

REPORT OF DIRECTORS



REPORT OF DIRECTORS

The Board of Directors (the "Board") is pleased to present the Report of Directors together with the audited financial statements of the Company and its subsidiaries for the year ended December 31, 2005.

PRINCIPAL ACTIVITIES AND FINANCIAL RESULTS

The Company is mainly engaged in railway passenger and freight transportation between Guangzhou and Shenzhen and certain long-distance passenger transportation services. The Company also operates the passenger transportation service of Hong Kong Through Trains together with KCRC in Hong Kong. The Company provides integrated services relating to railway facilities and technology. The Company is also engaged in commercial trading and other businesses that are consistent with its overall business strategy.

The consolidated operating results of the Company and its subsidiaries for the year ended December 31, 2005 and the financial positions of the Company and its subsidiaries as of December 31, 2005 are set out in the consolidated balance sheets and consolidated income statement prepared in accordance with International Financial Reporting Standards ("IFRS") as set out on page 81 to page 139 of this annual report, respectively.

PROFIT APPROPRIATION

For the year ended December 31, 2005, the appropriations of profit as dividends and reserves proposed by the Board are set out in Note 29 and Note 20 to the financial statements, respectively.

DIVIDENDS

The Company did not declare any interim dividend for the six months ended June 30, 2005.

On March 20, 2006, the Board recommended the payment of a final dividend of RMB0.12 per share to the shareholders of the Company for the year ended December 31, 2005.

Shareholders whose names appear on the Register of Members on May 11, 2006 will qualify for the final dividend for the year ended December 31, 2005. The Register of Members for H Shares will be closed from April 11, 2006 to May 11, 2006, both days inclusive.



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Holders of H Shares who wish to qualify for entitlement to the final dividend must lodge all transfer forms, together with the relevant share certificates, with the Company's share registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on April 10, 2006, the last trading day before the Register of Members is closed.

Details of the final dividend payments to holders of H Shares are to be announced subject to the approval of the shareholders at the 2005 annual general meeting, which is to be held on May 11, 2006. The date and procedure for the payment of the final dividends will be announced separately.

In accordance with the articles of association of the Company (the "Articles of Association"), the dividend for domestic shares will be paid in RMB while the dividend for H Shares will be calculated in RMB and paid in HKD. The exchange rate will be based on the average of the closing exchange rates for RMB to HKD as announced by the People's Bank of China during the calendar week preceding the date on which the dividend is to be paid.

ENTRUSTED DEPOSITS

As of December 31, 2005, the Company did not have any entrusted deposits placed with any financial institutions in the PRC.

BANK BORROWINGS

As of December 31, 2005, the Company had no commercial bank loans.

CHARGE ON ASSETS AND GUARANTEE

As of December 31, 2005, there were no outstanding charges against any of the Company's assets and the Company did not have any guarantee outstanding.

INTEREST CAPITALIZED

There was no interest capitalized in the construction-in-progress or fixed assets of the Company and its subsidiaries during 2005.

FIXED ASSETS

Movements in fixed assets of the Company and its subsidiaries during 2005 are set out in Note 6 to the financial statements.

TAXATION

As the Company was registered and established in the Shenzhen Special Economic Zone of the PRC, it is subject to income tax at a rate of 15%. The rate is 18% lower than that of the standard income tax rate of 33% applicable to PRC companies.

Details of taxation of the Company and its subsidiaries are set out in Note 26 to the financial statements.

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RESERVES

Movements in the reserves of the Company and its subsidiaries during the year are set out in Note 20 to the financial statements.

STATUTORY PUBLIC WELFARE FUND

Details of the Company's statutory public welfare fund are set out in Note 20 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of December 31, 2005 are set out in Note 9 to the financial statements.

EQUIPMENT AND MAINTENANCE

The Company owns 12 diesel high-speed locomotives, 5 high-speed electric locomotives, 18 shunting locomotives, 1 high-speed electric passenger train, 84 quasi-high-speed passenger coaches, 41 regular-speed passenger coaches and 112 long-distance express train passenger coaches. The Company leases eight high-speed electric passenger trains from Guangzhou China Railway Rolling Stocks Sales and Service Company Limited (廣州中車鐵路機車車輛銷售租賃有限公司). The freight cars used by the Company are all leased from the MOR, to which the Company paid rental and depreciation fees based on the uniform rate set by the MOR.

