project has been opened to traffic since October 2006, while phase II of the project has been opened to traffic since the end of 2007. The concession period of the project is 30 years (i.e. building period of three years and operation period of 27 years) commencing from December 2004 to

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December 2034. The total investment of the project is RMB4,747 million. The actual investment contributed by CRCCG as at the Latest Practicable Date was approximately RMB1,328.8 million. As at 30 September 2007, the unaudited total asset value of the project company was approximately RMB3,264 million and its unaudited net asset value was approximately RMB1,384 million. For the nine months ended 30 September 2007, the project company has not generated any revenue. A transfer of equity interest in Chongqing Tiefu Suiyu Highway Co., Ltd. is subject to the pre-emptive right of the other joint venture partner, unless the transfer is from a joint venture partner to its related party. Since the project is subject to further negotiations with the relevant local authorities in relation to the amount of compensation with regard to expropriation of land, we consider that it is currently not appropriate for us to include the project in our Company.

- ▶ CRCCG owns an 80% equity interest in Nanjing Changjiang Tunnel Co., Ltd., which has a 6.2 km cross — Changjiang river tunnel project from Nanjing City centre to the Pukou region of Jiangbei, Nanjing. The other investors in the project are independent third parties. Construction works of the project commenced in September 2005 and is expected to be completed in September 2009. The concession period of the project is 30 years (i.e. building period of approximately three years and operation period of 27 years) commencing from October 2005 to October 2035. The board of directors of the project company comprises eight members, two (one Director and one employee) of which are holding positions in the Company and four of which are holding positions in our subsidiaries. The total investment of the project is RMB3,318 million. The actual investment contributed by CRCCG as at the Latest Practicable Date was approximately RMB833.2 million. As at 30 September 2007, the unaudited total asset value of the project company was approximately RMB1,122 million and its unaudited net asset value was approximately RMB1,042 million. For the nine months ended 30 September 2007, the project company did not generate any revenue. Since the project is in the process of being built and, pursuant to the project agreement, CRCCG's equity interest in the project company cannot be transferred to any party during the building stage, we consider that it is currently not suitable for us to include the project in our Company.
- ▶ CRCCG owns a 70% equity interest in Beijing Tongda Jingcheng Highway Co., Ltd., which is the project company responsible for the development of Jingcheng Highway Phase Two, a 49.7 km highway project from the 6th Ring Road of Beijing City to Miyun County. The other investor in the project is an independent third party. The board of directors of the project company comprises five members, two (one member of senior management and one employee) of which are holding positions in the Company. Construction works of the project commenced in May 2004 and the relevant section of the highway has been formally opened to traffic since October 2006. The concession period of the project is 28 years (i.e. operation period, excluding building period of 28 months) commencing from September 2006 to September 2034. The total investment of the project is RMB3,919 million. The actual investment contributed by CRCCG as at the Latest Practicable Date was approximately RMB896.0 million. As at 30 September 2007, the unaudited total asset value of the project company was approximately RMB3,571 million and its unaudited net asset value was approximately RMB1,220 million. For the nine months ended 30 September 2007, the unaudited net loss of the project company was approximately RMB44 million. Since the project is subject to further negotiations with the

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relevant local authorities in relation to the amount of compensation with regard to expropriation of land, we consider that it is currently not appropriate for us to include the project in our Company.

