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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)

ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
PROPOSED INTRODUCTION OF THIRD-PARTY INVESTORS FOR
CAPITAL CONTRIBUTION TO CERTAIN SUBSIDIARIES

On 13 June 2018, the Company and the nine Investors including China Reform, China Great Wall, China Orient, Structural Reform Fund, Suida Investment, BOC Asset, China Cinda, ICBC Financial and BOCOM Financial entered into Investment Agreements and Debt Conversion Agreements, respectively, pursuant to which, the Investors respectively agreed to make capital contribution to the Target Subsidiaries in cash and debts owed by relevant Target Subsidiaries in accordance with the terms and conditions of their respective Investment Agreements and Debt Conversion Agreements. The capital contribution is amounted to RMB11,596.60 million in aggregate (equivalent to approximately HK\$14,184.23 million). The Target Subsidiaries will use the proceeds from the Proposed Capital Contribution to repay the debts. Upon the completion of Proposed Capital Contribution, the Target Subsidiaries will continue to be the subsidiaries of the Company and the Company will still have actual control over the Target Subsidiaries.

Upon the Proposed Capital Contribution, the Company's equity interest in the Target Subsidiaries will be diluted. Accordingly, the transactions contemplated under the Investment Agreements and Debt Conversion Agreements will constitute deemed disposals of the Company under Chapter 14 of the Hong Kong Listing Rules. Having considered the implications of the Rule 14.22 and Rule 14.23 of the Hong Kong Listing Rules, the Company aggregated the transactions contemplated under the Investment Agreements and Debt Conversion Agreements. As the highest applicable percentage ratio upon aggregation is higher than 5% but less than 25%, the transactions contemplated under the Investment Agreements and Debt Conversion Agreements constitute a discloseable transaction of the Company and shall be subject to reporting and announcement requirements but exempt from shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

INTRODUCTION

On 13 June 2018, the Company and the nine Investors including China Reform, China Great Wall, China Orient, Structural Reform Fund, Suida Investment, BOC Asset, China Cinda, ICBC Financial and BOCOM Financial entered into Investment Agreements and Debt Conversion Agreements, respectively, pursuant to which, the Investors respectively agreed to make capital contribution to the Target Subsidiaries in cash and debts owed by relevant Target Subsidiaries in accordance with the terms and conditions of their respective Investment Agreements and Debt Conversion Agreements. The capital contribution is amounted to RMB11,596.60 million in aggregate (equivalent to approximately HK\$14,184.23 million). The Target Subsidiaries will use the proceeds from the Proposed Capital Contribution to repay the debts. Upon the completion of Proposed Capital Contribution, the Target Subsidiaries will continue to be the subsidiaries of the Company and the Company will still have actual control over the Target Subsidiaries.

THE INVESTMENT AGREEMENTS AND DEBT CONVERSION AGREEMENTS

The principal terms of each of the Investment Agreements and Debt Conversion Agreements are about the same, which are summarized as follows:

Date: 13 June 2018

Parties: **Investment Agreements:**

The parties under Investment Agreements in respect of Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering and China Railway No.8 Engineering respectively are:

- (i) the Company; and
- (ii) the Investors.

Debt Conversion Agreements:

The parties under Debt Conversion Agreements in respect of Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering and China Railway No.8 Engineering respectively are:

- (i) the Company;
- (ii) the Investors; and
- (ii) the relevant Target Subsidiaries.

To the best of the Directors' knowledge, information and belief after having made all reasonable inquiries, all Investors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Consideration: (1) Erju Engineering Investment Agreements and Debt Conversion Agreements

The total consideration to be paid pursuant to the Erju Engineering Investment Agreements and Debt Conversion Agreements and the percentage of equity interest in Erju Engineering to be held by each of the Investors upon completion of the Proposed Capital Contribution are set out below:

Investors	Consideration (RMB10,000)	Equity interest in Erju Engineering to be held (%)
China Reform	96,000	6.75%
China Great Wall	100,000	7.03%
Structural Reform Fund	55,000	3.87%
Suida Investment	44,000	3.09%
BOC Asset	29,000	2.04%
ICBC Financial	18,000	1.27%
BOCOM Financial	18,000	1.27%

An aggregate contribution of approximately RMB3,600.00 million (equivalent to approximately HK\$4,403.29 million) will be made by the Investors to acquire approximately 25.32% equity interest in Erju Engineering.

The total consideration under the Erju Engineering Investment Agreements and Debt Conversion Agreements was determined by the Company through reasonable negotiations with the Investors with reference to the appraised value of the total shareholders' equity interest of Erju Engineering as at the Valuation Benchmark Date (being approximately RMB10,603.9519 million, equivalent to approximately HK\$12,970.0844 million) as set out on the valuation report prepared by Zhongshuizhiyuan Appraisal using the income approach.

(2) **China Railway No.3 Engineering Investment Agreements and Debt Conversion Agreements**

The total consideration to be paid pursuant to the China Railway No.3 Engineering Investment Agreements and Debt Conversion Agreements and the percentage of equity interest in China Railway No.3 Engineering to be held by each of the Investors upon completion of the Proposed Capital Contribution are set out below:

Investors	Consideration (RMB10,000)	Equity interest in China Railway No.3 Engineering to be held (%)
China Reform	51,000	5.00%
China Great Wall	90,000	8.81%
China Orient	20,000	1.96%
Structural Reform Fund	29,000	2.84%
Suida Investment	24,000	2.35%
BOC Asset	16,000	1.57%
China Cinda	50,000	4.89%
ICBC Financial	10,000	0.98%
BOCOM Financial	10,000	0.98%

An aggregate contribution of approximately RMB3,000.00 million (equivalent to approximately HK\$3,669.74 million) will be made by the Investors to acquire approximately 29.38% equity interest in China Railway No.3 Engineering.

The total consideration under the China Railway No.3 Engineering Investment Agreements and Debt Conversion Agreements was determined by the Company through reasonable negotiations with the Investors with reference to the appraised value of the total shareholders' equity interest of China Railway No.3 Engineering as at the Valuation Benchmark Date (being approximately RMB7,186.4484 million, equivalent to approximately HK\$8,790.0099 million) as set out on the valuation report prepared by Zhongshuizhiyuan Appraisal using the income approach.