INFORMATION RELATING TO THE SHARE CAPITAL

20,536,760 ADSs (each ADS represents 50 H Shares) of the Company were listed on the NYSE on May 13, 1996 (New York time) and 217,812,000 H Shares were listed on the Hong Kong Exchange on May 14, 1996 (Beijing time). Upon the exercise of the over-allotment option by the underwriters, the Company further issued 186,650,000 H Shares in the form of ADSs on May 24, 1996. The total number of issued H Shares therefore increased to 1,431,300,000. Each share has a par value of RMB1.00.

	H Shares listed in Hong Kong <i>(HK\$/share)</i>	ADSs listed in New York <i>(US\$/ADS)</i>
Issue price	2.91	19.00
Highest trading price during 2005	3.23	20.50
Lowest trading price during 2005	2.00	13.07
Opening price on the first trading day in 2005	3.18	20.48
Closing price on the last trading day in 2005	2.35	15.52
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Total turnover in 2005	<u>1,438,000,000</u>	<u>4,740,000</u>

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SHARE CAPITAL STRUCTURE

As of December 31, 2005, the share capital of the Company consisted of:

Class of share capital	Number of shares (‘000)	Percentage of share capital (%)
State-owned legal person shares	2,904,250	66.99
H Shares	1,431,300	33.01
Total	<u>4,335,550</u>	<u>100.00</u>

There was no change in the share capital of the Company during the year. See also “Proposed Issue of A Share” section.

SHAREHOLDERS

So far as the Directors are aware, as at December 31, 2005, the interests and short positions of the persons, other than Directors or Supervisors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) were as follows:

Name of shareholder	Class of shares	Number of shares held	Capacity	Type of interests	Percentage of class of shares (%)	Percentage of total share capital (%)
Guangzhou Railway (Group) Company	Domestic shares	2,904,250,000 (L)	Beneficial owner	Corporate	100.00	66.99
Sumitomo Mitsui Asset Management Company, Limited	H Shares	128,406,000 (L)	Investment Manager	Corporate	8.97	2.96
Mondrian Investment Partners Ltd.	H Shares	117,856,000 (L)	Investment Manager	Corporate	8.23	2.72
Sumitomo Life Insurance Company (Note)	H Shares	113,964,000 (L)	Interest of controlled corporation	Corporate	7.96	2.63

Note: As at December 31, 2005, Sumitomo Life Insurance Company was deemed to be interested in 113,964,000 H Shares (representing approximately 7.96% of the total H Shares of the Company or 2.63% of the total share capital of the Company) held by Sumitomo Mitsui Asset Management Company, Limited, a controlled corporation of Sumitomo Life Insurance Company.

The letter “L” denotes a long position.

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PUBLIC FLOAT

As at December 31, 2005, at least 25% of the total issued share capital of the Company was held by the public. The Company is therefore in compliance with the Listing Rules as regard to sufficiency of public float.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended December 31, 2005, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the shares of the Company.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive right under the Articles of Association and the laws of the PRC.

CONFIRMATION BY INDEPENDENT NON-EXECUTIVE DIRECTORS OF CONNECTED TRANSACTIONS

The independent non-executive Directors of the Company confirmed that the connected transactions (as defined in the Listing Rules) entered into by the Company during 2005 were entered into in the ordinary and usual course of its business and conducted on normal commercial terms and in accordance with the terms of the agreements governing such transactions. The terms were fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the Directors, supervisors and senior management of the Company as of the date of this report are as follows:

Name	Age	Position	Nationality
Directors:			
Wu Junguang	57	Chairman of the Board	Chinese
Li Kelie	58	Director and General Manager	Chinese
Hu Lingling	42	Director	Chinese
Wu Houhui	57	Director	Chinese
Wen Weiming	43	Director	Chinese
Yang Jinzhong	53	Director and Chairman of the Trade Union	Chinese
*Chang Loong Cheong	60	Director	Hong Kong, the PRC
*Deborah Kong	46	Director	Australian
*Wilton Chau Chi Wai	44	Director	Singaporean

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Supervisors:

Yao Muming	52	Chairman of the Supervisory Committee	Chinese
Tang Dinghong	56	Supervisor	Chinese
Chen Yongbao	54	Supervisor	Chinese
Li Zhiming	44	Supervisor	Chinese
Chen Yunzhong	53	Supervisor	Chinese
Wang Jianping	42	Supervisor	Chinese
Lu Ximei	50	Supervisor	Chinese

Other senior management:

Li Qingyun	42	Deputy General Manager	Chinese
Wu Weimin	48	Deputy General Manager	Chinese
Han Dong	44	Deputy General Manager	Chinese
Zhuang Mingcan	51	Deputy General Manager	Chinese
Luo Jiancheng	33	General Manager Assistant	Chinese
Sun Tao	45	Chief Engineer	Chinese
Yao Xiacong	52	Chief Accountant	Chinese
Guo Xiangdong	40	Company Secretary	Chinese

* Independent non-executive directors who are also Hong Kong residents.