- ▶ CRCCG owns a 55% equity interest in Xianyang Zhongtie Road and Bridge Co., Ltd., which has a 1.9 km bridge project in the western part of Xianyang City, Shaanxi Province. A 35% equity interest was previously held by China Railway 20th Bureau Group Co., Ltd. (one of our subsidiaries) which, pursuant to our Restructuring, had been transferred to CRCCG pending completion of the transfer procedures. Subject to completion of the transfer and before the completion of the disposal below, CRCCG will have a 90% equity interest in the project company. The remaining 10% equity interest in this project company is held by an independent third party. The board of directors of the project company comprises seven members, four (one member of senior management and three employees) of which are holding positions in the Company and two of which are holding positions in our subsidiaries. The total investment of this project is RMB120 million. The actual investment contributed by CRCCG as at the Latest Practicable Date was approximately RMB36 million. Construction works of the project commenced in May 2003 and the bridge has been formally opened to traffic since September 2004. The concession period of the project is 25 years (i.e. operation period, excluding building period of 14 months) commencing from July 2004 to 30 June 2029. As at 30 September 2007, the unaudited total asset value of the project company was approximately RMB116 million and its unaudited net asset value was approximately RMB45 million. For the nine months ended 30 September 2007, the unaudited net profit of the project company was approximately RMB0.39 million. Prior to the commencement of our Restructuring, CRCCG and China Railway 20th Bureau Group Co., Ltd. had registered to dispose of a 70% equity interest in the project company through China Beijing Equity Exchange because of the small investment size of this project company, which results in relatively high management cost. CRCCG is negotiating with the buyer for details of the disposal but without significant progress to date.
- ▶ CRCCG owns a 90% equity interest in Guangdong Chaojie Highway Co., Ltd., which has a 29.3 km highway project from Chaozhou to Jieyang in Guangdong Province. The other investors in the project are independent third parties. The board of directors of the project company comprises ten members, eight (one Director and seven employees) of which are holding positions in the Company. The total investment of this project is RMB1,623 million. The concession period of the project is 25 years (i.e. building and operation period) commencing from April 2004 to April 2029. The project agreement was signed in April 2004, but, due to disagreement among the joint venture partners, the project was terminated at or around the end of 2006. Prior to the termination of its project, Guangzhou Chaojie Highway Co., Ltd. only commenced some pre-construction works, such as site clearance, construction of temporary structures. As at the Latest Practicable Date, CRCCG had not injected any capital into the project company but expended approximately RMB11.9 million as management expenses for the project. Prior to the commencement of our Restructuring, CRCCG approached the other parties to the concession agreement to vary the restriction against assignment during the building period but without success. CRCCG is exploring other possibilities to dispose of its equity interests in this project.

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- *Construction Support Services* — CRCCG has retained minority equity interests in five survey companies, two construction supervision services companies and one construction testing company, which are engaged in the provision of construction contracting support services (“Construction Support Services”); and
- *Ancillary support services* — CRCCG has retained some ancillary businesses including hospitals, nurseries, printing, property management, hotels etc (“Ancillary Support Services”).

The Directors believe that the Retained BOT Projects themselves do not pose any competition with our core businesses as we do not have BOT projects at the same locations serving the same customers and purposes, nor are they substitutes or alternative means of traffic of any of our BOT, BT and BOO for customers or users. Three of the Retained BOT Projects are highway projects, which are located in Chongqing, Beijing and Guangdong province, respectively, whereas the only highway BOT project that we have is in Harbin. As for road and bridge projects, CRCCG has one Retained BOT Project which is a road and bridge combined project and is located in Xianyang City, Shaanxi province. We have one BT road project, which is located in Taizhou (Jiangsu province), two BT bridge projects located in Changzhou (Jiangsu province) and Chongqing, respectively, and one combined road and bridge BOT project in Jiyang (Shandong province). None of them is located in the vicinity of Xianyang City. The remaining Retained BOT Project is a cross-Changjiang tunnel in Nanjing and although we also have a cross-Changjiang bridge project in Chongqing, the two of them do not have any competition with each other because of the difference in locations. Our other BOT, BT and BOO projects are railways and metropolitan railways projects which are different from the Retained BOT Projects in terms of location, customers and purposes.

The Retained BOT Projects are managed and operated by their respective project companies, which have their respective boards of directors and senior management. The necessary concession rights to carry out construction and operations of the Retained BOT Projects are held by the relevant project companies. After our Restructuring, CRCCG has only retained majority equity interests in the project companies of such Retained BOT Projects and no longer has the capability to manage and/or operate BOT or similar projects, nor does it or will it have the capability to manage and/or operate any new BOO, BT or PPP projects, or the capability to compete with us.

Construction Support Services are categorized as ancillary businesses or assets, which, according to the relevant State regulations in relation to separation of main and ancillary businesses, are subject to further separation of main and ancillary businesses procedures and therefore are not suitable to be included in our Company. These operations are principally engaged in the provision of ancillary construction survey and supervision services, such as photocopying and printing of construction drawings, provision of labor services and railway survey services etc. For each of the three years ended 31 December 2006, the Construction Support Services generated unaudited revenue of approximately RMB309.7 million, RMB506.2 million and RMB557.0 million, respectively, and incurred unaudited net profit (loss) of approximately RMB1.8 million, (RMB3.4 million) and RMB15.0 million, respectively. As at 31 December 2004, 2005 and 2006, the unaudited net asset value of the Construction Support Services were approximately RMB100.1 million, RMB120.5 million and RMB169.5 million. Compared to our revenue, profit and net asset value (see “Appendix I — Accountants’ Report”), the Construction Support Services are small scale operations or of negligible size, and some of them are running at a loss and will be dissolved or disposed of by CRCCG gradually. CRCCG is in the process of dealing with or disposing of the Construction Support Services and expects that such dealing or disposal will be completed by the end of 2009. The Construction Support Services do not pose any competition with our core businesses as they are small in scale and do not have the capacity to

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compete with us. In respect of the Ancillary Support Services, certain companies in relation thereto have ceased operations or are pending to be deregistered.

