

The background image shows a modern high-speed train (CRH) on tracks in the foreground. In the background, there is a large, multi-story building with a sign on top that reads "中国铁路股份有限公司" (China Railway Group Limited) and "China Railway Group Limited". The sky is blue with scattered white clouds. A large red and blue geometric shape is overlaid on the left side of the page.

Chairman's Statement

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Dear Shareholders,

I am pleased to present the audited operating results of the Company and its subsidiaries for the year ended December 31, 2006.

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Mr. Wu Junguang *Chairman of the Board*

On December 22, 2006, the Company was listed and succeeded in the initial public offering (“IPO”) of A Shares on the Shanghai Stock Exchange. The Company issued a total of 2,747,987,000 shares and raised over RMB10.3 billion. After completion of the A share issue, the total share capital of the Company is RMB7,083,537,000. According to the resolution of the second 2006 extraordinary general meeting held on March 3, 2006, the accumulated unappropriated earnings prior to the A share issue will be shared by all the new and old shareholders after the issue.

In return for the shareholders’ long-lasting concern and support for the Company, the Board proposed a 2006 dividend of RMB0.08 in cash for all the shareholders, which will be submitted to 2006 annual general meeting for approval.

OPERATING RESULTS

In 2006, 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, 2006, the total revenue of the Company and its subsidiaries was RMB3,594.5 million, profit attributable to equity holders was RMB771.5 million, and earnings per share were RMB0.17.

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 increasing integration along the Guangzhou-Shenzhen Corridor, the Company benefited from strong demand in the passenger transportation market. In 2006, the Company continued to optimize the operations of the Guangzhou-Shenzhen High Speed Passenger Trains and the Canton-Kowloon Through Trains and carry out passenger flows connection scheme between long-distance trains in the Guangzhou area and Guangzhou-Shenzhen trains. The Company succeeded in implementing 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 2006, the total number of passengers of the Company was 51.923 million, representing an increase of 5.8% when compared to 2005; revenues from passenger transportation were RMB2,841.0 million, representing an increase of 13.1% from 2005, accounting for 79.0% of the total revenues.

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Freight transportation business is one important business of the Company. In 2006, benefited from tariff hikes, the operating results of freight transportation business of the Company grew despite the decrease in total freight tonnage. In 2006 the total tonnage of freight transported by the Company was 30.708 million tones, representing a decrease of 3.7% from that of 2005; revenues from freight transportation were RMB624.8 million, representing an increase of 6.2% when compared to that of 2005.

In 2006, the Company consolidated its businesses other than passenger and freight transportation and cut down part of these businesses. Revenues from other businesses of the Company were RMB128.6 million, representing a decrease of 27.5% from that of 2005.

In 2006, the Company continued to improve relative systems to regulate its operation. The Company amended its "Articles of Association" and formulated its "Rules Governing the Work of Secretary of the Board" (董事會秘書工作條例). The Company continued the establishment of an internal control system in accordance with the requirement of Sarbanes-Oxley Act.

In 2006, the operation of passenger and freight transportation businesses of the Company was smooth and steady. The IPO of A shares was successful. The construction of the Fourth Rail Line between Guangzhou and Shenzhen (the "Fourth Rail Line") and the introduction of the new type of domestically manufactured electric train sets "Concord" ("CRH") were making good progress. The resolutions of the Board and general meetings were well implemented. The Board is pleased with the results of the Company in 2006.

FUTURE PROSPECTS

The year 2007 will be important for the Company's reform and development. The economic and social development of China is reaching a new and virtuous stage with a mainstream of resource integration, efficiency enhancement, energy saving and reduction of raw materials consumption. The national railway system is implementing the 6th large-scale speed-up project while carrying forward the nationwide railway construction and technical and equipment upgrading. The economic and cultural exchange between Guangdong and Hong Kong is increasingly closer; the income of the residents and consumption structure are also improving on the backdrop of raising urbanization level. The demand for passenger and freight transportation services in the region will remain strong. All these factors provide good opportunities for the development of the Company's core businesses.

The Company used the proceeds from A share issue to acquire the railway operating assets and businesses between Guangzhou and Pingshi. The railway operating distance extended from 152 kilometers to 481.2 kilometers, running vertically through the whole Guangdong Province. The service territory of the passenger and freight transportation businesses covers the Pearl River Delta and further to the Northern Guangdong Province. The operating scale and transportation capacity are enlarged. The operation strategy of the Company in 2007 is to build a safe, efficient, high-tech and harmonious Guangshen Railway, complete the construction of the Fourth Rail Line as well as the consolidation and optimization of transportation resources and the modernization of technology and equipment, quickly expand the transportation capacity, update and upgrade our passenger transportation services, enhance transportation efficiency, improve service quality, ensure transportation safety and hit the transportation and operation targets to create better returns for the shareholders.

Chairman's Statement

In view of the above-mentioned operation environment and strategy, the Company will focus on the following matters in 2007:

- To scientifically optimize and consolidate the railway operating resources between Guangzhou and Pingshi to achieve scale efficiency and improve the comprehensive competitive competence and overall operating results of the Company to lay the foundations for fast development and on-going financing;
- To complete the construction of the Fourth Rail Line and ensure the timely commencement of operation of the Fourth Rail Line, which will make Guangzhou-Shenzhen Railway the the first wholly-fenced high-speed railway with four parallel lines in the PRC that allows the high-speed passenger trains and regular speed passenger and freight trains to run on separate lines, thus improving the transportation capacity of the Guangzhou-Shenzhen Railway;
- To optimize the "As-frequent-as-buses" operation mode of Guangzhou-Shenzhen intercity high-speed passenger trains and work hard on the introduction and operation of CRH to strengthen the Company's capacity in its delivery of "safety, speed, comfort and quality" in passenger transport services;
- To improve the service functions of passenger stations and the IC Card Ticketing System to promote the service level of passenger transportation and provide a comfortable and convenient boarding environment for passengers;
- To enhance railway technology and promote the modernization and informatization of railway equipment; and
- To continue the establishment of internal control system, perfect the administration structure of company legal person and regulate the management and operation of the Company.

In 2006, 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. I would like to take this opportunity to express my highest regards and my sincere gratitude to all of them. In 2007, the economy of China is expected to experience a continuous and steady growth. With the deepening of railway reform and development, 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. I am confident that the Company will achieve better operating results, hence, higher returns for its shareholders in the new year.