On March 17, 2005, resolutions were passed at the fourteenth meeting of the third session of the Board to terminate the engagement of Mr. Luo Qingming as Deputy General Manager and Chief Engineer .

On May 12, 2005, resolutions were passed at the 2004 annual general meeting of the Company to elect Mr. Wu Junguang, Mr. Li Kelie, Mr. Hu Lingling, Mr. Wu Houhui, Mr. Wen Weiming, Mr. Yang Jinzhong, Mr. Chang Loong Cheong, Ms. Deborah Kong and Mr. Wilton Chau Chi Wai as directors of the fourth session of the Board; and to elect Mr. Yao Muming, Mr. Tang Dinghong, Mr. Chen Yongbao, Mr. Li Zhiming and Mr. Chen Yunzhong as supervisors of the fourth session of the Supervisory Committee of the Company. Mr. Wang Jianping and Ms. Lu Ximei were supervisors elected by the Company's employees.

On May 12, 2005, resolutions were passed at the first meeting of the fourth session of the Board to elect Mr. Wu Junguang as Chairman of the Board and to terminate the engagement of Mr. Yang Yuzheng as Deputy General Manager of the Company. At the first meeting of the fourth session of the Supervisory Committee held on the same day, Mr. Yao Muming was elected as chairman of the Supervisory Committee.

On August 9, 2005, a resolution was passed at the third meeting of the fourth session of the Board to appoint Mr. Sun Tao as Chief Engineer of the Company.

On January 13, 2006, resolutions were passed at the seventh meeting of the fourth session of the Board to appoint Mr. Zhuang Mingcan as Deputy General Manager; and to appoint Mr. Luo Jiancheng as General Manager Assistant of the Company.

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PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Wu Junguang, aged 57, joined the Company in June 2003 and is Chairman of the Board. Mr. Wu graduated from South China Normal University (華南師範大學). Since 1964, he has served in various managerial positions in various railway departments. He had served as stationmaster of the Guangzhou Station, general manager of Yangcheng Railway Company and in other positions. He is currently chairman of the board of directors and general manager of the Parent Company.

Li Kelie, aged 58, joined the Company in October 2004 and is a Director and General Manager of the Company. Mr. Li is a member of the Chinese Writers' Association and a vice chairman of Guangzhou Writers' Association (廣州市作家協會). Mr. Li has participated in the operation and management of railway transportation for years and has extensive industry experience. Since 1994, Mr. Li has held various senior positions in the Parent Company and its subsidiaries. Before joining the Company, he was chairman and general manager of Sanmao Railway Company Limited (三茂鐵路股份有限公司).

Hu Lingling, aged 42, joined the Company in June 2003 and is a Director of the Company. He graduated from Changsha Railway Institute (長沙鐵道學院) and is an engineer. Since 1985, Mr. Hu has served in various technical and managerial positions in various railway departments. He served as deputy general manager of Yangcheng Railway Company and the director of the transportation department of the Parent Company. Mr. Hu is currently deputy general manager of the Parent Company.

Wu Houhui, aged 57, joined the Company in March 1999 and is a Director of the Company. He graduated from Dalian Railway College (大連鐵道學院) and is a senior economist. Mr. Wu served in various managerial positions in the Parent Company from 1984 to 2003. He is currently chief economist of the Parent Company.

Wen Weiming, aged 43, joined the Company in June 2003 and is a Director of the Company. Mr. Wen graduated from the Workers University of Guangzhou Railway Bureau (廣州鐵路局職工大學) and the Party School of the CPC (中央黨校) and is a senior accountant. He has many years of experience in the financial field. He had served as the director of the finance sub-section of Yangcheng Railway Company and the director of the finance department of the Parent Company. Mr. Wen is currently deputy chief accountant of the Parent Company.