The Directors are of the view that the Retained Operations do not pose any competition or potential competition with our core businesses. Notwithstanding this, CRCCG entered into the Non-Competition Agreement (referred to below) by agreeing not to compete, either directly or indirectly, with us and by providing us with options and pre-emptive rights to purchase the Retained Operations. With the implementation of the protective measures as described in “Non-Competition Agreement” below, the Directors believe that we will not face competition from CRCCG. In connection with our Restructuring, we have entered into a number of agreements and arrangements to regulate our transactions with CRCCG. For details of such agreements and arrangements, see “Connected Transactions”.

Non-Competition Agreement

The Company entered into a Non-Competition Agreement with CRCCG on 5 November 2007, under which CRCCG agreed not to compete with us in our core businesses and granted us options and pre-emptive rights to acquire the Retained Operations from CRCCG.

CRCCG has undertaken in the Non-Competition Agreement that it will:

- during the term of the Non-Competition Agreement, not compete with us, directly or indirectly, whether on its own or jointly with other entities in any activities or businesses which competes with our core businesses, whether inside or outside the PRC;
- procure that any other company in which CRCCG is a controlling shareholder will not compete with us; and
- not participate, whether directly or indirectly, in the management and operation of any new BOT, BOO, BT or PPP projects and not bid for any new BOT, BOO, BT or PPP projects.

Pursuant to the Non-Competition Agreement, CRCCG has granted us:

- an option to purchase any of the Retained Operations, subject to any relevant laws and applicable listing rules and existing joint venture parties’ pre-emptive rights (if any); and
- pre-emptive rights to purchase any of the Retained Operations on terms no less favorable than those of third parties, if CRCCG or any of its associates intends to transfer, sell, lease or license such interests to any third party. Upon the exercise of such option or pre-emptive right, CRCCG shall transfer such interest to us.

In addition, pursuant to the Non-Competition Agreement, CRCCG has undertaken that if CRCCG becomes aware of a business opportunity which directly or indirectly competes, or may lead to competition, with our core businesses, CRCCG or any of its subsidiaries will notify us of such business opportunity immediately upon becoming aware of it. CRCCG shall also procure the companies of which CRCCG are controlling shareholders to comply with this provision.

In relation to our pre-emptive rights described above, under the Non-Competition Agreement, CRCCG must notify us before the transfer of its relevant interest to a third party. Such notice must set out the full terms of the proposed transfer and any information which may reasonably be required by us, so that we can be provided with sufficient details to make an informed decision as to whether we ought to exercise the pre-emptive rights. Any decision on whether to exercise the pre-emptive rights will be made by the independent non-executive Directors.

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CRCCG will conduct semi-annual working meetings with all of its subsidiaries, including us. Members of the senior management of the Company will represent us at these meetings, at which they may make enquiries of the performance of the Retained Operations to enable us to consider whether exercising the options is in our interest. In addition, CRCCG has undertaken to provide and to procure the provision to our Company of such other information as may be necessary for us to properly consider whether to exercise the options under the Non-Competition Agreement. Based on the information provided by CRCCG, the independent non-executive Directors will consider and decide whether any option or pre-emptive right should be exercised. When considering whether to exercise any options or pre-emptive rights, the independent non-executive Directors will consider various factors including, among other things, (i) whether the Retained Operations to be acquired accord with our then development strategy; (ii) whether consents from the joint venture partners, if necessary, can be obtained; and (iii) the performance of the business and prevailing market conditions, for instance, in respect of the Retained BOT Projects, whether such Retained BOT Project has reached a sufficiently mature stage that it would be in the interest of our Company and our Shareholders as a whole to exercise the options or pre-emptive rights. The independent non-executive Directors may, where necessary and at our cost, engage an independent financial adviser to advise them. As the Retained Operations are State-owned assets, any transfer of such Retained Operations will be independently valued based on acceptable PRC valuation principles and consents of the relevant government authorities have to be obtained before any such transfer, if applicable. Further, any exercise or non-exercise of any option under the Non-Competition Agreement would constitute a connected transaction. When the Company decides whether to exercise or not to exercise any option or any pre-emptive right under the Non-Competition Agreement, the Company shall comply with the disclosure requirements under the Hong Kong Listing Rules, and shall disclose the decision in our annual report or announcement.