(3) China Railway No.5 Engineering Investment Agreements and Debt Conversion Agreements

The total consideration to be paid pursuant to the China Railway No.5 Engineering Investment Agreements and Debt Conversion Agreements and the percentage of equity interest in China Railway No.5 Engineering to be held by each of the Investors upon completion of the Proposed Capital Contribution are set out below:

Investors	Consideration (RMB10,000)	Equity interest in China Railway No.5 Engineering to be held (%)
China Reform	84,000	7.55%
China Orient	70,000	6.29%
Structural Reform Fund	49,000	4.41%
Suida Investment	39,000	3.51%
BOC Asset	26,000	2.34%
ICBC Financial	16,000	1.44%
BOCOM Financial	16,000	1.44%

An aggregate contribution of approximately RMB3,000.00 million (equivalent to approximately HK\$3,669.41 million) will be made by the Investors to acquire approximately 26.98% equity interest in China Railway No.5 Engineering.

The total consideration under the China Railway No.5 Engineering Investment Agreements and Debt Conversion Agreements was determined by the Company through reasonable negotiations with the Investors with reference to the appraised value of the total shareholders' equity interest of China Railway No.5 Engineering as at the Valuation Benchmark Date (being approximately RMB8,116.1565 million, equivalent to approximately HK\$9,927.1702 million) as set out on the valuation report prepared by Zhongshuizhiyuan Appraisal using the income approach.

(4) China Railway No.8 Engineering Investment Agreements and Debt Conversion Agreements

The total consideration to be paid pursuant to the China Railway No.8 Engineering Investment Agreements and Debt Conversion Agreements and the percentage of equity interest in China Railway No.8 Engineering to be held by each of the Investors upon completion of the Proposed Capital Contribution are set out below:

Investors	Consideration (RMB10,000)	Equity interest in China Railway No.8 Engineering to be held (%)
China Reform	29,000	3.46%
China Great Wall	60,000	7.15%
China Orient	60,000	7.15%
Structural Reform Fund	17,000	2.03%
Suida Investment	12,660	1.51%
BOC Asset	9,000	1.07%
ICBC Financial	6,000	0.72%
BOCOM Financial	6,000	0.72%

An aggregate contribution of approximately RMB1,996.60 million (equivalent to approximately HK\$2,446.27 million) will be made by the Investors to acquire approximately 23.85% equity interest in China Railway No.8 Engineering.

The total consideration under the China Railway No.8 Engineering Investment Agreements and Debt Conversion Agreements was determined by the Company through reasonable negotiations with the Investors with reference to the appraised value of the total shareholders' equity interest of China Railway No.8 Engineering as at the Valuation Benchmark Date (being approximately RMB6,355.6564 million, equivalent to approximately HK\$7,773.8376 million) as set out on the valuation report prepared by Zhongshuizhiyuan Appraisal using the income approach.

Payment:

Pursuant to the Investment Agreements, the Investors will subscribe the capital contribution of the Target Subsidiaries in cash and the amount of capital contribution will be calculated based on the actual subscription amount.

Pursuant to the Debt Conversion Agreements, the Investors will make capital contribution to the Target Subsidiaries with the transferred financial institution debts due from Target Subsidiaries or subsidiaries consolidated in the financial statements of the Target Subsidiaries (“**Convertible Debts**”) and the amount of capital contribution will be calculated based on the principal of the Convertible Debts.

If the conditions precedent to the Proposed Capital Contribution as set out below are satisfied before 25 June 2018 (inclusive), 26 June 2018 shall be the day to accomplish the Proposed Capital Contribution (“**Capital Contribution Day**”); if the conditions precedent to the Proposed Capital Contribution are satisfied after 26 June 2018 (inclusive), the first business day following the satisfaction of all the conditions precedent to the Proposed Capital Contribution shall be the Capital Contribution Day.

(1) Erju Engineering Investment Agreements and Debt Conversion Agreements

Pursuant to the Erju Engineering Investment Agreements and Conversion Agreement, the capital contribution to Erju Engineering shall be settled by the Investors with RMB2,600.00 million (equivalent to approximately HK\$3,180.16 million) in cash and RMB1,000.00 million (equivalent to approximately HK\$1,223.14 million) of the principal of Convertible Debts due from Erju Engineering.

The payment details of the total consideration for the Proposed Capital Contribution to Erju Engineering by each of the Investors are set out below:

Investors	Form of capital contribution	Payment details of consideration <i>(RMB10,000)</i>
China Reform	Cash	96,000
China Great Wall	Debts	100,000
Structural Reform Fund	Cash	55,000
Suida Investment	Cash	44,000
BOC Asset	Cash	29,000
ICBC Financial	Cash	18,000
BOCOM Financial	Cash	18,000

(2) China Railway No.3 Engineering Investment Agreements and Debt Conversion Agreements

Pursuant to the China Railway No.3 Engineering Investment Agreements and Conversion Agreement, the capital contribution to China Railway No.3 Engineering shall be settled by the Investors with RMB1,400.00 million (equivalent to approximately HK\$1,712.39 million) in cash and RMB1,600 million (equivalent to approximately HK\$1,957.02 million) of the principal of Convertible Debts due from China Railway No.3 Engineering.

The payment details of the total consideration for the Proposed Capital Contribution to China Railway No.3 Engineering by each of the Investors are set out below:

Investors	Form of capital contribution	Payment details of consideration <i>(RMB10,000)</i>
China Reform	Cash	51,000
China Great Wall	Debts	90,000
China Orient	Debts	20,000
Structural Reform Fund	Cash	29,000
Suida Investment	Cash	24,000
BOC Asset	Cash	16,000
China Cinda	Debts	50,000
ICBC Financial	Cash	10,000
BOCOM Financial	Cash	10,000

(3) China Railway No.5 Engineering Investment Agreements and Debt Conversion Agreements

Pursuant to the China Railway No.5 Engineering Investment Agreements and Conversion Agreements, the capital contribution to China Railway No.5 Engineering shall be settled by the Investors with RMB2,300.00 million (equivalent to approximately HK\$2,812.31 million) in cash and RMB700.00 million (equivalent to approximately HK\$856.20 million) of the principal of Convertible Debts due from China Railway No.5 Engineering.

