

CHAIRMAN'S STATEMENT



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Mr. Wu Janguang *Chairman of the Board*

Dear Shareholders,

I am pleased to present the audited operating results of the Company and its subsidiaries for the year ended December 31, 2005.

OPERATING RESULTS

In 2005, the overall operating results of the Company maintained continuous growth and its comprehensive strength and profitability also kept improving. For the year ended December 31, 2005, the total revenue of the Company and its subsidiaries was RMB3,276.9 million, profit attributable to equity holders was RMB613.4 million, and earnings per share was RMB0.14.

Passenger transportation business is the most important business of the Company. Due to the continuing and stable economic growth in Guangdong Province and Hong Kong, the further implementation of the "Relaxed Individual Travel" program to Hong Kong and Macau Special Administrative Region ("Macau"), as well as the opening of the Hong Kong Disneyland, the Company benefited from strong demand in the passenger transportation market. In 2005, the Company continued to optimize the operations of the Guangzhou-Shenzhen High Speed Passenger Trains and the Canton-Kowloon Through Trains, arranged transportation capacity scientifically, reasonably increased stopping at intermediary stations and train frequency, initiated passenger flows connection between long-distance trains in the Guangzhou area and Guangzhou-Shenzhen trains; the Company succeeded in testing the IC Card Ticketing System and carried out refurbishment of passenger stations for the convenience of passengers, and enhanced service quality to attract more passengers. In 2005, the total number of passengers of the Company was 49.058 million, representing an increase of 6.6% when compared to 2004; revenues from passenger transportation were RMB2,511.2 million, representing an increase of 11.1% from 2004, accounting for 76.6% of the total revenues.

Freight transportation business is one important business of the Company. By strengthening its marketing efforts and improving its organization of freight sources, the Company transported 8.46 million tonnes of outbound freight in 2005, representing an increase of 2.7% from that of 2004. However, the severe competition from other means of transportation and the centralized upward adjustments of railway freight tariffs led to the decrease of inbound and pass-through freight tonnage, which in turn affected the sustained growth of the Company's freight transportation business as a whole. Revenues from freight transportation in 2005 were RMB588.3 million, representing a decrease of 3.8% when compared to that of 2004.

In 2005, revenues from other businesses of the Company were RMB177.5 million, representing an increase of 6.5% from that of 2004.

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CORPORATE GOVERNANCE

In 2005, the Company has established an internal control system related to financial reporting, so as to comply with the relevant requirements under Section 404 of the Sarbanes-Oxley Act. The Company has also set up a Remuneration Committee in accordance with the revised Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") and formulated its "Rules Governing the Work of Remuneration Committee" (薪酬委員會工作條例), and made certain amendments to its Articles of Association upon its shareholders' suggestions.

In addition, the Company has, to the best of the knowledge of the Company and its directors (the "Directors"), complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout 2005.

FUTURE PROSPECTS

2006 is the first year for the implementation of China's 11th Five-year Plan. This is a critical year for the Company to expand, to grow and to implement the forward-leaping development strategies. It plans to implement the following development projects and initiatives in 2006:

- Proposed issuance of A shares to acquire the railway transportation assets between Guangzhou and Pingshi. To enlarge the operation scale and to reinforce the Company's predominant position in the railway transportation industry in the Pearl River Delta, the Company proposes to issue not more than 2.75 billion RMB-denominated ordinary shares to raise fund for the proposed acquisition of the railway transportation business between Guangzhou and Pingshi of Guangzhou Railway (Group) Company, the parent company of the Company and all assets and liabilities relating to such business. The acquisition will help improve the Company's competitiveness and overall performance, optimize allocation of the Company's transportation resources, improve the image of the Company in capital markets and propel the forward-leaping development plan of the Company.



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- Continuous construction of the fourth line between Guangzhou and Shenzhen. Upon completion of the construction, the Guangshen railway will become the first four-line railway in China that allows the high-speed passenger trains and regular speed passenger and freight trains to run on separate lines, thus substantially improving the transportation capacity of high-speed passenger trains, domestic long-distance trains and freight trains.
- Introduction of advanced electric trains of international standard. The Company purchased 20 sets of Electric Multiple Units trains (EMUs), each has the speed of 200 km/h, from Bombardier Sifang Power (Qingdao) Transportation Ltd and Bombardier Sweden Transportation Ltd. These 20 sets of EMUs will be used in the operation of the Guangzhou-Shenzhen high-speed passenger trains and Hong Kong Through Trains. The introduction of EMUs will strengthen the Company's capacity in its delivery of "safety, speed, comfort and quality" in transport services, increase the Company's competitiveness and bring about good operating efficiency.

All the above material programs and initiatives will help enhance the core competitiveness of the Company, strengthen its leadership in the market, help the Company to consolidate its competitive edges and realize sustainable development, which will result in a robust foundation for the future development of the Company.

In 2005, the Company achieved good operating results. The achievements were attributable to the enthusiasm and diligence of our employees as well as to the support and trust of the shareholders of the Company. In 2006, the economy of China is expected to experience a continuous and steady growth. With the implementation of the 11th Five-year Plan in China's railway industry, the strengthening economic cooperation in the Pan Pearl River Delta, and the progressive expansion of the implementation of "Relaxed Individual Travel" programme to Hong Kong and Macau, it is expected that there will be a continuing increase of demand in the passenger and freight transportation markets in the Company's service regions. The Company expects to achieve better operating results, hence, higher returns for its shareholders in the new year.

Wu Juguang

Chairman of the Board

Shenzhen, the PRC
March 20, 2006