

MANAGEMENT'S DISCUSSION AND ANALYSIS



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This discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes. The consolidated results of the Company and its subsidiaries for the year ended December 31, 2005 were prepared in accordance with International Financial Reporting Standards (IFRS), which differ in certain material respects from PRC generally accepted accounting principles and United States generally accepted accounting principles (see "Supplementary Financial Information" for a discussion of these differences).

1. BUSINESS OVERVIEW

In 2005, with the continuous and rapid growth in China's economy, the accelerating integration of the Pan Pearl River Delta Economic Circle and the vigorous expansion of the Closer Economic Partnership Arrangement between Hong Kong, Macau and mainland China ("CEPA"), the thriving economic development in Guangdong and Hong Kong has created a strong demand for transportation services. The Company aggressively captured market opportunities, adjusted the transportation organization and strengthened marketing efforts, and endeavored to increase transportation efficiency and capacity, resulting in a stable growth in the operating results.

In 2005, the total revenues of the Company were RMB3,276.9 million, representing an increase of 7.9% from RMB3,038.1 million in 2004. Among which, revenues from passenger transportation service, freight transportation service and other businesses were RMB2,511.2 million, RMB588.3 million and RMB177.5 million respectively, accounting for 76.6%, 18.0% and 5.4% of the total revenues of the Company, respectively. In 2005, profit attributable to equity holders of the Company was RMB613.4 million, representing an increase of 8.1% from RMB567.5 million in 2004.

2. BUSINESS ANALYSIS

(1) Passenger Transportation

Passenger transportation business is the most important business of the Company. As of December 31, 2005, the Company operated 122 pairs of passenger trains in accordance with its daily train schedule, representing an increase of five pairs from

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the number in operation at the end of 2004. There were 67 pairs of high-speed passenger trains between Guangzhou and Shenzhen, an increase of three pairs; two pairs of regular-speed passenger trains between Guangzhou and Shenzhen; 13 pairs of Hong Kong Through Trains and 40 pairs of long-distance passenger trains, an increase of two pairs, of which the Company undertook the operation of three pairs.

**Note:* 67 pairs of high-speed trains between Guangzhou and Shenzhen included 10 standby pairs; 13 pairs of Hong Kong Through Trains included 11 pairs of Canton-Kowloon Through Trains, one pair of Through Trains between Zhaoqing and Kowloon and one pair of Through Trains between Beijing and Kowloon or between Shanghai and Kowloon. (The Hong Kong Through Trains between Beijing and Kowloon and the Through Trains between Shanghai and Kowloon are counted as one pair of Through Trains as they operate on alternate days).

In 2005, the Company's total number of passengers was 49.058 million, representing an increase of 6.6% from 46.012 million in 2004. Its revenue from passenger transportation was RMB2,511.2 million, representing an increase of 11.1% from RMB2,259.7 million in 2004, among which:

- ***Guangzhou-Shenzhen trains***

The Company's Guangzhou-Shenzhen trains consist of high-speed passenger trains and regular-speed passenger trains between Guangzhou and Shenzhen. The number of passengers travelling on the Company's Guangzhou-Shenzhen trains increased by 6.2% from 20.270 million in 2004 to 21.529 million in 2005. The number of passengers travelling on the high-speed passenger trains between Guangzhou and Shenzhen increased by 7.4% from 19.630 million in 2004 to 21.084 million in 2005; while the number of passengers travelling on the regular-speed passenger trains between Guangzhou and Shenzhen decreased by 30.4% from 0.640 million in 2004 to 0.445 million in 2005. The revenues from Guangzhou-Shenzhen trains increased by 5.8% from RMB1,152.5 million in 2004 to RMB1,219.8 million in 2005. The increase in business volume of Guangzhou-Shenzhen trains was mainly due to: (1) the acceleration of regional economic cooperation in the Pan Pearl River Delta and the strong economic growth in the Pearl River Delta, which resulted in the upward flows of business persons, tourists and workers; (2) the vigorous optimization of the transportation organization, the initiation of passenger flows connection between long-distance trains in the Guangzhou area and Guangzhou-Shenzhen trains and the provision of "One-stop Through All" service to attract more passengers for Guangzhou-Shenzhen trains; (3) the Company further improved the "As-frequent-as-buses" Train Project and increased the frequency of trains; (4) the gradual improvement of the metro systems in Guangzhou and Shenzhen has strengthened the connection between the railway and urban public transportation system; (5) the Company continuously perfected the comprehensive service function of passenger stations to provide more convenience for passengers.

