



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, 2006.

SUMMARY OF REPORT OF DIRECTORS

The Board held eight meetings in 2006, the details of which are set out in the Corporate Governance Report of this annual report.

GENERAL MEETINGS

1. Annual general meetings

- (1) On May 11, 2006, the Company held 2005 annual general meeting. The resolutions were published in Hong Kong Commercial Daily and The Standard dated May 12, 2006.

2. Extraordinary general meetings

- (1) The first extraordinary general meeting:

On January 20, 2006, the Company held the first 2006 extraordinary general meeting. The resolutions were published in Hong Kong Economic Times and The Standard dated January 23, 2006.

- (2) The second extraordinary general meeting:

On March 3, 2006, the Company held the second 2006 extraordinary general meeting. The resolutions were published in Hong Kong Economic Times and The Standard dated March 6, 2006.

- (3) The third extraordinary general meeting:

On June 27, 2006, the Company held the third 2006 extraordinary general meeting. The resolutions were published in Hong Kong Commercial Daily and The Standard dated June 28, 2006.

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.



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The consolidated operating results of the Company and its subsidiaries for the year ended December 31, 2006 and the financial positions of the Company and its subsidiaries as of December 31, 2006 are set out in the consolidated balance sheets and consolidated income statement prepared in accordance with International Financial Reporting Standards (“IFRS”) of this annual report, respectively.

PROFIT APPROPRIATION

For the year ended December 31, 2006, the appropriations of profit as dividends and reserves proposed by the Board are set out in Note 31 and Note 21 to the financial statements, respectively.

DIVIDENDS

The Company did not declare any interim dividend for the six months ended June 30, 2006.

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.

On April 19, 2006, the Board recommended the payment of a final dividend of RMB0.08 per share to the shareholders of the Company for the year ended December 31, 2006. Details of the final dividend payments to holders of H Shares are to be announced subject to the approval of the shareholders at the 2006 annual general meeting. The date and procedure for the payment of the final dividends will be announced separately.

Holders of H Shares whose names appear on the Register of Members on June 28, 2007 will qualify for the final dividend for the year ended December 31, 2006. The Register of Members for H Shares will be closed from May 29, 2007 to June 28, 2007, both days inclusive.

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 May 28, 2007, the last trading day before the Register of Members is closed.

In accordance with the articles of association of the Company (the “Articles of Association”), the dividend for domestic shares will be calculated, declared and paid in RMB while the dividend for overseas listed shares will be calculated and declared in RMB and paid in the currency of the countries/regions in which its shares are listed.

ENTRUSTED DEPOSITS

As of December 31, 2006, the Company did not have any entrusted deposits placed with any financial institutions in the PRC.

TRUST

The Company did not engage in any trust business in the year.

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CONTRACTED BUSINESS

The Company did not engage in any contracted business in the year.

BANK BORROWINGS

1. On September 28, 2006, the Company entered into “Fixed Assets Loan Agreement” with Industrial and Commercial Bank of China Co., Ltd Guangzhou Miaoqian Zhijie Sub-branch with respect to the provision of a fixed assets loan of RMB1.2 billion by Industrial and Commercial Bank of China Co., Ltd Guangzhou Miaoqian Zhijie Sub-branch to the Company for the construction of the Fourth Rail Line. The loan is to be drawn down from time to time according to the progress of the project. The term of the borrowing is five years. The rate of interest is 5.832% for the first year and will be 10% lower than the official interest rate for loans of relevant grade in the following years.
2. On September, 2006, the Company entered into “Fixed Assets Loan Agreement” with Industrial and Commercial Bank of China Co., Ltd Shenzhen Luohu Sub-branch with respect to the provision of a fixed assets loan of RMB500 million by Industrial and Commercial Bank of China Co., Ltd Shenzhen Luohu Sub-branch to the Company for the construction of the Fourth Rail Line. The loan is to be withdrawn for times according to the progress of the project. The term of the borrowing is five years from September 2006 to September 2011. The interest rate is 5.832% in the first year and 10% lower than the official rate of interest for the relevant grade in the following years.
3. On October 2006, the Company entered into “RMB Loan Agreement” with China Construction Bank Co., Ltd Shenzhen Branch with respect to the provision of a fixed assets loan of RMB500 million by China Construction Bank Co., Ltd Shenzhen Branch to the Company for the technical transformation and capacity expansion project of the Guangzhou-Shenzhen line. The loan is to be withdrawn for times according to the progress of the project. The term of the borrowing is five years from October 30, 2006 to October 29, 2011. The rate of interest is 10% lower than the official rate for the relevant grade of the year.
4. On October 30, 2006, the Company entered into “Loan Agreement” with Shenzhen Commercial Bank Renminlu Sub-branch with respect to the provision of a fixed assets loan of RMB160 million by Shenzhen Commercial Bank Renminlu Sub-branch to the Company for the construction of the Fourth Rail Line. The loan is to be withdrawn for times according to the progress of the project. The rate of interest is 5.832% in the first year and is 10% lower than the official rate of interest for the relevant grade in the following years.