The payment details of the total consideration for the Proposed Capital Contribution to China Railway No.5 Engineering by each of the Investors are set out below:

Investors	Form of capital contribution	Payment details of consideration <i>(RMB10,000)</i>
China Reform	Cash	84,000
China Orient	Debts	70,000
Structural Reform Fund	Cash	49,000
Suida Investment	Cash	39,000
BOC Asset	Cash	26,000
ICBC Financial	Cash	16,000
BOCOM Financial	Cash	16,000

(4) China Railway No.8 Engineering Investment Agreements and Debt Conversion Agreements

Pursuant to the China Railway No.8 Engineering Investment Agreements and Conversion Agreements, the capital contribution to China Railway No.8 Engineering shall be settled by the Investors with RMB796.6 million (equivalent to approximately HK\$974.35 million) in cash and RMB1,200 million (equivalent to approximately HK\$1,467.76 million) of the principal of Convertible Debts due from China Railway No.8 Engineering.

The payment details of the total consideration for the Proposed Capital Contribution to China Railway No.8 Engineering by each of the Investors are set out below:

Investors	Form of capital contribution	Payment details of consideration <i>(RMB10,000)</i>
China Reform	Cash	29,000
China Great Wall	Debts	60,000
China Orient	Debts	60,000
Structural Reform Fund	Cash	17,000
Suida Investment	Cash	12,660
BOC Asset	Cash	9,000
ICBC Financial	Cash	6,000
BOCOM Financial	Cash	6,000

Conditions precedent:

The performance of the Proposed Capital Contribution is subject to the following conditions precedent including:

- (1) the Proposed Capital Contribution having been approved by competent authorities to proceed by way of agreement, exempted from transactions via the equity exchange, and the valuation reports of the Proposed Capital Contribution having performed the relevant procedures of filing;
- (2) the Proposed Capital Contribution having been approved by the Board; and
- (3) the Proposed Capital Contribution having acquired the shareholders' decision made by the shareholders of the Target Subsidiaries to approve the Proposed Capital Contribution.

Unless otherwise agreed between the Company and the Investors, the Investment Agreements, the Debt Conversion Agreements and the Proposed Capital Contribution shall be terminated and will not proceed if any of the conditions precedent set out above is not satisfied on or before 15 August 2018.

As at the date of this announcement, the Proposed Capital Contribution had been approved by the Board. The Company is now waiting to obtain the approval document(s) from the competent authorities in respect of the Proposed Capital Contribution to be made by way of agreement.

Arrangement during the transition period: The profit or loss recorded by the Target Subsidiaries during the period commenced from the Valuation Benchmark Date and ending on the Capital Contribution Date shall be enjoyed or borne by the Company.

Use of proceeds: The proceeds from the Proposed Capital Contribution will be used to repay the debts due from the Target Subsidiaries or subsidiaries consolidated in the financial statements of the Target Subsidiaries.

Subsequent reorganisation: Within 12 months upon the completion of the Proposed Capital Contribution, the Company shall work with the Investors to start the transaction of acquiring the Target Equity from the Investors through issuance of A Shares by the Company to the Investors when appropriate.

If the subsequent reorganisation cannot be achieved, the Investors shall proactively negotiate with the Company and reach an agreement regarding the overall transfer and disposal plan of the Target Equity in accordance with relevant provisions and procedures.

As at the date of this announcement, the Company has not finalised any concrete plan or agreement in respect of the aforesaid subsequent reorganisation. The Company will perform its compliance obligation in accordance with the applicable requirements of the Hong Kong Listing Rules as and when appropriate.

INFORMATION ON THE VALUATION REPORTS

Zhongshuizhiyuan Appraisal, a PRC qualified valuer, has been engaged by the Company to assess the market value of the total shareholders' equity of each of Target Subsidiaries as at the Valuation Benchmark Date in accordance with the relevant requirements of SASAC. The scope of valuation covers all the assets and relevant liabilities of each of the Target Subsidiaries. The Valuation Benchmark Date is 31 December 2017.

1. Erju Engineering

The valuation performed by Zhongshuizhiyuan Appraisal on Erju Engineering is based on the assumptive premises of continuous use and open market, taking into account the actual circumstances of Erju Engineering and various factors. After implementation of valuation procedures including checking and verification, on-site inspection, market research and inquiry, assessment and estimation, Zhongshuizhiyuan Appraisal has arrived at the following valuation conclusion in respect of the total shareholders' equity of Erju Engineering under the income approach as at the Valuation Benchmark Date:

The value of total shareholders' equity is RMB10,603.9519 million, and the book value of the net assets is RMB8,643.0098 million.

2. China Railway No.3 Engineering

The valuation performed by Zhongshuizhiyuan Appraisal on China Railway No.3 Engineering is based on the assumptive premises of continuous use and open market, taking into account the actual circumstances of China Railway No.3 Engineering and various factors. After implementation of valuation procedures including checking and verification, on-site inspection, market research and inquiry, assessment and estimation, Zhongshuizhiyuan Appraisal has arrived at the following valuation conclusion in respect of the total shareholders' equity of China Railway No.3 Engineering under the income approach as at the Valuation Benchmark Date:

The value of total shareholders' equity is RMB7,186.4484 million, and the book value of the net assets is RMB4,659.1375 million.

3. China Railway No.5 Engineering

The valuation performed by Zhongshuizhiyuan Appraisal on China Railway No.5 Engineering is based on the assumptive premises of continuous use and open market, taking into account the actual circumstances of China Railway No.5 Engineering and various factors. After implementation of valuation procedures including checking and verification, on-site inspection, market research and inquiry, assessment and estimation, Zhongshuizhiyuan Appraisal has arrived at the following valuation conclusion in respect of the total shareholders' equity of China Railway No.5 Engineering under the income approach as at the Valuation Benchmark Date:

The value of total shareholders' equity is RMB8,116.1565 million, and the book value of the net assets is RMB4,819.3940 million.