Yang Jinzhong, aged 53, joined the Company in August 2000 and is a Director and the Chairman of the Trade Union of the Company. Mr. Yang graduated from the Harbin Institute of Electrical Technology (哈爾濱電工學院) and is an engineer. He has more than 30 years of experience in the railway industry. He had served in various managerial positions in Wuhan Railway Sub-administration. From August 2000 to April 2005, Mr. Yang served as the stationmaster of the Shenzhen North Railway Station, the manager of the transportation department of the Company and the stationmaster of the Shenzhen Railway Station.

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Chang Loong Cheong, aged 60, joined the Company in March 1996 and is an independent non-executive Director of the Company. Mr. Chang holds a management certificate from the Hong Kong Management Association. He is also a director of Shanghai Xinhua Iron & Steel Company Limited and Orient International (Shanghai) Limited. Mr. Chang was a manager of Cathay Hotel in Lagos, Nigeria, a member of the senior management of Island Navigation Corporation International Limited in West Africa and Orient Overseas Container Line Limited, and was general manager and a director of Noble Ascent Company Limited.

Deborah Kong, aged 46, joined the Company in March 1996 and is an independent non-executive Director of the Company. Ms. Kong is currently an executive director of Centennial Resources Company Limited. Ms. Kong obtained a Bachelor of Arts degree from Sydney University and a Master Diploma in Finance from Macquarie University in Australia. She is a member of the People's Political Consultative Standing Committee of Shandong Province in the PRC.

Wilton Chau Chi Wai, aged 44, joined the Company in June 2004 and is an independent non-executive Director of the Company. Mr. Chau obtained a bachelor's degree in applied mathematics from the University of Hong Kong, a Bachelor of Laws degree from the University of Wolverhampton and a Master of Business Administration degree from the University of Wales. Mr. Chau is a fellow member of the Association of Chartered Certified Accountants, a member of Singapore Institute of Arbitrators and a council member of Hong Kong Biotechnology Association. Since 1987, Mr. Chau has served in senior positions in various financial institutes overseeing investment and development in railway, road and airport infrastructure projects. Mr. Chau is currently chairman of Qleap Venture Limited.

Supervisors

Yao Muming, aged 52, joined the Company in April 1997 and is the Chairman of the Supervisory Committee of the Company. Mr. Yao graduated from South China Normal University (華南師範大學) and was deputy director of the Guangzhou and Zhuhai Animal and Plant Quarantine Bureau. From 1997 to 2003, he was a member of the senior management of the Company. Since July 2003, Mr. Yao has been a member of the senior management of the Parent Company.

Tang Dinghong, aged 56, joined the Company in July 2003 and is a Supervisor of the Company. Mr. Tang graduated from Zhongshan University (中山大學). He joined the railway departments in 1969 and had served in various senior managerial positions of the Parent Company.

Chen Yongbao, aged 54, joined the Company in June 2002 and is a Supervisor of the Company. Mr. Chen graduated from Zhuzhou Railway Mechanical Secondary Technical School (株洲鐵路機械學校). Since 1975, he had served in various managerial positions in Guangzhou Railway Sub-administration and Yangcheng Railway Company. From 1997 to 2001, Mr. Chen served in the administration supervisory position of the Parent Company. Since May 2001, Mr. Chen has been the chief of the supervision department of the Parent Company.

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Li Zhiming, aged 44, joined the Company in May 2005 and is a Supervisor of the Company. Mr. Li graduated from the Party School of CPC (中央黨校), majoring in economics and management and is an accountant. Since 1981, Mr. Li had served in various managerial positions in Hengyang Railway Sub-administration and Changsha Railway Company. Since 2005, Mr. Li has been the chief of the audit department of the Parent Company.

Chen Yunzhong, aged 53, joined the Company in May 2000 and is a Supervisor of the Company. Mr. Chen graduated from Guangzhou Railway Driver's School (廣州鐵路司機學校), Guangdong Jinan University (廣東暨南大學) and the Party School of the CPC (中央黨校). He was a member of the senior management of Hainan Railway Company. Mr. Chen is currently a member of the senior management of the Company.