As of December 31, 2006, the bank borrowing of the Company is set out in Note 22 to the financial statements.

CHARGE ON ASSETS AND GUARANTEE

As of December 31, 2006, there were no outstanding charges against any of the Company’s assets and the Company did not have any guarantee outstanding.

INTEREST CAPITALIZED

The interest capitalized in the construction-in-progress or fixed assets of the Company and its subsidiaries during 2006 is set out in Note 8 to the financial statements.

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FIXED ASSETS

Movements in fixed assets of the Company and its subsidiaries during 2006 are set out in Note 7 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 28 to the financial statements.

RESERVES

Movements in the reserves of the Company and its subsidiaries during the year are set out in Note 21 to the financial statements.

STATUTORY PUBLIC WELFARE FUND

Details of the Company's statutory public welfare fund are set out in Note 21 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of December 31, 2006 are set out in Note 10 to the financial statements.

EQUIPMENT AND MAINTENANCE

As at December 31, 2006, the Company owns 12 diesel high-speed locomotives, five high-speed electric locomotives, 18 shunting locomotives, one high-speed electric passenger train and 300 passenger coaches of various types. 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.



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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 30, 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.

The Company issued a total of 2,747,987,000 A Shares in its IPO on the PRC domestic market in December 2006, which raised about RMB10 billions. Each share has a par value of RMB1.00. Among the A shares, 1,267,043,000 shares are without restrictions on sales and 550,100,000 shares are with restrictions on sales. They have been listed for trading on Shanghai Stock Exchange on December 22, 2006 and March 22, 2007, respectively.

The total share capital of the Company after the A Share issue is RMB7,083,537,000.

SHARE CAPITAL STRUCTURE

As of December 31, 2006, the share capital of the Company consisted of:

| Class of share capital | Number of share capital (‘000) | Percentage of shares (%) |
|---|--------------------------------------|--------------------------------|
| Domestic tradable shares with restrictions on sales (A shares) | 4,385,194 | 61.9 |
| Domestic tradable shares without restrictions on sales (A shares) | 1,267,043 | 17.9 |
| Overseas tradable shares (H shares) | 1,431,300 | 20.2 |
| Total | <u>7,083,537</u> | <u>100.0</u> |



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- (1) As of the end of the reported period, according to the stock ledgers provided by China Securities Depository & Clearing Corp. Ltd. Shanghai Branch and Hong Kong Registrars Limited, the total number of shareholders, the top ten shareholders and the top ten shareholders holding shares without restrictions on sales of the Company were as follows:

Unit: Share

Total number of shareholders **66072, including 65700 shareholders of A Shares and 372 shareholders of H Shares**

Top ten shareholders

| Name of shareholder | Nature of shareholder | Ownership percentage | Total number of shares held | Number of shares with restrictions on sales held | Number of shares in pledge or frozen |
|---|-----------------------|----------------------|-----------------------------|--|--------------------------------------|
| Guangzhou Railway (Group) Company | State-owned | 41.00% | 2,904,250,000 | 2,904,250,000 | None |
| HKSCC NOMINEES LIMITED (Note) | Foreign-funded | 19.72% | 1,396,616,664 | — | Unknown |
| China Life Insurance Company Limited | Unknown | 1.13% | 79,787,000 | 79,787,000 | Unknown |
| Ping An Life Insurance Company of China, Ltd. | Unknown | 1.13% | 79,787,000 | 79,787,000 | Unknown |
| CPIC Life | Unknown | 1.13% | 79,787,000 | 79,787,000 | Unknown |
| New China Life | Unknown | 1.13% | 79,787,000 | 79,787,000 | Unknown |
| Tai Kang Life | Unknown | 1.13% | 79,787,000 | 79,787,000 | Unknown |
| China National Machinery Industry Corporation | Unknown | 0.94% | 66,489,000 | 66,489,000 | Unknown |
| Taiyuan Iron & Steel (Group) Company Ltd. | Unknown | 0.94% | 66,489,000 | 66,489,000 | Unknown |
| Baosteel Group Company Ltd. | Unknown | 0.93% | 65,817,000 | 53,191,000 | Unknown |

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Top ten shareholders holding shares without restrictions on sales

| Name of shareholder | Number of shares without restrictions on sales held | Class of shares |
|---|---|-----------------|
| HKSCC NOMINEES LIMITED <i>(Note)</i> | 1,396,616,664 | H Shares |
| China Life Insurance Company Limited — Dividend — Individual dividend — 005L — FH002Shanghai | 12,628,000 | A Shares |
| China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001Shanghai | 12,627,000 | A Shares |
| Baosteel Group Company Ltd. | 12,626,000 | A Shares |
| State-run Shanxi Diesel Engine Plant | 12,625,000 | A Shares |
| Beijing Great Wall Radio Factory | 12,624,000 | A Shares |
| Cnooc Finance | 12,622,000 | A Shares |
| China Life Insurance Company Limited — Traditional — Ordinary insurance products | 10,838,687 | A Shares |
| China Shipbuilding Industry Corporation Finance | 10,573,000 | A Shares |
| Fang Guohua | 10,119,609 | A Shares |

Statement regarding connectedness or unanimity of the above shareholders

The Company is unaware whether the above shareholders are connected or unanimous

Note: The H Shares held by HKSCC NOMINEES LIMITED is held on behalf of various customers.