4. China Railway No.8 Engineering

The valuation performed by Zhongshuizhiyuan Appraisal on China Railway No.8 Engineering is based on the assumptive premises of continuous use and open market, taking into account the actual circumstances of China Railway No.8 Engineering and various factors. After implementation of valuation procedures including checking and verification, on-site inspection, market research and inquiry, assessment and estimation, Zhongshuizhiyuan Appraisal has arrived at the following valuation conclusion in respect of the total shareholders' equity of China Railway No.8 Engineering under the income approach as at the Valuation Benchmark Date:

The value of total shareholders' equity is RMB6,355.6564 million, and the book value of the net assets is RMB5,432.2907 million.

5. Assumptions for the Valuation

As the valuation report of each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering prepared by Zhongshuizhiyuan Appraisal was based on the income approach, the valuation constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. In preparing the valuation reports, Zhongshuizhiyuan Appraisal adopted the following major assumptions (including commercial assumptions):

(1) General Assumptions

- i. Transaction assumption: assuming all the assets to be valued are already in the process of transaction and the valuer carries out the valuation based on a simulated market which involves the transaction conditions of the assets to be valued.
- ii. Open market assumption: open market assumption is an assumption of the market conditions for the proposed entry of the assets and what is the impact of such market conditions on the assets. The open market refers to fully developed and sophisticated market conditions and a competitive market with the availability of voluntary purchasers and sellers, where the purchasers and sellers are in equal position and have opportunities and time to obtain sufficient market information, so as to make rational judgments and act voluntarily without being subject to any compulsory or restrictive conditions.
- iii. Asset continuous use assumption: asset continuous use assumption is an assumption of the market conditions for the proposed entry of the assets and the condition of the assets under such market conditions. This is to assume, firstly, the assets to be valued are in use, and secondly, the assets in use will continue to be used. Given that the asset continuous use assumption does not take into account the change of use or optimised use condition of the assets, the scope of applicability of the projection result may be restricted.
- iv. Enterprise going concern assumption: assuming for the period of return in the future, there will no significant change to the respective scope of business of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering and each of such entities will carry on its business under the same condition and in the same manner as at the Valuation Benchmark Date, and also assuming each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering carry out its business legally and there is nothing unforeseeable which would prevent the continuous operation of any such entity.

(2) *Special Assumptions*

- i. The valuation assumes that the external economic environment remains unchanged and the current national macroeconomic conditions will not change significantly as at the Valuation Benchmark Date. Nor will there be any unforeseeable factor or force majeure event which will result in any material adverse effect.
- ii. There will be no significant change to the social economic environment of the enterprises or to any policies of tax, exchange and tax rate adopted by the enterprises.
- iii. The future management members of the enterprises will duly perform their duties and continue to carry out the operation and management in the same manner as currently adopted.
- iv. Assuming each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering will be able to obtain the approval from relevant authorities of their qualification for conducting each of their businesses upon the expiry of the necessary qualifications and their industrial or business qualification will continue to be effective.
- v. Assuming each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering will fully comply with all relevant laws and regulations and industrial policies of the State and there will be no event of material irregularity which will affect the development of the Company or the realisation of the economic return of the Company.
- vi. The valuation of each asset shall be based on the actual quantity of such asset as at the Valuation Benchmark Date, and the prevailing market value of the asset shall be determined with reference to the effective price prevailing at the place where the asset is located as at the Valuation Benchmark Date.
- vii. Assuming the accounting policies to be adopted by each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering after the Valuation Benchmark Date will be consistent in all material respects with the accounting policies adopted as at the time of the preparation of the valuation report.
- viii. Assuming the respective scope and mode of business of each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering after the Valuation Benchmark Date will remain the same as that currently adopted and based on the same management approach and standard as currently in effect.

- ix. Assuming the enterprises will keep their existing credit policy unchanged and they will not encounter any material fund collection problem.
- x. Assuming the basic information and financial information provided by each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering are true, accurate and complete.
- xi. As at the Valuation Benchmark Date, for the purpose of the consolidated financial statements of Erju Engineering on a pro forma basis, some enterprises enjoyed an income tax rate of 15% as a result of the tax preferential policy for the Western Development. China Railway Erju First Engineering Co., Ltd. and Chengdu China Railway Erju Tieda Commodity Concrete Co., Ltd., which are subordinated to the Erju Engineering, are both high-tech enterprises enjoying an income tax rate of 15%. The companies other than the aforementioned subsidiaries are subject to income tax rate of 25%. Due to the large number of income tax adjustment items, the average income tax rate for the first two years of the period from 2018 to 2020 were used in the valuation of the Erju Engineering. Following the end of the preferential tax policy for the Western Development after 2021, it will be forecasted based on a comprehensive consideration of the income tax rate after tax adjustment.
- xii. Railway Group 5 Mechanization of Engineering Limited Liability Company, Guizhou Railway Construction Project Quality Control Consulting Co., Ltd., The Road and Bridge Engineering Co., Ltd. of China Railway No. 5 Engineering Group Co., Ltd., The No. 2 Engineering Co., Ltd. of China Railway No. 5 Engineering Group, The Electric Engineering Co., Ltd. of China Railway No. 5 Engineering Group and The No. 5 Engineering Co., Ltd. of China Railway No. 5 Engineering Group, which are all subordinated to China Railway No. 5 Engineering, are high-tech enterprises enjoying the income tax rate of 15% for high-tech enterprises. The valuation assumes that China Railway No. 5 Engineering will continue to obtain the high-tech enterprise certification within the future operating period and will continue to enjoy the preferential income tax rate of 15%.
- xiii. The headquarters of China Railway No.5 Engineering and its subsidiaries, The No. 6 Engineering Co., Ltd. of China Railway No. 5 Engineering Group, The Construction Engineering Company of China Railway No. 5 Engineering Group, Guizhou Tianwei Building Materials Technology Co., Ltd., Guizhou Engineering Co., Ltd. of China Railway No. 5 Engineering Group and Chengdu Engineering Co., Ltd. of China Railway No. 5 Engineering Group enjoy the preferential income tax rate of 15% for enterprises participating in the Western Development. After the preferential tax period expires, the corporate income tax rate will return to 25%.

