

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**中国铁建**

**中國鐵建股份有限公司**

**China Railway Construction Corporation Limited**

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

(Stock Code: 1186)

**ANNOUNCEMENT IN RELATION TO  
MECCA LIGHT RAIL PROJECT  
AND  
RESUMPTION OF TRADING**

The Al-Mashaaer Al-Mugadassah metro light rail project in Saudi Arabia (the “**Mecca Light Rail Project**” or the “**Project**”) of China Railway Construction Corporation Limited (the “**Company**”) is scheduled to commence operation on 13 November 2010. The Project is expected to incur significant loss during the course of implementation as the actual work quantities have significantly exceeded the estimated figures at the time of signing of the contract. The total loss is expected to be approximately RMB4.153 billion (unless otherwise specified, the amounts below are expressed in RMB), based on the exchange rate on 30 September 2010.

## **I. PROFILE OF THE PROJECT**

On 10 February 2009, the Company signed the Contract of Metro Light Rail Project in Saudi Arabia with the Ministry of Municipality and Rural Affairs of the Kingdom of Saudi Arabia, pursuant to which the parties agreed to adopt the EPC+O&M general contracting model (that is, engineering, procurement, construction plus operation and maintenance), and the Company undertook the engineering, procurement, construction, and system (including vehicles) installations and testing as well as the 3-year operation and maintenance commencing from 13 November 2010. According to the construction term requirement, the Project shall commence operation and achieve 35% of the full transport capacity on 13 November 2010, and complete all testing and achieve 100% full capacity in May 2011.

The total contract value of the Project is 6.650 billion Saudi Riyals, equivalent to approximately US\$1.77 billion or RMB12.070 billion (based on the exchange rate on 30 September 2010). For details, please refer to the Announcement in Relation to Overseas New Material Contract dated 12 February 2009 published by the Company on the website of the Shanghai Stock Exchange and the overseas regulatory announcement simultaneously published on the website of The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”).

The Project is of great significance as it is the access rail specially for Muslim pilgrims from all around the world.

## **II. PROFIT AND LOSS OF THE PROJECT AND THEIR RECOGNITION**

Based on the exchange rate on 30 September 2010, the estimated total contract revenue of the project amounted to RMB12.070 billion, and the estimated total costs for the contract were RMB16.069 billion. Therefore, the loss from the contract, being the difference between the former two, was RMB3.999 billion. Together with the finance cost of RMB154 million, the total loss for the Project is expected to be RMB4.153 billion.

Of the aforesaid loss, as of 30 September 2010, the accumulated loss of the part of construction work that has been completed amounted to RMB3.329 billion (the accumulated costs incurred amounted to RMB12.769 billion) and the expected loss of the uncompleted part is estimated to be RMB824 million (the estimated costs to be incurred amounted to an additional RMB3.3 billion). As of 30 September 2010, 79.5% of the overall construction had been completed (the recognized accumulated revenue amounted to RMB9.594 billion and the accumulated costs incurred amounted to RMB12.769 billion, representing 79.5% of the estimated total revenue and the estimated total costs, respectively).

In terms of the accounting periods, the recognized loss of the Project for the year 2009 amounted to RMB294 million (of which the recognized loss for the completed part amounted to RMB111 million and the provision for the estimated contract loss for the uncompleted part amounted to RMB183 million), the recognized loss for the first half of 2010 amounted to RMB254 million (of which the recognized loss for the completed part amounted to RMB180 million and the additional provision for the estimated contract loss for the uncompleted part amounted to RMB74 million) and the estimated loss which is expected to be recognized for the third quarter of 2010 amounted to RMB3.605 billion (of which the recognized loss for the completed part amounted to RMB3.038 billion and the additional provision for the estimated contract loss for the uncompleted part amounted to RMB567 million).

### **III. CHANGE IN ESTIMATED TOTAL COSTS OF THE CONTRACT AND REASONS THEREOF**

The Project's contract value was 6.650 billion Saudi Riyals, which was equivalent to RMB12.110 billion on 31 December 2009, or RMB12.103 billion on 30 June 2010 or RMB12.070 billion on 30 September 2010 respectively, due to the minor changes in exchange rate. Estimated total revenues from the contract on the above three dates are accordingly recognized based on the relevant exchange rates.

Based on the above three points in time, the estimated total costs for the contract on 31 December 2009, 30 June 2010 and 30 September 2010 were RMB12.354 billion, RMB12.544 billion and RMB16.069 billion, respectively. The changes in the estimated total costs for the contract are mainly attributable to the following:

The Project adopts the EPC+O&M general contracting mode. The Project was based on conceptual design at the time of signing of the contract. As the owner requested new functional requirements and additional work quantities during the course of construction of the Project, the estimated total costs for the contract gradually increased. As at 30 June 2010, the estimated total costs had increased to RMB12.544 billion.

In the second half of the year 2010, with the Project entering the phase of large scale construction, and the full commencement of the construction of the various sub-projects, the actual work quantities increased significantly as compared with the estimated figures at the time of signing of the contract. Moreover, the owner increased substantially the transportation capacity of the Project for the year 2010 as compared with the capacity set out in the contract, while the underground pipeline network, land expropriation and relocation undertaken by the owner were substantially delayed, and re-adjustments on parts of the completed construction were also required as a result of the new instructions specified by the owner. Accordingly, the total work quantities and costs of the Project increased significantly, and there were delays in certain phases in the scheduled construction timetable. As the Project has major social influence and has drawn close concerns from the governments of both countries, and in order to ensure the scheduled progress, the Company invested large amount of manpower, resources and capital in the Project, thereby ensuring the scheduled completion of the main part of the Project as planned and commencement of operation in November 2010, in accordance with the requirements of the owner.

The above changes have led to substantial increase in the estimated total costs for the contract. In accordance with the contractual requirements, the Company has delivered relevant materials to the owner in support of the variations and applications for compensation claims. The owner has undertaken to set up a special committee upon completion of the Project to negotiate the claims and compensations. So far, the Company has been in negotiations with the owner for the compensation for the above variations and has not yet obtained the approvals from the owner. In accordance with relevant accounting standards, the Company has not included the amounts of such compensation claims in the estimated total revenue from the contract. The Company will continue to further negotiate with the owner on the compensation issues arising from the above variations and claims.

#### **IV. IMPACT OF THE PROJECT ON THE COMPANY**

The Project is expected to have a material impact on the Company's profits for the third quarter. If approvals for the variations and issues relating to the claims for compensation could not be obtained from the owner before the publication date of 2010 annual results, it is expected that the Project will have a material impact on the profits of the Company for the year 2010.

## V. RESUMPTION OF TRADING

Trading in the H Shares of the Company on Hong Kong Stock Exchange has been suspended with effect from 9:30 a.m. on 25 October 2010, pending the release of this announcement by the Company. An application has been made to Hong Kong Stock Exchange for the resumption of trading in the H Shares of the Company with effect from 9:30 a.m. on 26 October 2010.

By order of the Board

**China Railway Construction Corporation Limited**

*Chairman*

**Li Guorui**

Beijing, the PRC

25 October 2010

*As at the date of this announcement, the board of directors of the Company comprises: Mr. LI Guorui (Chairman and Non-executive Director), Mr. ZHAO Guangfa (President and Executive Director), Mr. HUO Jingui (Non-executive Director), Mr. ZHU Mingxian (Non-executive Director), Mr. LI Kecheng (Independent Non-executive Director), Mr. ZHAO Guangjie (Independent Non-executive Director), Mr. WU Taishi (Independent Non-executive Director) and Mr. NGAI Wai Fung (Independent Non-executive Director).*