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- ***Hong Kong Through Trains***

The number of passengers travelling on the Hong Kong Through Trains of the Company increased by 6.1% from 2.890 million in 2004 to 3.065 million in 2005. Revenues from Hong Kong Through Trains increased by 4.8% from RMB436.9 million in 2004 to RMB457.7 million in 2005. The increase in business volume of Hong Kong Through Trains was mainly due to: (1) the continuing increase in the number of business persons and tourists following the accelerated implementation of CEPA, the progressive expansion of the "Relaxed Individual Travel" program to Hong Kong and Macau and the opening of Hong Kong Disneyland; (2) the two additional pairs of Hong Kong Through Trains that commenced operation in April 2004 were in full operation in 2005; (3) the Company continued to enhance the service function of passenger stations and provided passengers with services as those provided in a flight to improve the quality of passenger service.

- ***Long-distance trains***

The number of passengers travelling on the long-distance trains of the Company increased by 7.1% from 22.852 million in 2004 to 24.463 million in 2005. The revenue from long-distance trains increased by 24.4% from RMB670.2 million in 2004 to RMB833.7 million in 2005. The increase in business volume of the long-distance trains was mainly due to: (1) the continuing increase in the number of business persons and workers coming from inland to cities such as Shenzhen and Guangzhou as a result of the continuous and rapid economic growth and the gradual improvement of the labor market environment in the Pearl River Delta; (2) the Company enhanced the marketing of long-distance trains, i.e. the Shenzhen-Beijing West trains, Shenzhen-Yueyang trains and Shenzhen-Shaoguan trains undertaken by the Company and raised the occupancy rate of these trains to a relatively large extent, leading to an increase in revenue from long-distance trains; (3) compared to the same period last year, the large-scale operation of



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temporary passenger trains during the Spring Festival season and Golden Week holidays led to an increase in passenger volume and revenue; (4) the Shenzhen-Jian trains and Shenzhen-Taizhou trains that commenced operation in July 2005, and the Shenzhen-Shenyang North trains which commenced operations at the end of December 2004 were in full operation throughout 2005, thus boosted the passenger volume.

The table below illustrates the revenues from passenger transportation business and the volume of passengers for the year ended December 31, 2005 as compared to those of the same period in 2004:

	For the year ended		Increase/ (Decrease)
	December 31, 2005	2004	
Revenues from passenger transportation (RMB thousands)	2,511,156	2,259,671	11.1%
— Guangzhou-Shenzhen trains	1,219,758	1,152,529	5.8%
— Hong Kong Through Trains	457,728	436,918	4.8%
— Long-distance trains	833,670	670,224	24.4%
Total number of passengers (thousand persons)	49,058	46,012	6.6%
— Guangzhou-Shenzhen trains	21,529	20,270	6.2%
— Hong Kong Through Trains	3,065	2,890	6.1%
— Long-distance trains	24,463	22,852	7.1%
Revenue per passenger (RMB)	51.19	49.11	4.2%
— Guangzhou-Shenzhen trains	56.66	56.86	(0.4%)
— Hong Kong Through Trains	149.29	151.18	(1.3%)
— Long-distance trains	34.08	29.33	16.2%
Total passenger-kilometers (millions)	4,539.10	4,200.2	8.1%
Revenue per passenger-kilometer (RMB)	0.55	0.54	1.9%