In terms of the basis for preparation of profit forecast, the forecast methods adopted by Zhongshuizhiyuan Appraisal for the major items of income and expense of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering are set out below:

To arrive at an integral value, the valuation was based on the income approach on a consolidated basis which included main businesses of the Target Subsidiaries after the adjustment. The other companies involved in non-main businesses which were not included in the scope of consolidated financial statements were added back as surplus assets after assessment by using appropriate approach.

Corporate free cash flow was used as the income type. Corporate free cash flow is the cash flow attributable to all investors, including shareholders and debtors of interest bearing debts. The calculation formula is:

Corporate free cash flow = net profit after tax + depreciation and amortization + interest (after tax) – capital expenditure – increase of net working capital.

PricewaterhouseCoopers, the independent auditor of the Company, has reviewed the arithmetic accuracy of calculations of the discounted future estimated cash flows on which the business valuations are based, which does not involve the adoption of accounting policies. The Board confirms that the price based on the discounted future estimated cash flows on equity interest of each of Erju Engineering, China Railway No. 3 Engineering, China Railway No. 5 Engineering and China Railway No. 8 Engineering contained in the valuation report has been made after due and careful enquiry and is fair and reasonable.

The letters issued by PricewaterhouseCoopers and the Board are set forth in Appendix I to this announcement.

INFORMATION ON THE EXPERTS

The qualification of each of the experts who have given opinions or advices contained in this announcement is set out below:

Name	Qualification	Date of opinion or advice given
PricewaterhouseCoopers	Certified Public Accountants	13 June 2018
Zhongshuizhiyuan Appraisal	Qualified PRC valuer	20 April 2018

As at the date of this announcement, as far as the Directors are aware, neither of the experts named above had any beneficial interests in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for any shares, convertible securities, warrants, options or derivative securities which carry voting rights in any member of the Group.

Each of the experts named above has given and has not withdrawn its written consent to the publication of this announcement with the inclusion herein of its letter or report and/or references to its name.

INFORMATION ON THE CONTRACTUAL PARTIES

The Company is a joint stock limited company incorporated in the PRC. The Group provides a full range of construction-related services, including infrastructure construction, survey, design and consulting services and engineering equipment and component manufacturing, and also expands to other businesses such as property development and mining development.

China Reform is a limited liability company incorporated in the PRC. China Reform is a wholly state-owned enterprise incorporated upon the approval of the State Council and an investment organization authorized by the government, in which the SASAC performs the duties of a capital contributor on behalf of the State Council. Since being designated as the pilot enterprise of state-owned capital operation company in 2016, China Reform emphasized the layout of fund investment, financial service, asset management, stock equity operation and other the business sectors, and professionally carried out the state-owned capital operation from a market-oriented perspective.

China Great Wall is a joint stock company incorporated in the PRC and one of the four state-owned financial asset management companies. The main business of China Great Wall is acquisition, management and disposal of the non-performing assets divested from the state-owned banks.

China Orient is a joint stock company incorporated in the PRC, covering the business of asset management, insurance, banking, securities, trust, micro-finance, credit rating and overseas business etc.

Structural Reform Fund is a joint stock company incorporated in the PRC. Approved by the State Council and entrusted by the SASAC, Structural Reform Fund is an investment institution established by China Chengtong Holding Group., Ltd. as the main sponsor. Since its establishment on 22 September 2016, Structural Reform Fund aims to provide central government-owned enterprise with support in development, industrial consolidation, professional reorganization, capacity adjustment and international mergers and acquisitions by establishing sub-fund as well as direct investment. Also, Structural Reform Fund plays an important role in promoting the development of state-owned enterprise in key industries and industry optimization, improving industry concentration, to maximize the efficiency of the use and the benefit of state-owned capital.

Suida Investment is a limited liability partnership incorporated in PRC, covering the business of industrial investment and investment management.

BOC Asset, a limited liability company incorporated in the PRC, is one of the first bank-affiliated entities established with the approval of the CBRC to specialise in market-driven debt conversion business in the PRC. It is principally engaged in market-driven debt conversion business.

China Cinda is a joint stock company incorporated in PRC, the H shares of which are listed on the Hong Kong Stock Exchange. It is principally engaged in provision of distressed asset management, investment and asset management and financial services with a focus on distressed asset management.

ICBC Financial, a limited liability company incorporated in the PRC, is one of the first bank-affiliated entities established with the approval of the CBRC to specialise in market-driven debt conversion business in the PRC. It is principally engaged in market-driven debt conversion business.

BOCOM Financial, a limited liability company incorporated in the PRC, is one of the first bank-affiliated entities established with the approval of the CBRC to specialise in market-driven debt conversion business in the PRC. It is principally engaged in market-driven debt conversion business.

INFORMATION ON THE TARGET SUBSIDIARIES

1. Information on Erju Engineering

Erju Engineering is a limited liability company incorporated in the PRC and its main business is construction of railway, highway, municipal project and housing construction, property development etc.

The net profits of Erju Engineering (both before and after tax and extraordinary items) for the years ended 31 December 2016 and 31 December 2017 based on the audited consolidated financial statements (prepared under the PRC GAAP) of Erju Engineering are as follows:

	Year ended 31 December 2016 <i>(RMB10,000)</i>	Year ended 31 December 2017 <i>(RMB10,000)</i>
Profit before tax and extraordinary items (audited)	12,029.79 (equivalent to approximately HK\$14,714.08)	56,675.84 (equivalent to approximately HK\$69,322.31)
Profit after tax and extraordinary items (unaudited)	-497.84 (equivalent to approximately HK\$-608.93)	29,227.84 (equivalent to approximately HK\$35,749.65)

2. Information on China Railway No.3 Engineering

China Railway No.3 Engineering is a limited liability company incorporated in the PRC and its main business is transportation infrastructure construction.