Wang Jianping, aged 42, joined the Company in July 2003 and is a Supervisor of the Company. Mr. Wang graduated from the Party School of CPC (中央黨校), majoring in economics and management. In 1983, Mr. Wang joined the railway departments and had served in various managerial positions in Guangzhou Railway Administration, the Parent Company since then. Before joining the Company, Mr. Wang was a senior management of Guangzhou Railway Foreign Trade and Economic Development Company (廣鐵外經貿發展總公司). Currently Mr. Wang is a member of the senior management of the Company.

Lu Ximei, aged 50, joined the Company in May 1985 and is a Supervisor of the Company. Ms. Lu graduated from Changsha Railway Institute (長沙鐵道學院), majoring in railway transportation management. In 1972, Ms. Lu joined the railway departments and had served in various managerial positions in the Guangzhou Railway Sub-administration and Yangcheng Railway Company (April 1996 to January 1999). From May 1986 to April 1996, Ms. Lu participated in the passenger transportation operations of the Company. Since re-joining the Company in January 1999, she has been a director of the Canton-Kowloon passenger transportation department of the Company.

Other senior management

Li Qingyun, aged 42, joined the Company in September 1999 and is a Deputy General Manager of the Company. Mr. Li graduated from North Jiaotong University (北方交通大學) in 1989, majoring in railway transportation and organization. He holds a master's degree. Mr. Li served in managerial positions in technical and transportation departments of the Parent Company from 1989 to August 1999.

Wu Weimin, aged 48, joined the Company in January 2004 and is a Deputy General Manager of the Company. Mr. Wu graduated from the Guangdong Radio & TV University (廣東廣播電視大學) and is an engineer. Since 1984, he had served in various managerial positions in the material and equipment department, the planning and statistic department and the labour and wage department of Yangcheng Railway Company. He also served as an engineer of the material and equipment section and director of the planning and statistic sub-department of Yangcheng Railway Company. Mr. Wu was the director of the labour and wage sub-department and director of the social insurance centre of Yangcheng Railway Company before joining the Company.

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Han Dong, aged 44, joined the Company in May 2000 and is a Deputy General Manager of the Company. Mr. Han graduated from the Party School of the CPC (中央黨校), majoring in economics and management and is an engineer. Since 1985, Mr. Han had served in various managerial positions in the material and equipment department and the planning and statistic department, passenger and freight transportation marketing department of the railway department. Mr. Han was also a director of the passenger and freight management department and the equipment and property department of the Company.

Zhuang Mingcan, aged 51, joined the Company in January 2006 and is a Deputy General Manager of the Company. Mr. Zhuang graduated from the Party School of the CPC (中央黨校), majoring in economics and management. He has many years of experience in railway transportation management. He was head of the guangzhou passenger transportation section, manager of the guangzhou passenger transportation division and deputy director of the passenger transportation department of the Parent Company. Before joining the Company, Mr. Zhuang served as chief of office of the Parent Company.

Luo Jiancheng, aged 33, joined the Company in January 2006 and is the General Manager Assistant. Mr. Luo graduated from Changsha Railway Institute (長沙鐵道學院), majoring in transportation management. From 1996 he had served in various managerial positions in the technical and transportation departments of Yangcheng Railway Company, the Parent Company and Sanmao Railway Company Ltd. Before joining the Company, Mr. Luo served as deputy director of the transportation department of the Parent Company.

Sun Tao, aged 45, joined the Company in April 2005 and is Chief Engineer of the Company. Mr. Sun graduated from Zhongshan University (中山大學) and the Shanghai University of Science And Technology (上海科技大學). He holds a master's degree and is an engineer. Mr. Sun joined the railway departments in 1996 and was deputy head and head of the computing department and deputy chief engineer of Yangcheng Railway Company.

Yao Xiaocong, aged 52, is Chief Accountant of the Company. Mr. Yao graduated from the Party School of the CPC (中央黨校), majoring in economics and management. Since 1975, Mr. Yao has served in the financial accounting department in the railway departments and has more than 30 years of experience in financial accounting. Mr. Yao was a member of the senior management of the Company from June 1997 to January 2004. Mr. Yao was the Director of the accounting department of the Parent Company before joining the Company as the Chief Accountant in August 2004.

Guo Xiangdong, aged 40, is Company Secretary and the Director of Secretariat of the Board. Mr. Guo graduated from Central China Normal University (華中師範大學) with a Bachelor of Laws degree and is an economist. He joined the Company in 1991 and had served as Deputy Section Chief, Deputy Director and Director of Secretariat of the Board. Mr. Guo has been Company Secretary of the Company since January 2004.