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(2) Freight Transportation

Freight transportation is the core business of the Company. The total tonnage of freight transported by the Company in 2005 was 31.893 million tonnes, representing a decrease of 6.7% from 34.199 million tonnes in 2004. Revenues from freight transportation business were RMB588.3 million, representing a decrease of 3.8% from RMB611.8 million in 2004, among which:

- ***Outbound freight***

In 2005, the Company's outbound freight tonnage was 8.460 million tonnes, representing an increase of 2.7% from 8.241 million tonnes in 2004. Outbound freight revenues were RMB139.3 million, representing an increase of 22.9% from RMB113.4 million in 2004. The increase in outbound freight business was mainly due to: (1) the continuing increase in demand for imported raw materials such as coal and ore owing to the continuous and rapid economic growth in mainland China; (2) the centralized upward adjustments of railway freight tariffs implemented since April 2005 had exerted positive influence on the increase in outbound freight revenue; and (3) in order to enhance competitiveness, the Company endeavored to maintain the current sources of freight and explore for new freight through providing preferential tariffs, improving service quality and strengthening relations with consignors.

* From January 1, 2005, the Ministry of Railway ("MOR") began to modify the settlement method on the income from railway freight transportation, all freight transportation fees relating to post, parcels and luggage, containers and special goods that had been shared between railway administrations (companies) in proportion to the lengths of transit were credited to Zhongtie Parcels Courier Company Limited, Zhongtie Container Transportation Company Limited and Zhongtie Special Goods Transportation Company Limited, or collectively the Three Professional Transportation Companies, which shall pay railway usage fees to railway administrations (companies). These railway usage fees were credited into outbound freight revenue and inbound or pass-through freight revenue accordingly as it may occur for the convenience of matching classified freight revenues with freight tonnages and comparison with the corresponding numbers of the past years. The numbers occurred in 2005 showed that the modifications had not significantly affected the revenues from freight transportation.

- ***Inbound and pass-through freight***

In 2005, the Company's inbound and pass-through freight tonnages were 23.433 million tonnes, representing a decrease of 9.7% from 25.958 million tonnes in 2004; its inbound and pass-through freight revenues were RMB308.0 million, representing a decrease of 4.7% from RMB323.1 million in 2004. The decrease in inbound and pass-through freight volume was mainly due to: (1) the progressive improvement of road, water and air transportation networks of mainland China, bringing fiercer competition to railway freight transportation market; (2) the centralized upward adjustments of railway freight tariffs implemented nationwide since April 2005 had led to the transfer of part of the freight sources to other means of transport.

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- ***Storage, loading and unloading and miscellaneous items***

In 2005, the Company's revenues from storage, loading and unloading and miscellaneous items were RMB141.0 million, representing a decrease of 19.6% from RMB175.3 million in 2004. The decrease in revenues was mainly due to the decline in inbound and pass-through freight volume.

Set out below are the Company's revenues from its freight transportation business and the freight volume for the year ended December 31, 2005 as compared with those of the same period in 2004:

	For the year ended		Increase/ (Decrease)
	December 31, 2005	2004	
REVENUES FROM FREIGHT TRANSPORTATION (RMB thousands)	588,310	611,807	(3.8%)
— Outbound freight transportation	139,340	113,421	22.9%
— Inbound and pass-through freight transportation	307,962	323,108	(4.7%)
— Storage, loading and unloading and miscellaneous items	141,008	175,278	(19.6%)
TOTAL TONNAGE (thousand tonnes)	31,893	34,199	(6.7%)
— Outbound freight	8,460	8,241	2.7%
— Inbound and pass-through freight	23,433	25,958	(9.7%)
Revenue per tonne (RMB)	18.45	17.89	3.1%
Total tonne-kilometres (millions)	2,294.8	2,489.5	(7.8%)
Revenue per tonne-kilometre (RMB)	0.26	0.25	4.0%

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(3) Other businesses

The Company's other businesses mainly consist of on-board and in-station sales of goods and food, advertising and tourism services. Revenues from other businesses of the Company in 2005 were RMB177.5 million, representing an increase of 6.5% from RMB166.7 million in 2004.