The net profits of China Railway No.3 Engineering (both before and after tax and extraordinary items) for the years ended 31 December 2016 and 31 December 2017 based on the audited consolidated financial statement (prepared under the PRC GAAP) of China Railway No.3 Engineering are as follows:

	Year ended 31 December 2016 <i>(RMB10,000)</i>	Year ended 31 December 2017 <i>(RMB10,000)</i>
Profit before tax and extraordinary items (audited)	92,249.58 (equivalent to approximately HK\$112,833.86)	81,856.05 (equivalent to approximately HK\$100,121.15)
Profit after tax and extraordinary items (unaudited)	77,297.21 (equivalent to approximately HK\$94,545.07)	74,210.14 (equivalent to approximately HK\$90,769.16)

3. Information on China Railway No.5 Engineering

China Railway No.5 Engineering is a limited liability company incorporated in the PRC and its main business is construction of railway, highway, municipal project, urban rail, housing construction, hydropower project etc.

The net profits of China Railway No.5 Engineering (both before and after tax and extraordinary items) for the years ended 31 December 2016 and 31 December 2017 based on the audited consolidated financial statement (prepared under the PRC GAAP) of China Railway No.5 Engineering are as follows:

	Year ended 31 December 2016 <i>(RMB10,000)</i>	Year ended 31 December 2017 <i>(RMB10,000)</i>
Profit before tax and extraordinary items (audited)	70,375.51 (equivalent to approximately HK\$86,078.88)	80,314.14 (equivalent to approximately HK\$98,235.18)
Profit after tax and extraordinary items (unaudited)	59,879.66 (equivalent to approximately HK\$73,241.02)	68,454.59 (equivalent to approximately HK\$83,729.33)

4. Information on China Railway No.8 Engineering

China Railway No.8 Engineering is a limited liability company incorporated in the PRC and its main business is construction of railway, highway, water conservancy and hydropower project, housing construction, municipal project, urban rail transportation etc.

The net profits of China Railway No.8 Engineering (both before and after tax and extraordinary items) for the years ended 31 December 2016 and 31 December 2017 based on the audited consolidated financial statement (prepared under the PRC GAAP) of China Railway No.8 Engineering are as follows:

	Year ended 31 December 2016 <i>(RMB10,000)</i>	Year ended 31 December 2017 <i>(RMB10,000)</i>
Profit before tax and extraordinary items (audited)	7,268.39 (equivalent to approximately HK\$8,890.24)	18,692.98 (equivalent to approximately HK\$22,864.07)
Profit after tax and extraordinary items (unaudited)	-28,135.21 (equivalent to approximately HK\$-34,413.21)	3,458.48 (equivalent to approximately HK\$4,230.19)

REASONS FOR AND BENEFITS OF THE PROPOSED CAPITAL CONTRIBUTION

1. To implement the policy of “capacity reduction, destocking and deleveraging, corporate costs lowering and weak links improvement” and reduce the asset-liability ratio of the Company

In recent years, the overall asset-liability ratios of central government-owned enterprises remain high and have become a constraint which restricts the further optimization and development of central government-owned enterprises, and the relatively high asset-liability ratios have also restricted the Company’s actions to advance structural transformation and upgrading. As at 31 December 2017, the Company has a total liability of RMB674.4 billion, a total assets of RMB844.1 billion and an asset-liability ratio of 79.89%. As for the market-driven debt conversion, the Company has determined four subsidiaries as the Target Subsidiaries, and the amount of liabilities of the Target Subsidiaries and their subsidiary undertakings as at 31 December 2017 amount to RMB145.594 billion in total, of which the highest asset-liability ratio is 84.96%.

The reasons for a relatively high leverage ratio of the Target Subsidiaries mainly include: Firstly, industry characteristics. Given a relatively low overall profit margin in the infrastructure industry, much funds need to be invested during the early stages of projects, a long circle of funds recovery and a substantial reliance on bank loans, the asset-liability ratios of enterprises in this industry are relatively high; Secondly, historical reasons. The Company has the strategic mission to safeguard the construction of the State’s infrastructure, and as less funds are invested during the early stages of relevant projects and the ratio of self-owned funds invested is relatively small, the asset-liability ratios of part of the subsidiary enterprises are quite high.

The implementation of market-driven debt conversion may effectively reduce the debt levels and asset-liability ratios of the Company and the Target Subsidiaries and lessen enterprises’ burdens; It will lay a solid basis for the Company to become a world class central government-owned enterprise brand with global competitiveness, and will, to some extent, play the effect of setting an example for deleveraging, so as to implement the requirements proposed by the Central Comprehensively Deepening Reforms Commission that “the asset-liability ratios of State-owned enterprises with high liabilities shall return to reasonable levels as soon as possible” and to practically advance the deleveraging work of central government-owned enterprises.

The purpose of the Company’s proposed implementation of market-driven debt conversion is to implement the Central Committee of Communist Party and the State Council’s decision-making and deployment on advancing the structural supply-side reform and improving the “capacity reduction, destocking and deleveraging, corporate costs lowering and weak links improvement” work; and is also an important initiative to, by taking this opportunity, advance the reform of State-owned enterprises and promote the further improvement of corporate governance. Through this transaction, the asset-liability ratios of the Target Subsidiaries will be effectively reduced, their financial expenses and funds costs effectively lessened, which are conducive to upgrading the Company’s core competitiveness and ability of sustainable and healthy development and to winning development opportunities for enterprises’ technology R&D, product expansion and industrial upgrading.

