

## CORPORATE GOVERNANCE REPORT

The Company has implemented corporate governance measures to enhance the overall management quality of the Company, to ensure the Company is operated in good faith and complies with good commercial practice and to improve the Company's transparency and accountability to its shareholders.

For the year ended December 31, 2005, to the best of the knowledge of the Company and its Directors, the Company has complied with the relevant code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

### BOARD OF DIRECTORS

The Board of Directors (the "Board") is responsible for leading the Company in a responsible and effective manner. Its main functions and responsibilities are set out in the Articles of Association of the Company.

The Board comprises 9 members, including three executive Directors, three non-executive Directors and three independent non-executive Directors. The executive Directors have years of experience in the railway industry. The independent non-executive Directors come from various industries with different backgrounds and experience and they all possess appropriate professional qualifications, or accounting or related financial management expertise. All independent non-executive Directors confirmed that they have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence. The names, biographical details of the Directors and relationship among them are shown on pages 30 to 33 in this Annual Report.

The principal duties of the Board include ensuring the Company has competent management, reviewing and approving business objectives, strategies and development plan of the Company; ensuring the daily operations of the Company are conducted in a prudent manner and according to the laws and the relevant policies, and supervising and ensuring that the affairs of the Company are in line with the relevant code of conduct. The management of the Company is responsible for implementing the strategies laid down by the Board and making day-to-day operating decisions. The Company has also set clearly defined scope of powers for its management.

During 2005, the Board held 8 meetings, 2 of which were held during third session of the Board and 6 of which were held during the fourth session of the Board. Details of the Directors' attendance records are set out below:

<b>Number of meetings</b>	<b>8</b>	
<b>Director</b>	<b>Board meetings attended</b>	<b>Attendance rate</b>
Wu Junguang <sup>(1)</sup>	8	100%
Li Kelie <sup>(1)</sup>	8	100%
Hu Lingling <sup>(1)</sup>	7	87.5%
Wu Houhui <sup>(1)</sup>	8	100%
Wen Weiming <sup>(1)</sup>	7	87.5%
Yang Jinzhong <sup>(2)</sup>	6	100%
Chang Loong Cheong <sup>(1)</sup>	8	100%
Deborah Kong <sup>(1)</sup>	7	87.5%
Wilton Chau Chi Wai <sup>(1)</sup>	7	87.5%

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Notes:

- (1) Director of the third and fourth sessions of the Board
- (2) Director of the forth session of the Board

The Board has established the Audit Committee and the Remuneration Committee with their respective terms of reference. These committees supervise the related issues of the Company and report and give advice to the Board on a regular basis.

## REMUNERATION COMMITTEE

The remuneration and annual incentive of the Directors and the Supervisors will be considered and recommended by the Remuneration Committee and will be approved and authorised by the shareholders at general meetings of the Company. No Director or Supervisor is involved in determining his own remuneration.

Members of the Remuneration Committee are appointed by the Board. It consists of two executive Directors and three independent non-executive Directors, namely, Mr. Wu Junguang (Chairman), Mr. Li Kelie, Mr. Wilton Chau Chi Wai, Mr. Chang Loong Cheong and Ms. Deborah Kong. The principal duties of the Remuneration Committee include reviewing and making recommendations to the Board for the remuneration packages for the Directors and the Supervisors of the Company. The remuneration policy of the Company seeks to provide, in the context of the Company's business strategy, reasonable remuneration to attract and retain high calibre executives. The Remuneration Committee obtains benchmark information from internal and external sources in relation to market pay conditions, packages offered in the industry and the overall performance of the Company when determining the Directors' and the Supervisors' emoluments.

All the existing Directors and the Supervisors were appointed by the shareholders at the annual general meeting on May 12, 2005. Since then, no new Director or Supervisor has been nominated for appointment, no Director or Supervisor has resigned or was dismissed and there has not been any change to the remuneration packages granted to the existing Directors or Supervisors. Therefore the Remuneration Committee, which was established in August 2005, did not hold any meeting in 2005. The Remuneration Committee will meet at times as and when required to consider remuneration-related matters of the Company.

Information relating to the remuneration of the Directors and Supervisors for 2005 is set out in note 24 to the financial statements of this annual report.

## AUDIT COMMITTEE

Members of the Audit Committee are appointed by the Board. It consists of three independent non-executive Directors, namely, Mr. Chang Loong Cheong (Chairman), Ms. Deborah Kong and Mr. Wilton Chau Chi Wai. They possess appropriate academic and professional qualifications or related financial management expertise. The Audit Committee is provided with sufficient resources to discharge its duties. The principal duties of the Audit Committee include reviewing the financial performance of the Company and its subsidiaries (the "Group"), the nature and scope of audit review as well as the effectiveness of the internal control and compliance system. It will also discuss matters raised by the internal auditors, external auditors and regulatory bodies to ensure that appropriate recommendations are implemented.