The table below sets forth the revenues from other businesses of the Company for the year ended December 31, 2005 compared with those of the same period in 2004:

Category of Businesses	For the year ended		Increase/ (Decrease)
	December 31, 2005 (RMB' thousands)	2004 (RMB' thousands)	
On-board and in-station sales of goods	29,172	48,496	(39.8%)
Station services	39,430	45,206	(12.8%)
Others	108,860	72,969	49.2%
Total	<u>177,462</u>	<u>166,671</u>	<u>6.5%</u>

3. COST ANALYSIS

In 2005, the total operating expenses of the Company were RMB2,566.1 million, representing an increase of 6.6% from RMB2,408.0 million in 2004, among which, the railway operating expenses were RMB2,375.8 million, representing an increase of 6.0% from RMB2,241.8 million in 2004. Expenses of other businesses were RMB190.3 million, representing an increase of 14.6% from RMB166.2 million in 2004.

For the year ended December 31, 2005, the railway operating expenses of the Company mainly include:

- **Business tax**

The business tax for 2005 was RMB86.57 million, representing an increase of 3.4% from RMB83.73 million in 2004. Such increase was due to the increase in the revenues of the Company.

- **Labor and benefits**

In 2005, labor and benefits expenses amounted to RMB518.6 million, representing an increase of 5.3% from RMB492.6 million in 2004. The increase was mainly due to: (1) the implementation of the performance based salary policy; steady increase of operating results in 2005 resulted in the overall increase in employees' salaries and benefits; (2) the increase in the number of trains in operation during the year, and the corresponding increase in the number of related operation staff and workload.

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- **Equipment leases and services**

The expenses on equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway companies (administrations). In 2005, expenses on equipment leases and services of the Company amounted to RMB507.6 million, representing an increase of 12.3% from RMB452.2 million in 2004. This was mainly due to: (1) the operation of Shenzhen-Shaoguan long-distance trains since May 2005, which led to the increase in the corresponding railway usage fees; and (2) the relatively large increase in the number of temporary passenger trains in operation during the Spring Festival holidays and the Golden Week holidays in 2005, which led to the increase of related equipment leases and services fees.

- **Materials and supplies**

Materials and supplies include materials, fuel, water and electricity consumption. In 2005, the Company's materials and supplies expenses amounted to RMB283.9 million, representing an increase of 15.6% from RMB245.5 million in 2004. The increase was mainly due to: (1) the increased consumption of materials and supplies resulted from the increased number of trains in operation during the year; (2) the increase in the consumption of materials arisen from the increased investment in flood-control and maintenance of railway line to ensure the safety thereof; (3) the ongoing increase in the prices of oil and electricity because of short supply, which led to the increase of related costs of the Company.

- **Repair expenses (excluding materials and supplies)**

Repair expenses (excluding materials and supplies) increased by 21.6% from RMB216.3 million in 2004 to RMB263.0 million in 2005. The increase was mainly due to: (1) the increased number of locomotives and vehicles that underwent overhaul, leading to the increase in repair expenses on related equipment; (2) the refurbishment of houses and structures to further enhance the service function of passenger and freight stations and to improve the living and working environment of the employees, which caused an increase in the repair expenses; (3) the increase in the expenses on the repair and maintenance of facilities such as rail lines and electrical equipment to satisfy the requirement for transportation safety as a result of increased transportation volume.

- **Depreciation**

Depreciation expenses of fixed assets decreased by 2.7% from RMB334.5 million in 2004 to RMB325.6 million in 2005, which was mainly due to the disposal of some useless assets during the year and part of the assets had come to the end of their service life in succession during the year.

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- **Social services fees**

Social services fees of the Company in 2005 were RMB78.23 million, representing a decrease of 7.6% from RMB84.64 million in 2004. The reason for the decrease was mainly as follow: the segmentation reform of principal and subordinate businesses of the railway industry implemented in 2004, as result of which, the hospitals and schools that used to provide medical and education services to the Company were transferred to local authorities, thus the Company had to pay certain amount of subsidies in accordance with the government policies, while in 2005, the Company did not have to pay such fees.

