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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

**DISPOSAL OF 51% EQUITY INTEREST IN CRCE AND
RELATED DEBTS BY CRCI**

The Board is pleased to announce that CRCI, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement and the Supplemental Agreement with CMET and ICBC Investment on 16 December 2019. Pursuant to the Equity Transfer Agreement and the Supplemental Agreement, CMET and ICBC Investment agreed to acquire and CRCI agreed to dispose the 51% equity interest held by it in CRCE and the related debts of RMB3,315 million at a consideration of approximately RMB9,316.14 million.

As the highest applicable percentage ratio (as defined in the Hong Kong Listing Rules) in respect of the transaction contemplated under the Equity Transfer Agreement and the Supplemental Agreement is higher than 5% but less than 25%, the transaction in respect of the disposal of Transaction Target by CRCI to CEMT and ICBC Investment pursuant to the Equity Transfer Agreement constitutes 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.

BACKGROUND

The Board is pleased to announce that CRCI, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement and the Supplemental Agreement with CMET and ICBC Investment on 16 December 2019. Pursuant to the Equity Transfer Agreement and the Supplemental Agreement, CMET and ICBC Investment agreed to acquire and CRCI agreed to dispose the 51% equity interest held by it in CRCE and the related debts of RMB3,315 million at a consideration of approximately RMB9,316.14 million.

Equity Transfer Agreement and the Supplemental Agreement

The major terms of the Equity Transfer Agreement and the Supplemental Agreement are summarized as below:

Date: 16 December 2019

Effective date: The Equity Transfer Agreement shall take effect upon the date of being signed or sealed by all parties, unless otherwise required by the laws and administrative regulations to be approved by the relevant authorities.

The Supplemental Agreement shall be established upon the date of being duly signed (or sealed) by the legal representative or authorised representative of each party and affixed with the official seal and shall take effect at the same time as the Equity Transfer Agreement.

Parties: Seller: CRCI

Buyer: CMET and ICBC Investment

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

Consideration: Pursuant to the Equity Transfer Agreement, the consideration for Transaction Target is RMB9,945 million, in which CMET will contribute RMB6,370 million to acquire 49% equity interest in CRCE and pay RMB3,315 million to acquire the related debts under the Transaction; ICBC Investment will contribute RMB260 million to acquire 2% equity interest in CRCE. Pursuant to the Supplemental Agreement, considering that CRCE distributed profits of approximately RMB1,233.06 million to CRCI after the benchmark date for the listing-for-sale transaction (being 31 March 2019), the consideration for the Target Equity Interest is adjusted to approximately RMB6,001.14 million (the "**Transfer Price for the Target Equity Interest**") accordingly.

Based on the above, the consideration for the disposal of 51% equity interest in CRCE and the related debts of RMB3,315 million is determined as approximately RMB9,316.14 million. The consideration is determined after arm's length negotiations between the parties and with reference to the appraised value of the net assets of CRCI as at the valuation benchmark date (31 March 2019) based on the asset-based approach (being RMB12,985.5726 million) as set out in the asset valuation report dated 24 September 2019 prepared by China United Assets Appraisal Group Co., Ltd., an independent valuer and the book value of the related debts as of 14 November 2019.

Payment:

Pursuant to the Equity Transfer Agreement and the Supplemental Agreement, the payment arrangements for the Transaction are set out as below:

- i. As of the date of this announcement, the deposits paid by CMET and ICBC Investment to Shanghai United Assets and Equity Exchange is RMB2,983.50 million (of which, RMB2,866.50 million was paid by CMET and RMB117.00 million was paid by ICBC Investment). Pursuant to the Equity Transfer Agreement and the Supplemental Agreement, the parties agreed to convert the aforementioned deposits directly into part of the consideration of the Transaction after the date when the Supplemental Agreement is signed;
- ii. CMET and ICBC Investment shall pay 60% of the Transfer Price for the Target Equity Interest to Shanghai United Assets within three working days after the full satisfaction of the below conditions: (i) the Equity Transfer Agreement is signed and takes effect; (ii) the Supplemental Agreement is signed and takes effect; and (iii) the Account Supervision Agreement is signed and takes effect. Before 5 January 2020 or any other date as agreed by the parties under the Supplemental Agreement (whichever is later), CMET and ICBC Investment shall pay 30% of the Transfer Price for the Target Equity Interest to Shanghai United Assets. Before 31 March 2020 or any other date as agreed by the parties under the Supplemental Agreement (whichever is later), CMET and ICBC Investment shall pay 10% of the Transfer Price for the Target Equity Interest to Shanghai United Assets; and
- iii. Before 31 March 2020, CMET shall pay the entire consideration for the related debts to CRCI.