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INTERESTS OF DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY

As of December 31, 2005, there was no record of interests and short positions (including the interests and short positions which were taken or deemed to have under the provisions of the Securities and Futures Ordinance) of the Directors or Supervisors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance) in the register required to be kept under section 352 of the Securities and Futures Ordinance. The Company had not received notification of such interests and short positions from any Director or Supervisor of the Company as required to be made to the Company and the Hong Kong Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in Appendix 10 to the Listing Rules. The Company has not granted to any of the Company's Directors or Supervisors or their spouses or children under the age of 18 any right to subscribe for any shares or debentures of the Company.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors of the Company has entered into a service contract with the Company. No other service contract has been entered into between the Company or any of its subsidiaries and any of the Directors or Supervisors that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

SERVICE AND MANAGEMENT CONTRACTS

Save and except for those arrangements as set out in Note 33 to the financial statements, there is no contract of significance for the provision of services to the Company in 2005.

Save as disclosed, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

CONTRACTS ENTERED INTO BY THE DIRECTORS AND SUPERVISORS

No Director or Supervisor of the Company has any direct or indirect material interests in any contract of significance subsisting during or at the end of 2005 to which the Company or any of its subsidiaries was a party.

REMUNERATION OF DIRECTORS AND SUPERVISORS

The level of remuneration of the Directors and Supervisors of the Company was determined with reference to the level of remuneration in Shenzhen, where the Company is located, and the job nature of each Director and Supervisor of the Company. The remuneration standard of Directors and Supervisors in each term of office will be considered and recommended by the Remuneration Committee and will be approved and authorised by the shareholders at general meetings of the Company.

The remuneration of the Directors and Supervisors and senior management of the Company for the year ended December 31, 2005 are set out in Note 24 to the financial statements of this annual report.

IMPACT OF RECENT ECONOMIC DEVELOPMENTS ON THE COMPANY

The Company believes that no factor adversely affected the business and financial position of the Company in 2005.

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ADJUSTMENT OF PRICE

In 2005, the Company made the following price adjustments to its passenger and freight transportation: (1) during the Spring Festival, the Company made different levels of slight upward adjustments to passenger fares of different classes of long-distance domestic trains; (2) with the approval of the MOR or the Parent Company, the Company made certain downward adjustments to the price for part of its freight transportation to improve its competitiveness; (3) during the New Year holidays, the Spring Festival, the Labour Day holidays and the National Day holidays, the Company increased the fare of the high-speed passenger trains and the regular-speed passenger trains between Guangzhou and Shenzhen by RMB5 per trip.

MATERIAL LITIGATION

The Company and its subsidiaries were not involved in any material litigation in 2005.

AUDITORS

On May 12, 2005, the Company convened its annual general meeting and resolutions were passed to appoint PricewaterhouseCoopers as the international auditors of the Company for 2005 and to appoint Pan-China (Schinda) Certified Public Accountants (now known as Deloitte Touche Tohmatsu CPA Ltd.) as its PRC auditors for 2005.

Resolutions to re-appoint these two firms as the international and PRC auditors of the Company, respectively for 2006 will be proposed at the annual general meeting of the Company to be held on May 11, 2006 (the "AGM").

PricewaterhouseCoopers was the international auditors of the Company for 2004 and 2003.

ACCOUNTING TREATMENT REGARDING THE DIFFERENCES BETWEEN THE SELLING PRICES AND COSTS OF EMPLOYEES' HOUSING

The Company constructed and purchased new residential properties for its employees to improve their living conditions. Under a housing benefit scheme, the Company sold these residential properties to its employees at a price approved by the government. The losses arising from the difference between the net book value and the proceeds from the sales of staff quarters to the employees was not more than RMB226.4 million as of December 31, 2005. Pursuant to the current policies of the Ministry of Finance, the aforesaid losses should be credited to retained earnings in the statutory accounts as of January 1, 2001, or in case of a debit balance, to offset the statutory public welfare fund, statutory surplus reserve, discretionary surplus reserve and capital surplus reserve upon approval of the Board. Such treatment conforms with the PRC accounting principles and regulations applicable to the Company and its subsidiaries.