The independent non-executive Directors will review on an annual basis the compliance by CRCCG with the Non-Competition Agreement and the results of such reviews will be disclosed in our annual reports or by way of announcement to the public. CRCCG has undertaken to provide us with all information for the annual reviews by the independent non-executive Directors and the enforcement of the Non-Competition Agreement. In addition, CRCCG has taken to make a statement in our annual report relating to its compliance with the Non-Competition Agreement.

The Non-Competition Agreement took effect on 5 November 2007 and shall remain effective until the earlier of (a) the date on which CRCCG directly or indirectly beneficially holds less than 30% of issued share capital of the Company; and (b) the date on which the Shares cease to be listed on the Hong Kong Stock Exchange or the Shanghai Stock Exchange.

INDEPENDENCE FROM CRCCG

Having considered the following factors, we are satisfied that we can conduct our business independently from CRCCG and its associates after the Global Offering:

Management independence

The Board comprises nine Directors. Three members of the Board, namely, Mr. Li Guorui, Mr. Ding Yuanchen and Mr. Jin Puqing, are also directors of CRCCG. The appointments of all the directors of CRCCG have been designated by SASAC.

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Set out below is a table summarizing the positions held by the Directors at the Company and CRCCG:

| <u>Directors</u> | <u>Position with the Company</u> | <u>Position with CRCCG</u> |
|---------------------|--------------------------------------|------------------------------|
| Li Guorui | Chairman and Non-executive Director | Chairman and General Manager |
| Ding Yuanchen | Vice Chairman and Executive Director | Vice Chairman |
| Jin Puqing | Executive Director, President | Director |

Mr. Li Guorui, being the chairman and a non-executive director of the Company, is principally responsible for formulating our corporate and business strategies and making major corporate and operational decisions of our Company but he is not involved in our day-to-day management. Mr. Ding Yuanchen, being the vice chairman and an executive director of the Company, is principally responsible for assisting the chairman in formulating our corporate and business strategies and making major corporate and operational decisions of our Company. Mr. Jin Puqing, being the president and an executive director of the Company, is responsible for our administration and day-to-day management. Please refer to “Directors, Supervisors and Senior Management” for technical knowledge, expertise and experience of the overlapping Directors.

Since CRCCG will simply function as our holding company and that CRCCG will not conduct any business operations other than the Retained Operations, the roles of Mr. Li Guorui, Mr. Ding Yuanchen and Mr. Jin Puqing in CRCCG are non-executive in nature. Since after our Restructuring, CRCCG no longer has any business other than the Retained Operations, which have their own boards and management teams, Mr. Li Guorui, Mr. Ding Yuanchen and Mr. Jin Puqing do not have to participate in the day-to-day management of the Retained Operations. All of these overlapping Directors will allocate substantially all of their time to our operations and management.

Other than Mr. Li Guorui, Mr. Ding Yuanchen and Mr. Jin Puqing, none of the Directors, Supervisors or senior management members of the Company holds any position in CRCCG. Approximately 35 employees of our Company are still holding positions in the project companies of the Retained BOT Projects due to the fact that such employees have been transferred from CRCCG to us as part of our Restructuring. Among such employees, Mr. Li Guorui is currently the chairman of the board of directors of Nanjing Changjiang Tunnel Co., Ltd and Mr. Hu Zhenyi, being a member of the senior management of the Company, is also the chairman of the boards of directors of Xianyang Zhongtie Road and Bridge Co., Ltd. and Guangdong Chaojie Highway Co., Ltd, and a director of the boards of directors of Beijing Tongda Jingcheng Highway Co., Ltd. and Chongqing Tiefa Suiyu Highway Co., Ltd.. Our employees who hold positions in the project companies of the Retained BOT Projects receive no remuneration for their services provided to the Retained BOT Projects. The provision of such services is regulated by the Construction and Related Services Framework Agreement entered into between the Company and CRCCG dated 5 November 2007 (as supplemented by a supplemental agreement dated 29 January 2008). See “Connected Transactions” for further details of the Construction and Related Services Framework Agreement. We confirm that the directors and members of the senior management of the Retained BOT Projects who are holding positions in our Company will resign from the relevant project companies before the end of 2008. Save as disclosed in this Prospectus, such overlapping employees (including the overlapping Directors) do not hold any other positions in CRCCG and we do not have other employees who are holding positions in CRCCG.