Completion:

The closing date for the Target Equity Interest is the date when CMET and ICBC Investment make their first payment of the Transfer Price for the Target Equity Interest to Shanghai United Assets and CRCI actually receives the proceeds of such payment (the “**Closing Date for the Equity Interest**”). CMET and ICBC Investment will be entitled to all rights, interests and benefits corresponding to the Target Equity Interest since the Closing Date for the Equity Interest. The closing date for the related debts is the date when CMET pays the transfer price of the related debts to Shanghai United Assets and CRCI actually receives the proceeds of such payment (the “**Closing Date for the Debts**”). CMET and ICBC Investment will become the creditors of the related debts and be entitled to all corresponding rights, interests and benefits since the Closing Date for the Debts.

Where the Transaction involves and is subject to filing with or approval by relevant authorities, CRCI, CMET and ICBC Investment shall jointly perform the obligation to submit to such relevant authorities.

Within the period from the benchmark date of the Transaction (being 31 March 2019) to the Closing Date for the Equity Interest, the losses and gains incurred by CRCE will be undertaken/attributed to the shareholders of CRCE after the Closing Date for the Equity Interest. CRCI is obliged to manage in good faith the Transaction Target, shareholders’ equities and assets of CRCE under the Equity Transfer Agreement.

Information about CRCE

CRCE is a limited liability company incorporated in PRC and is the investment and operating entity of the expressway projects open to traffic which are developed by CRCI. CRCE invests in a total of 12 companies, 11 of which are responsible for the investment, operation and management of 11 expressways in seven provinces (or municipalities directly under the Central Government or autonomous regions), including Shandong, Hehan, Sichuan, Shaanxi, Guangxi, Yunnan and Chongqing, with a total mileage of 960 kilometres.

According to the Schedule of Related Debts to be Transferred by CRCI entered into among CRCI and CRCE and its subsidiaries, as at 14 November 2019, the total amount owed by CRCE and its subsidiaries to CRCI is RMB6,500 million, and in proportion to the debts to be transferred under the Transaction, the consideration for related debts under the Transaction is RMB3,315 million.

According to the unaudited consolidated balance sheet prepared in accordance with the Chinese Accounting Standards for Business Enterprises, as at 30 September 2019, CRCE had total assets of RMB36,766.3150 million and net assets of RMB11,065.9713 million. CRCE's profits before and after tax and extraordinary items for the two financial years ended 31 December 2018 and for the nine months ended 30 September 2019 are set out below:

	For the year ended 31 December 2017 <i>(in RMB ten thousand)</i> <i>(audited)</i>	For the year ended 31 December 2018 <i>(in RMB ten thousand)</i> <i>(audited)</i>	For the nine months ended 30 September 2019 <i>(in RMB ten thousand)</i> <i>(unaudited)</i>
Profits before tax and extraordinary items	763.24	34,635.88	14,449.03
Profits after tax and extraordinary items	763.24	34,635.88	14,449.03

FINANCIAL EFFECTS OF THE TRANSACTION

Upon the completion of the Transaction, CRCI will hold 49% equity interest in CRCE and CRCE will cease to be a subsidiary of the Company. Therefore, the assets, liabilities and financial results of CRCE will no longer be included in the consolidated financial statements of the Company.

Based on the financial data of CRCI for the third quarter of 2019, it is estimated that, upon transfer of 51% equity interest in CRCE, CRCI will receive an amount of RMB9.945 billion in cash (of which, RMB6.63 billion is the consideration for the transfer of equity interest and RMB3.315 billion is the debt repayment) and pay taxes of RMB0.386 billion, resulting in a net income of RMB9.559 billion. If such RMB9.559 billion is fully applied towards bank loan repayment, and considering that the bank loans of CRCE in the amount of RMB19.301 billion is no longer consolidated in the balance sheet of the Group, it is estimated that the interest bearing liabilities of the Company will be reduced by RMB28.86 billion. It is also estimated that the assets of the Company will be reduced by approximately RMB28.5 billion and the liabilities of the Company will be reduced by approximately RMB30.2 billion, which will result in the reduction of the asset-to-liability ratio of the Company by 0.82 percentage point from 77.28% to 76.46%.

It is expected that the Company will record a gain of approximately RMB3.7 billion from the disposal of the Transaction Target, which is calculated based on the book value of RMB8.48 billion of the Transaction Target as of 30 September 2019 (excluding minority interest). The aforesaid estimation is for illustrative purpose only and does not purport to represent how the financial position of the Group will be after the Completion, which is subject to review and confirmation by the Company's auditors.

USE OF PROCEEDS FROM THE TRANSACTION

The entire amount of the proceeds of the Transaction is intended to be used for the repayment of the loans of CRCI.

INFORMATION ON THE PARTIES

CRCI is a limited liability company incorporated in PRC and its principle activities include investment in construction industry; investment, construction, operation service and land development of infrastructure projects such as transportation and municipal administration; investment management of ancillary assets (including service areas and advertising right of expressway and other projects); leasing of machinery and equipment and housing. As at the date of this announcement, CRCI is a wholly-owned subsidiary of the Company.