2. To reinforce the ability of continuous operations

Currently, the infrastructure industry is in an important strategic opportunity period. In the PRC, we are proactively promoting the concerted development of Beijing, Tianjing and Hebei Province and the development of Yangtze River Economic Belt, specifying the speeding up of reform and opening up of Xiong'an New Area and have launched the construction of a batch of key basic projects; outside the PRC, as the investment and construction in the infrastructure sector have become the leverage of countries to lever economic recovery and achieve economic growth, China has launched the construction along the "Belt and Road", relevant projects are gradually implemented and international cooperation on capacity is deeply advanced. As a leading enterprise in the infrastructure industry in the PRC, the Company gives full support to the construction of high speed railways, urban rail transport, water resources and hydropower engineering, underground pipeline colligate allure and sponge city, deeply participates in the implementation and advancing of the "Belt and Road" initiative, the concerted development of Beijing, Tianjing and Hebei Province and the planning for Yangtze River Economic Belt and the new national urbanization planning. Through the implementation of market-driven debt conversion, the Company's debt to asset structure will be optimised, operational vitality and potential will be further released, and competitiveness and ability of continuous operations will be reinforced. The Company thus will participate in the competition in the PRC and in the infrastructure industry with higher efficiency and stronger vitality, better implement the decision-making and deployment of the State Council on economic development and the "Belt and Road" initiative, promote the economic construction of the PRC and upgrade the image of the PRC in the international market.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed transactions under the Investment Agreements and the Debt Conversion Agreements are entered into on normal business terms, fair and reasonable and in line with the interests of the Company and the shareholders as a whole.

EFFECTS OF THE TRANSACTIONS

The Company currently holds 100% equity interest in the Target Subsidiaries respectively, and thus they are wholly-owned subsidiaries of the Company. Upon completion of the proposed transactions contemplated under the Investment Agreements and Debt Conversion Agreements, the Company will hold 74.68%, 70.62%, 73.02%, and 76.19% equity interest in Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering and China Railway No.8 Engineering respectively, which will still remain as subsidiaries of the Company. Therefore, the financial results and positions of the Target Subsidiaries will continue to be consolidated into the financial statements of the Group.

1. Effects to the Target Subsidiaries

According to the calculation based on the financial indicators materials prepared on a consolidated basis as at 31 December 2017, given that the size of the debt conversion is RMB11,596.60 million, the comparisons of the asset-liability ratios in the four Target Subsidiaries before and after the debt conversion are as follows:

Company Name	Total Assets (in RMB hundred million)	Total Liabilities (in RMB hundred million)	Total liabilities after the debt conversion	Asset-liability ratio	Asset-liability ratio after the debt conversion
Erju Engineering	583.29	495.10	459.10	84.88%	78.71%
China Railway No.3 Engineering	354.94	301.26	271.26	84.88%	76.42%
China Railway No.5 Engineering	429.35	364.78	334.78	84.96%	77.97%
China Railway No.8 Engineering	347.14	294.80	274.83	84.92%	79.17%
Total	1,714.72	1,455.94	1,339.97	84.91%	78.15%

The above table illustrates that through the debt conversion, the asset-liability ratios of the Target Subsidiaries will fall significantly, and the problems of high leverage ratios and financial overburden will be alleviated effectively.

2. Effects to the Company

Upon the completion of the market-oriented debt conversion, it is expected that the net assets of the Company will increase no more than RMB11,596.60 million, and based on the financial data as at 31 December 2017, it is estimated that the asset-liability ratio of the Company will decrease by 1.37 percentage points from 79.89% to 78.52%, which will optimize the asset-liability structure. Upon completion of the Proposed Capital Contribution, the interest-bearing liabilities of the Company is expected to drop by RMB11,596.60 million, and the Company is expected to save the annual interests of approximately RMB0.58 billion. Shareholders should note that, the estimation of the decrease in the annual interests upon completion of the Proposed Capital Contribution will not constitute a profit forecast of the Company. The actual annual interests saved arising from the fall of the interest-bearing liabilities of the Company are also subject to other factors including the market interest rates and the future profitability of the Target Subsidiaries.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

None of the Directors has any material interests in the transactions contemplated under the Investment Agreements and Debt Conversion Agreements, and thus shall abstain from voting on the Board resolution concerning the Proposed Capital Contribution.

Upon the Proposed Capital Contribution, the Company's equity interest in the Target Subsidiaries will be diluted. Accordingly, the transactions contemplated under the Investment Agreements and Debt Conversion Agreements will constitute deemed disposals of the Company under Chapter 14 of the Hong Kong Listing Rules. Having considered the implications of the Rule 14.22 and Rule 14.23 of the Hong Kong Listing Rules, the Company aggregated the transactions contemplated under the Investment Agreements and Debt Conversion Agreements. As the highest applicable percentage ratio upon aggregation is higher than 5% but less than 25%, the transactions contemplated under the Investment Agreements and Debt Conversion Agreements constitute discloseable transactions of the Company and shall be subject to reporting and announcement requirements but exempt from shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules. The Company will perform its compliance obligation in connection with the subsequent reorganisation and other issues in due course pursuant to relevant requirements of the Hong Kong Listing Rules.

DEFINITIONS

“Board”	the board of directors of the Company
“BOC Asset”	BOC Financial Asset Investment Co., Ltd. (中銀金融資產投資有限公司), a limited liability company incorporated in the PRC
“BOCOM Financial”	BOCOM Financial Asset Investment Co., Ltd. (交銀金融資產投資有限公司), a limited liability company incorporated in the PRC
“CBRC”	China Banking Regulatory Commission
“China Cinda”	China Cinda Asset Management Co., Ltd (中國信達資產管理股份有限公司), a joint stock company incorporated in the PRC
“China Great Wall”	China Great Wall Asset Management Co., Ltd. (中國長城資產管理股份有限公司), a joint stock company incorporated in the PRC
“China Orient”	China Orient Asset Management Co., Ltd. (中國東方資產管理股份有限公司), a joint stock company incorporated in the PRC
“China Railway No.3 Engineering”	China Railway No.3 Engineering Group Co., Ltd. (中鐵三局集團有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the date of this announcement