- **General and administration expenses**

General and administration expenses of the Company in 2005 were RMB188.4 million, representing a decrease of 1% from RMB190.3 million in 2004. The decrease was mainly due to the decrease in the provision for impairment this year.

4. TAXATION

As the Company is a corporation incorporated in the Shenzhen Special Economic Zone, it is subject to an income tax at a rate of 15%. According to relevant taxation regulations, other businesses of the Company and its subsidiaries are subject to an income tax at the rate of 15% or 33%, depending on the location of incorporation. Income tax expenses of the Company and its subsidiaries were RMB104.2 million in 2005, implying an effective tax rate of 14.5%, increased by RMB5.875 million from RMB98.37 million in 2004, which was mainly due to the increase in profit before tax of the Company.

5. ANALYSIS OF FINANCIAL POSITION

Assets, liabilities and shareholders' equity

Set out below are the assets, liabilities and shareholders' equity of the Company and its subsidiaries as at December 31, 2005 compared with those as at December 31, 2004:

As at December 31	2005 <i>(RMB thousands)</i>	2004 <i>(RMB thousands)</i>	Increase/ (Decrease)
Current assets	2,473,931	2,988,455	(514,524)
Non-current assets	10,270,522	8,420,596	1,849,926
Total assets	12,744,453	11,409,051	1,335,402
Current liabilities	2,006,807	936,865	1,069,942
Non-current liabilities	4,830	—	4,830
Total liabilities	2,011,637	936,865	1,074,772
Net assets	10,732,816	10,472,186	260,630
Share capital	4,335,550	4,335,550	—
Reserves	6,348,509	6,085,024	263,485
Minority interests	48,757	51,612	(2,855)
Total shareholders' equity	10,732,816	10,472,186	260,630

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As of December 31, 2005, total assets of the Company were RMB12,744.5 million, representing an increase of RMB1,335.4 million from RMB11,409.1 million as of December 31, 2004.

As of December 31, 2005, current assets of the Company were RMB2,473.9 million, representing a decrease of RMB514.5 million from RMB2,988.5 million as of December 31, 2004. This was mainly due to a decrease in short-term deposit, prepayments and other trade receivables (net) in the sum of RMB659.1 million.

As of December 31, 2005, non-current assets of the Company were RMB10,270.5 million, representing an increase of RMB1,849.9 million from RMB8,420.6 million as of December 31, 2004. This was primarily due to an increase in the amount of RMB2,022.8 million for construction-in-progress, prepayment for fixed assets, net fixed assets and deferred tax assets.

The liabilities of the Company consist mainly of current liabilities. As of December 31, 2005, the current liabilities of the Company were RMB2,006.8 million, representing an increase of RMB1,069.9 million from RMB936.9 million in 2004. This was mainly due to the increase in the amounts due to related companies, trade payables, accrued expenses and other payables and tax payable in a total sum of RMB1,159.7 million.

As of December 31, 2005, the shareholders' equity of the Company was RMB10,732.8 million, representing an increase of RMB260.6 million from RMB10,472.2 million as of December 31, 2004. This was mainly due to the increase in reserves of RMB263.5 million when compared with that of 2004.

As of December 31, 2005, the gearing ratio of the Company, calculated as the outstanding amount of total liabilities at the end of the period over the outstanding amount of the total assets at the end of the period, was 15.8%.

As of December 31, 2005, the Company had no charge on any of its assets and had not provided any guarantees.

Liquidity and capital resources

The principal source of capital of the Company was revenues generated from operations. In 2005, the net cash flow from the Company's operations was RMB1,380.1 million, representing an increase of RMB143.6 million from RMB1,236.6 million in 2004. The increase in net cash flow from the Company's operations was mainly due to the increase in the Company's total revenues.