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In 2005, the Audit Committee held six meetings for purposes including reviewing the final results for the year ended December 31, 2004 and interim accounts for the six months ended June 30, 2005, considering the Group's internal control and financial reporting system, the scope of audit work, the Group's financial statements, the findings and recommendations of the auditors, the external auditors' audit plan and recommending to the Board the appointment of external auditors.

Details of attendance record of individual members of the Audit Committee are set out below:-

<b>Number of meetings</b>	6	
<b>Director</b>	<b>Audit Committee meetings attended</b>	<b>Attendance rate</b>
Chang Loong Cheong	6	100%
Deborah Kong	4	66.7%
Wilton Chau Chi Wai	6	100%

### NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board as a whole is responsible for the nomination of appropriate person to shareholders for election at the annual general meeting.

All Directors (including non-executive Directors) are appointed for a term of three years and shall be eligible for re-election upon expiry of the term.

The annual report or the Company's circular will contain detailed information on election of Directors including detailed biographies of all Directors standing for election or re-election to ensure shareholders to make an informed decision on their election.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors.

After specific enquiry made with all the Directors, the Company confirms that during the year ended December 31, 2005, each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

### CHAIRMAN AND GENERAL MANAGER

Mr. Wu Junguang and Mr. Li Kelie are the Chairman of the Board and the General Manager of the Company, respectively and each has independent functions and duties.

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The Chairman of the Board is responsible for the leadership and effective running of the Board and ensuring that all key and appropriate issues are discussed by the Board in a timely manner.

The Company does not have a chief executive officer and the relevant duties (including the implementation of business and investment plan of the Company and decision-making on production and management) are performed by the General Manager of the Company.

### INTERNAL CONTROL

The Company has established a Supervisory Committee which consists of representatives of both the shareholders and the employees. The Supervisory Committee is responsible for reviewing financial reports to be presented to the shareholders at general meetings, monitoring the legality and compliance of the financial performance of the Company and the performance of duties of the Directors and senior management.

The Board and the senior management are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Company comprises a well-established organisational structure and comprehensive policies and standards. The Board has clearly defined the authorities and responsibilities for each department of the Company to ensure adequate checks and balances.

After considering the internal control system of the Company, the Board and the Supervisory Committee are of the view that the Company has efficient and adequate internal control and there is no other material issue that needs to be drawn to the attention of the shareholders of the Company.

### ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended December 31, 2005, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, and prepared the accounts on a going concern basis.

The Company has announced its annual and interim results in a timely manner within the limits of 4 months and 3 months, respectively after the end of the relevant period in accordance with the Listing Rules.

The responsibilities of the Directors and the auditors as to the preparation of the accounts of the Company are set out in the Auditors' Report on page 80 of the annual report.

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## AUDITORS' REMUNERATION

Deloitte Touche Tohmatsu CPA Ltd. (previously known as Pan-China Schinda Certified Public Accountants) and PricewaterhouseCoopers were the PRC and international auditors of the Company, respectively for the year 2005.

A remuneration of RMB4,200,000 and RMB2,000,000 were paid to Deloitte Touche Tohmatsu CPA Ltd. and PricewaterhouseCoopers, respectively for their provision of audit services to the Company in 2005. The PRC and international auditors of the Company had not provided any non-audit service to the Company during 2005.

## COMMUNICATION WITH SHAREHOLDERS

The Company maintains various communication channels with its shareholders, including the publication of annual and interim reports and press releases. Such information is also available on the Company's website. The Company presents two reports to its shareholders every year and maintains regular contact with its investors. The Company also publishes financial results every six months to enhance its transparency and to keep the public informed of its latest developments in a timely manner. Annual and interim results are announced within the limits of 4 months and 3 months after the end of the relevant period, respectively.

The annual general meeting provides a forum for shareholders to exchange views with the Board and shareholders are encouraged to attend the annual general meetings of the Company. At the annual general meeting, the Chairman of the Board as well as Chairmen of the Audit Committee and Remuneration Committee will be present to answer questions from the shareholders.

## PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

A resolution put to a vote of general meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (1) by the Chairman of the meeting;
- (2) by at least two Shareholders entitled to vote present in person or by proxy; or
- (3) by one or more Shareholders present in person or by proxy and individually or collectively representing 10% or more of all Shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, and, an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who makes such demand.