“China Railway No.5 Engineering”	China Railway No.5 Engineering Group Co., Ltd. (中鐵五局集團有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at date of this announcement
“China Railway No.8 Engineering”	China Railway No.8 Engineering Group Co., Ltd. (中鐵八局集團有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the date of this announcement
“China Reform”	China Reform Holdings Corporation Ltd. (中國國新控股有限責任公司), a limited liability company incorporated in the PRC
“Company”	China Railway Group Limited (中國中鐵股份有限公司), a joint stock company incorporated in the PRC and the H shares and A shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 390) and the Shanghai Stock Exchange (stock code: 601390), respectively
“connected person(s)”	has the same meaning ascribed thereto under the Hong Kong Listing Rules
“Debt Conversion Agreements”	the debt conversion agreements dated 13 June 2018 entered into among the Company, the Investors and Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering and China Railway No.8 Engineering, respectively, in relation to Proposed Capital Contribution to the relevant Target Subsidiaries
“Director(s)”	the director(s) of the Company
“Erju Engineering”	China Railway Erju Engineering Co., Ltd. (中鐵二局工程有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the date of this announcement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

“ICBC Financial”	ICBC Financial Asset Investment Co., Ltd. (工銀金融資產投資有限公司), a limited liability company incorporated in the PRC
“Investment Agreements”	the investment agreements dated 13 June 2018 entered into between the Company and each Investors respectively in relation to the Proposed Capital Contribution made to Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering and China Railway No.8 Engineering respectively
“Investors”	China Reform, China Great Wall, China Orient, Structural Reform Fund, Suida Investment, BOC Asset, China Cinda, ICBC Financial and BOCOM Financial or some of them, depending on specific Investment Agreement(s)
“PRC”	the People’s Republic of China, excluding for the purpose of this announcement Hong Kong, the Macao Special Administrative Region and Taiwan
“PRC GAAP”	the generally accepted accounting principles of the PRC
“Proposed Capital Contribution”	the capital contribution made by the Investors to Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering and China Railway No.8 Engineering respectively according to their respective Investment Agreements and Debt Conversion Agreements
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council
“Structural Reform Fund”	China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司), a joint stock company incorporated in the PRC
“subsidiary(ies)”	has the same meaning ascribed thereto under the Hong Kong Listing Rules
“Suida Investment”	Suida (Jiaxing) Investment Partnership (LLP) (穗達(嘉興)投資合夥企業(有限合夥)), a limited liability partnership incorporated in the PRC
“Target Subsidiaries”	Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering and China Railway No.8 Engineering

“Target Equity”	the equity interest held by each of the Investors in the Target Subsidiaries upon the completion of the Proposed Capital Contribution
“Valuation Benchmark Date”	31 December 2017
“Zhongshuizhiyuan Appraisal”	Zhongshuizhiyuan Assets Appraisal Co., Ltd (中水致遠資產評估有限公司), a PRC qualified valuer which was engaged by the Company to evaluate the value of equity interest of the Target Subsidiaries
“%”	per cent

For reference only, an exchange rate of HK\$1.00 to RMB0.81757 has been used for the conversion of Renminbi into Hong Kong dollars in this announcement.

By Order of the Board
China Railway Group Limited
LI Changjin
Chairman

13 June 2018

As at the date of this announcement, the executive directors of the Company are LI Changjin (Chairman), ZHANG Zongyan, ZHOU Mengbo and ZHANG Xian; the independent non-executive directors are GUO Peizhang, WEN Baoman, ZHENG Qingzhi and CHUNG Shui Ming Timpson; and the non-executive director is MA Zonglin.

APPENDIX I – LETTERS FROM THE BOARD AND PRICEWATERHOUSECOOPERS RELATING TO THE PROFIT FORECAST

As each of the valuation of Erju Engineering, China Railway No.3 Engineering, China Railway No.5 Engineering, and China Railway No.8 Engineering is based on the income approach, it is deemed to be a profit forecast under the Hong Kong Listing Rules. The following is the text of letters from the Board and PricewaterhouseCoopers on the profit forecast for the purpose of incorporation in this announcement.

1. LETTER FROM THE BOARD

To: Listing Division
The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre,
1 Harbour View Street, Central,
Hong Kong

Dear Sir/Madam,

Company: China Railway Group Limited (the “**Company**”)

Re: Profit forecast – Confirmation letter under the requirements of Rule 14.62(3) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”)

Reference is made to the announcement of the Company dated 13 June 2018 in relation to, among other things, the valuation reports dated 20 April 2018 of China Railway Erju Engineering Co., Ltd., China Railway No.3 Engineering Group Co., Ltd., China Railway No.5 Engineering Group Co., Ltd., and China Railway No.8 Engineering Group Co., Ltd., which were prepared by Zhongshuizhiyuan Assets Appraisal Co., Ltd (the “**Valuer**”).

The board of directors of the Company has reviewed and discussed with the Valuer and PricewaterhouseCoopers, the independent auditor of the Company (the “**Independent Auditor**”), the basis and assumptions of the valuation. The board of directors of the Company has also considered the confirmation letter issued by the Independent Auditor on 13 June 2018 in relation to the calculations of the profit forecast in the Valuation Report.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the board of directors of the Company confirmed that the profit forecast used in the Valuation Report has been made after due and careful enquiry.

The Board of Directors of China Railway Group Limited
13 June 2018

2. LETTERS FROM PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITOR’S ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATIONS OF ERJU ENGINEERING, CHINA RAILWAY NO.3 ENGINEERING, CHINA RAILWAY NO.5 ENGINEERING AND CHINA RAILWAY NO.8 ENGINEERING (THE “TARGET COMPANIES”)

TO THE BOARD OF DIRECTORS OF CHINA RAILWAY GROUP LIMITED

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuations (the “**Valuations**”) dated 20 April 2018 prepared by Zhongshuizhiyuan Assets Appraisal Co., Ltd. in respect of the appraisal of the fair value of the 100% equity interests in the Target Companies are based. The Valuations are set out in the announcement of China Railway Group Limited (the “**Company**”) dated 13 June 2018 (the “**Announcement**”) in connection with the proposed introduction of third-party investors for capital contribution to the Target Companies by the Company. The Valuations based on the discounted future estimated cash flows are regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

It is our responsibility to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuations are based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Companies.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, have been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 13 June 2018