The Company's capital was mainly used for capital and operating expenses and payment of taxes and dividends. In 2005, the Company spent RMB1,588.4 million on purchase of fixed assets and construction-in-progress. It also paid RMB90.724 million for income tax and approximately RMB476.9 million for dividends.

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The table below sets forth the comparisons of the major items in the consolidated cash flow statements of 2005 and 2004.

	2005 (RMB thousands)	2004 (RMB thousands)	Increase/ (Decrease)
Net cash inflows from operating activities	1,380,147	1,236,579	143,568
Net cash from (used in) investment activities	(820,915)	(1,000,639)	179,724
Net cash from (used in) financing activities	(491,733)	(469,044)	(22,689)
Net cash and cash equivalents inflows (outflows)	<u>67,499</u>	<u>(233,104)</u>	<u>300,603</u>

The Company believes it has sufficient working capital and available banking facilities to meet its operation and development requirements.

6. COMMITMENTS

(1) Capital commitments

As of December 31, 2005, the Company had the following capital commitments which were authorized but not contracted for and contracted but not provided for:

	2005 (RMB thousands)	2004 (RMB thousands)
Authorized but not contracted for	3,985,253	451,500
Contracted but not provided for	<u>3,331,311</u>	<u>693,828</u>

(2) Operating lease commitments

As of December 31, 2005, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2005 (RMB thousands)	2004 (RMB thousands)
Machinery and equipment	75,375	183,375
— not more than 1 year	75,375	108,000
— more than 1 year but not more than 5 years	<u>—</u>	<u>75,375</u>

The above operating lease commitments were for leasing eight AC-driven electric passenger trains ("Blue Arrow") with a speed of up to 200 kilometres per hour.

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7. FOREIGN EXCHANGE RISK AND HEDGING

The Company currently holds a certain amount of United States dollars ("USD") and Hong Kong dollars ("HKD") deposits. It also earns revenues in HKD from its railway transportation businesses. Dividends to the shareholders of H shares and ADSs are paid in foreign currencies. Some of the Company's contracts, particularly with respect to the high-speed passenger train project, are payable by the Company in foreign currencies. If there are relatively strong fluctuations in the exchange rate of RMB to the relative foreign currencies, the operating results of the Company will be affected. The reform of the RMB exchange rate system in July 2005 has led to revaluations of RMB against USD and HKD, which was offset by the continuous increase in the interest rates for USD and HKD deposits, thus having insignificant impact on the operating results of the Company.

8. INTEREST RATE RISK

Funds that are not needed for immediate use are placed as temporary cash deposits or time deposits in commercial banks and in the Railway Deposit-taking Center of the MOR. The Company does not hold any market risk-sensitive instruments for trading purposes. As of December 31, 2005, the Company had no commercial bank loans outstanding. Accordingly, the Company is not exposed to any material interest rate risks.

9. CONTINGENCY OF AN ASSOCIATE

As of December 31, 2005, the Company's investment interest in an associated company, Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng"), amounted to approximately RMB140 million (at cost). In 1996, Tiecheng and a Hong Kong incorporated company jointly established Guangzhou Guantian Real Estate Company Limited ("Guangzhou Guantian"), a sino-foreign cooperative joint venture, to develop certain properties near a railway station operated by the Company.

On October 27, 2000, Guangzhou Guantian together with Guangzhou Guanhua Real Estate Company Limited ("Guangzhou Guanhua") and Guangzhou Guanyi Real Estate Company Limited ("Guangzhou Guanyi") agreed to act as joint guarantors of certain debts of Guangzhou Guancheng Real Estate Company Limited ("Guangzhou Guancheng") to an independent third party. Guangzhou Guantian, Guangzhou Guanhua, Guangzhou Guanyi and Guangzhou Guancheng were related companies with a common chairman. As Guangzhou Guancheng failed to repay the debts, according to a court judgment on November 4, 2001, Guangzhou Guantian, Guangzhou Guanhua and Guangzhou Guanyi were liable to the independent third party for an amount of approximately RMB257 million together with any accrued interest. As such, if Guangzhou Guantian was held responsible for the guarantee, the Company may need to make provision for impairment on its interest in Tiecheng.