In the financial statements of the Company for the year ended December 31, 2005 prepared in accordance with IFRS, the Company accounted for the losses arising from the housing scheme as follows: losses from the sale of completed staff quarters to employees, or from the sale of premises under construction of which could be reasonably estimated for future services amounted to approximately RMB226.4 million. Such losses were amortized on a straight line basis over the estimated remaining average service period of employees of 15 years from the time of such sales. During the year from January 1, 2005 to December 31, 2005, the amortization charged to the

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deferred labour costs of the consolidated income statement was RMB15.09 million and the accumulated amortization amounted to RMB90.55 million.

As of December 31, 2005, the unamortized deferred losses, which were recorded as deferred labour costs in the balance sheet of the Company and its subsidiaries, were RMB135.8 million.

MAJOR SUPPLIERS AND CUSTOMERS

Most of the locomotives, passenger coaches and major railway supplies and equipment of the Company are supplied directly or indirectly by the MOR or purchased from the market. The Company may also purchase such equipment from overseas or domestic suppliers. The five largest customers of the Company in aggregate accounted for less than 30% of the revenue of the Company and the five largest suppliers of the Company in aggregate accounted for less than 30% of the purchases by the Company.

PROPOSED ISSUE OF A SHARES

The Company and Guangzhou Railway (Group) Yangcheng Railway Company (the "Vendor") entered into an agreement in respect of the acquisition by the Company of the railway transportation business between Guangzhou and Pingshi currently operated by Yangcheng Railway Company and the assets and liabilities relating to such business (the "Acquisition") on November 15, 2004 (the "Acquisition Agreement"). The consideration of the Acquisition was approximately RMB10.26 billion. The Company has applied to the relevant authorities for the issue and allotment of not more than 2.75 billion A shares to investors in the PRC (the "A Share Issue") and intended to use the proceeds from the A Share Issue to finance the Acquisition. Pursuant to the Listing Rules, the Acquisition constituted a very substantial acquisition of the Company. As the Vendor is a wholly-owned subsidiary of the Parent Company, the Acquisition also constituted a connected transaction of the Company.

In addition, in anticipation of the A Share Issue and the Acquisition, the Company had entered into various agreements with each of the Vendor and the Parent Company in respect of certain continuing connected transactions. Such agreements shall take effect on the completion of the Acquisition and shall replace all existing connected transaction agreements relating to the same categories of transactions of the Company.

The Company submitted its application proposal relating to the A Share Issue to the China Securities Regulatory Commission (the "CSRC") on December 31, 2004.

The general mandate authorising the Directors to handle all relevant matters of the A Share Issue ("A Share Issue General Mandate") expired on December 29, 2005. Resolutions were duly passed at the class shareholders' meetings of the Company's domestic shares and H shares and the extraordinary general meeting held on January 20, 2006 to extend the A Share Issue General Mandate for one year.

MATERIAL ACQUISITION OR DISPOSAL

Except for the above conditional Acquisition Agreement, as of December 31, 2005, the Company had not made any other material acquisition or disposal.

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CONNECTED TRANSACTIONS

The connected transactions in the railway business of the Company in 2005 were carried out on usual terms, in accordance with the conditions and waiver granted by the Hong Kong Exchange and the contracts entered into by the contracting parties. The conditional Acquisition Agreement and the ongoing connected transactions agreements, details of which have been set out at page 38 of this report, will take effect upon completion of the Acquisition.

Save as disclosed, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules and no contract of significance, between the Company, its controlling shareholders, or any of its subsidiaries and fellow subsidiary or in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly or which are required to be disclosed under the Listing Rules or the Companies Ordinance (Cap. 32) of the Laws of Hong Kong subsisted at the end of 2005 or at any time during 2005.

INDEPENDENCE OF INDEPENDENT DIRECTORS

The Company has received an annual confirmation of independence from each of Mr. Chang Loong Cheong, Ms. Deborah Kong and Mr. Wilton Chau Chi Wai, the independent non-executive Directors of the Company, pursuant to Rule 3.13 of the Listing Rules. The Company confirms that the independent non-executive Directors are independent of the Company.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors of the Company. Its main duties include the review and supervision of the financial reporting process and internal controls of the Company. The financial statements for the year ended December 31, 2005 have been reviewed by the Audit Committee.

DOCUMENTS AVAILABLE FOR INSPECTION

The full text of the 2005 Annual Report and Financial Statements signed by the Chairman are available for inspection at No. 1052 Heping Road, Shenzhen, the PRC.

By Order of the Board

Wu Junguang

Chairman

Shenzhen, the PRC
March 20, 2006