The Company is a joint stock 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 mineral resource development.

CMET is a limited liability company incorporated in PRC and its principle activities include investment, development, construction and operation and management of highways, bridges, wharfs, ports and waterway infrastructure; investment management; development and research of new technologies, products and materials for transportation infrastructure and sales of products; sales of construction materials, mechanical and electrical equipment, automobiles and components, hardware and electrical equipment and general merchandise; economic information consultation; personnel training.

ICBC Investment is a limited liability company incorporated in PRC and its principle activities include debt to equity conversion and supporting business; raising funds from qualified investors in accordance with laws and regulations for the implementation of debt to equity conversion; issuance of financial bonds exclusively for debt to equity conversion; and such other businesses as may be approved by China Banking and Insurance Regulatory Commission.

REASONS FOR AND BENEFITS OF THE TRANSACTION

Considering the current actual situation of the Company and expressway assets, there are noticeable advantages to introduce excellent expressway investors as controlling shareholders to jointly operate CRCE:

Firstly, by taking advantage of various managerial expertise and experiences in expressway operation of excellent expressway investors after bringing in such investors, the operation efficiency of expressway assets will be further improved, which will in turn reduce the operation cost and enhance the profitability.

Secondly, it will expand the development potential of the Company in expressway operation. 25 expressways under the construction of the Company will be put into operation successively. The accumulation of advanced managerial expertise and experience in expressway after the introduction of domestic expressway investors will bring sufficient resources for the Company to achieve management innovation and efficient operation of expressway assets subsequently.

Thirdly, the introduction of excellent expressway investors will bring strong financial resources for the debt restructuring to reduce the financial cost, make the loss-suffering project companies become profitable quickly, shorten the investment payback period of expressway projects and further increase the shareholders' value.

Fourthly, the transfer of the equity interest to the excellent expressway investors will revitalise the expressway assets operated by CRCI and free up additional resources, thus optimise the Company's financial structure and bring new development momentum for the Company.

Fifthly, project construction management is a traditional business segment in which Company has advantages. The introduction of influential expressway investors will bring cooperation opportunities for the Company in the downstream construction of expressway investment, and further expand the Company's market share in expressway engineering and construction.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed transaction under the Equity Transfer Agreement and the Supplemental Agreement are entered into on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

None of the Directors has any material interests in the transaction contemplated under the Equity Transfer Agreement and Supplemental Agreement, and thus shall abstain from voting on the relevant Board resolution in respect of the Transaction.

As the highest applicable percentage ratio (as defined in the Hong Kong Listing Rules) in respect of the transaction contemplated under the Equity Transfer Agreement and Supplemental Agreement is higher than 5% but less than 25%, the transaction in respect of the disposal of Transaction Target by CRCI to CEMT and ICBC Investment pursuant to the Equity Transfer Agreement and Supplemental Agreement constitutes 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.

Definition

“Board”	the board of directors of the Company
“CMET”	China Merchants Expressway Network & Technology Holdings Co., Ltd., a limited liability company incorporated pursuant to the PRC laws
“CRCE”	Guangxi China Railway Communications Expressway Management Co., Ltd. (廣西中鐵交通高速公路管理公司), a limited liability company incorporated pursuant to the PRC laws, and a wholly-owned subsidiary of the Company as of the date of this announcement

“CRCI”	China Railway Communications Investment Group Co., Ltd. (中鐵交通投資集團有限公司), a limited liability company incorporated pursuant to the PRC laws, and a wholly-owned subsidiary of the Company as of the date of this announcement
“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
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the Shanghai Equity Transfer Agreement entered into among CRCI and CMET and ICBC Investment on 16 December 2019 in relation to the transfer of 51% equity interest in CRCE and the related debt of RMB3,315 million
“Transaction Target”	the 51% equity interest in CRCE and the related debt of RMB331,500
“Group”	the Company and its subsidiaries
“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 Investment”	ICBC Financial Asset Investment Co., Ltd. (工銀金融資產投資有限公司), a limited liability company incorporated pursuant to the PRC laws
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“subsidiary(ies)”	has the same meaning ascribed thereto under the Hong Kong Listing Rules
Supplemental Agreement	the supplemental agreement to the equity transfer agreement in relation to Guangxi China Railway Communications Expressway Management Co., Ltd. entered into among CRCI, CMET and ICBC Investment on 16 December 2019
Target Equity Interest	the 51% equity interest in CRCE

“Transaction” the transfer of 51% equity interest in CRCE and the related debt of RMB3,315 million by CRCI to a consortium comprising of CMET and ICBC Investment proposed under the Equity Transfer Agreement and the Supplemental Agreement

“%” per cent

By Order of the Board
China Railway Group Limited
ZHANG Zongyan
Chairman

16 December 2019

As at the date of this announcement, the executive directors of the Company are ZHANG Zongyan (Chairman), CHEN Yun 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.