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On December 15, 2003, the Higher People's Court of Guangdong Province ("the Court") accepted Guangzhou Guantian's re-trial application for discharging the aforesaid guarantee. In December 2003, the Court delivered a civil case judgement in which it was ruled that proceedings regarding this case shall be terminated. As a necessary procedure for the Court to decide whether to grant a re-trial, a hearing was held on March 18, 2004. In this respect, Guangzhou Guantian appointed an independent representing lawyer to attend the hearing. In December 2005, the Court commenced procedures for re-trial and appointed the members of the collegiate bench for the conduct of the re-trial. Date of hearing is yet to be fixed. Up to the date of this report, the Court has not yet deliver any judgment as the necessary procedures have not been completed. However, having consulted an independent lawyer, the Directors are of the opinion that the guarantee arrangement should be invalid according to the relevant PRC rules and regulations. Accordingly, the Directors consider that as of the date of this report, the likelihood of Guangzhou Guantian, a subsidiary of Tiecheng, having to settle the above claim is remote and no impairment provision for the interest in Tiecheng was made in the accounts. To avoid the possible loss resulting from the litigation, the Company has obtained a letter of undertaking issued by Guangzhou Railway (Group) Company (the parent company of the Company) (the "Parent Company"). The Parent Company undertook to resolve the issue or to take up the liabilities so that the investment interest of the Company in Tiecheng will not be affected by the litigation.

10. OVERDUE TIME DEPOSITS

As of December 31, 2005, the Company had an overdue time deposit in the amount of approximately RMB31.365 million placed with Zengcheng Licheng Urban Credit Cooperative. The Company had initiated legal proceedings and obtained a judgment in its favour regarding the unrepaid time deposit. However, as the judgment debtor was undergoing restructuring, the court ordered a stay of execution of the judgment obtained by the Company. The said overdue time deposit accounts for approximately 0.3% of the net assets and 1.27% of the total current assets of the Company and has no material impact on the capital usage and operations of the Company. For prudence, the Company had presented the gross outstanding balance in other receivables and full provision had been made for impairment in prior years.

Other than stated above, the Company has no other overdue time deposit that has not been repaid. The Company has not encountered any difficulty in withdrawing deposits. The Company has placed all its deposits with commercial banks in the PRC or the Railway Deposit-taking Center.

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11. EMPLOYEES, SALARY DISTRIBUTION POLICY AND TRAINING PLANS

As of December 31, 2005, the Company had in total 8,882 employees, representing a decrease of 82 compared to that at the end of 2004.

The Company's salary policy is closely linked with economic efficiency, labour efficiency and individual performance. The total amount of employees' salaries is closely related to the operating results of the Company and the distribution of employees' salaries is based on their post score and performance reviews. The basic salary of an employee is determined on the basis of the evaluation of basic labor factors such as labor skills, labor responsibilities, labor intensity and labor conditions, etc, and the actual labor remuneration is calculated on the basis of technical competence and vocational level of the employee and the evaluation of the quantity and quality of the actual labor input. In 2005, the Company paid approximately RMB518.6 million for salaries and benefits.

Pursuant to applicable state policies and regulations, the Company provides the employees with a set of statutory funds and benefits as listed below:

Employees' benefits	As a Percentage of the Aggregate Salaries of the Employees in 2005	
	Employees residing in Guangzhou area or along the Guangzhou- Shenzhen line	Employees residing in Shenzhen
Housing fund	7%	13%
Retirement pension	18%	18%
Supplemental retirement pension	5%	5%
Basic medical insurance	8%	6%
Supplemental medical insurance	1%	0.5%
Maternity medical insurance	0.4%	0.5%
Other welfare fund	6%	8%

During 2005, the Company provided 9,656 units of training on post standardization and handling of emergency, etc for its employees. The total expenses for these training programmes in 2005 was approximately RMB3.235 million.