Upon completion of our Restructuring, CRCCG does not have the necessary business licences and does not have the capability to independently engage in any business which is similar or likely to compete with our core businesses. The Directors expect that any conflicts of interest situation involving CRCCG or its associates will be unlikely to arise. In the event of any conflicts of interests, we believe that we have sufficient

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and effective control mechanism to enable the Directors to discharge their duties appropriately, avoid potential conflicts of interests and safeguard the interests of our shareholders as a whole on the following grounds:

- CRCCG entered into the Non-Competition Agreement by agreeing not to compete, either directly or indirectly, with us and by providing us with options and pre-emptive rights to acquire the Retained Operations. Any decision on whether to exercise the options or pre-emptive rights will be made by the independent non-executive Directors. A set of protective measures has been adopted by our Company to ensure the implementation of the Non-Competition Agreement, deal with potential conflicts of interests and safeguard the interests of our shareholders as a whole. Details of such protective measures have been set out in “Relationship with CRCCG — Non-Competition Agreement”.
- According to the Articles of Association, all conflicted or overlapping Directors shall absent themselves from such board meetings or such part of the meetings when matters involving our Company and CRCCG and/or matters in which any such Director or his associates have a material interest are discussed, nor can such overlapping Directors vote on any resolution in relation to such matters. Any such resolution will only be passed by the affirmative votes of at least half of the total number of the voting Directors who are not associated with any proposed counterparty.
- The overlapping Directors will allocate substantially all of their time to our management and operation and will continue to undertake the same duties as before our Restructuring.
- None of the overlapping Directors has any shareholding interests in our Company or CRCCG. Their appointments to CRCCG are made by SASAC and their duties are limited to managing the organization in accordance with the authorization of SASAC, who is the ultimate shareholder of the Company.
- All the Directors, including the overlapping Directors, will not receive any remuneration, benefits and rewards from CRCCG.

Operational independence

Pursuant to the Restructuring Agreement, CRCCG has transferred to us substantially all of its assets, liabilities and interests of its construction operations, survey, design and consultancy operations, manufacturing operations, real estate development, capital investment and logistics operations. The chains of production, supply and sales of the above businesses are complete, and their operations are independent. We and CRCCG do not have any common or shared facilities or resources and we have independent access to customers and suppliers. We hold all relevant licences that are material to our business operations and have sufficient operation capacity in terms of capital, equipment and employees to operate our business independently from CRCCG.

CRCCG has retained controlling interests in the Retained BOT Projects and minority interests in construction ancillary operations including printing of construction drawings and provision of labor services, etc. To govern the transactions between CRCCG and our Company arising from the Retained Operations, CRCCG and the Company have entered into several connected transaction agreements. The terms and conditions of these agreements are on normal commercial terms which we believe to be fair and reasonable and in the interests of our shareholders as a whole. We have entered into the Property Leasing Framework Agreement, Land Use Rights Leasing Framework Agreement, Construction and Related Services Framework

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Agreement and Services Mutual Provision Agreement with CRCCG. Further details about these transactions between our Company and CRCCG are set out in “Connected Transactions”.

Further, the operational decisions of our Company are made by and through our shareholders’ meeting, the Board, the supervisory committee and the management of the Company according to their respective duties.

We have our own organizational structure comprised of independent departments and business and administrative units, each with specific areas of responsibility. In addition to maintaining a set of comprehensive internal control procedures to facilitate the effective operation of our business, we have adopted a comprehensive set of protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of our shareholders as a whole. Further details of such measures have been set out in “Relationship with CRCCG — Independence from CRCCG — Management Independence”. We have also adopted protective measures to ensure the enforceability of the Non-Competition Agreement between our Company and CRCCG. For further details of the enforceability of such protective measures, see “Relationship with CRCCG — Non-Competition Agreement”. We have also adopted a set of corporate governance manuals, such as Shareholders Meeting Manuals, Board Meeting Manuals, Rules on the Conduct of Connected Transactions etc., which set out the corporate governance framework of our Company.

Based on the above reasons, the Directors are of the view that there is no operational dependence by us on CRCCG.

Financial independence

We will settle all amounts due from us to CRCCG and its associates prior to the H Share Listing. All guarantees provided to us by CRCCG and its associates have been released. We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources, a strong credit profile to support our daily operations and independent access to third party financing. See “Financial Information — Working capital”.

We have our own finance department and have established our own internal control and accounting systems, and independent treasury function for cash receipts and payments. We have an independent bank account, have made independent tax registrations and have employed a sufficient number of dedicated financial accounting personnel.