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- (2) The number of shares with restrictions on sales held by shareholders among the top ten and restrictions on sales:

Unit: Share

| No. | Name of shareholder of shares with restrictions on sales | Number of shares with restrictions on sales held | Time for listing and trading | Number of additional tradable shares | Restrictions on sales |
|-----|--|--|------------------------------|--------------------------------------|--|
| 1 | Guangzhou Railway (Group) Company | 2,904,250,000 | December 22, 2009 | 2,904,250,000 | Within 36 months after the date of A Share issue, the holder shall not transfer or entrust others to manage the shares of the issuer held, nor shall the issuer acquire the shares |
| 2 | China Life Insurance (Group) Company | 79,787,000 | December 22, 2007 | 79,787,000 | Shares for strategic investors, Company Limited locked up 12 months from the date of issue of A Shares |
| 3 | Ping An Life Insurance Company of China, Ltd. | 79,787,000 | December 22, 2007 | 79,787,000 | Shares for strategic investors, locked up 12 months from the date of issue of A Shares |
| 4 | CPIC Life | 79,787,000 | December 22, 2007 | 79,787,000 | Shares for strategic investors, locked up 12 months from the date of issue of A Shares |
| 5 | New China Life | 79,787,000 | December 22, 2007 | 79,787,000 | Shares for strategic investors, locked up 12 months from the date of issue of A Shares |
| 6 | Tai Kang Life | 79,787,000 | December 22, 2007 | 79,787,000 | Shares for strategic investors, locked up 12 months from the date of issue of A Shares |
| 7 | China National Machinery Industry Corporation | 66,489,000 | December 22, 2007 | 66,489,000 | Shares for strategic investors, locked up 12 months from the date of issue of A Shares |
| 8 | Taiyuan Iron & Steel (Group) Company Ltd. | 66,489,000 | December 22, 2007 | 66,489,000 | Shares for strategic investors, locked up 12 months from the date of issue of A Shares |
| 9 | Baosteel Group Company Ltd. | 53,191,000 | December 22, 2007 | 53,191,000 | Shares for strategic investors, locked up 12 months from the date of issue of A Shares |

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- (3) So far as the Directors, Supervisors and other senior management are aware, as at December 31, 2006, the interests and short positions of the persons, other than Directors, Supervisors and other senior management 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 Hong Kong Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) were as follows:

H Shares of the Company

| Name of shareholder | Class of shares | Number of shares held | Capacity | Type of interests | Percentage of class of shares | Percentage of total share capital |
|---|-----------------|-----------------------|------------------------------------|-------------------|-------------------------------|-----------------------------------|
| JPMorgan Chase & Co. | H Shares | 113,258,000(L) | Investment manager | Corporate | 7.91% | 1.60% |
| | | 75,514,000(P) | | | 5.28% | 1.07% |
| Merrill Lynch & Co., Inc. | H Shares | 99,591,850(L) | Investment manager | Corporate | 6.96% | 1.41% |
| Sumitomo Life Insurance Company | H Shares | 86,838,000(L) | Interest of controlled corporation | Corporate | 6.07% | 1.23% |
| Sumitomo Mitsui Asset Management Company, Limited | H Shares | 86,838,000(L) | Investment manager | Corporate | 6.07% | 1.23% |
| HSBC Halbis Partners (Hong Kong) Limited | H Shares | 85,106,000(L) | Investment manager | Corporate | 5.95% | 1.20% |

Note: As at December 31, 2006, Sumitomo Life Insurance Company was deemed to be interested in 86,838,000 H Shares (representing approximately 6.07% of the total H Shares of the Company or 1.23% 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; "P" denotes lending pool.

4. Public Float

As at April 19, 2006, 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 Exchange Listing Rules as regard to sufficiency of public float.

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PRE-EMPTIVE RIGHTS

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the Directors, supervisors and senior management of the Company as of April 19, 2007 are as follows:

| Name | Gender | Age | Position | Nationality | Period of Engagement |
|---------------------------------|--------|-----|---|-----------------------|----------------------|
| Directors: | | | | | |
| Wu Janguang | Male | 58 | Chairman of the Board | Chinese | May 2005-May 2008 |
| Yang Yiping | Male | 57 | Director and General Manager | Chinese | June 2006-May 2008 |
| Cao Jianguo | Male | 48 | Director | Chinese | June 2006-May 2008 |
| Wu Houhui | Male | 58 | Director | Chinese | May 2005-May 2008 |
| Wen Weiming | Male | 44 | Director | Chinese | May 2005-May 2008 |
| Yang Jinzhong | Male | 55 | Director and Chairman of the Trade Union | Chinese | May 2005-May 2008 |
| *Chang Loong Cheong | Male | 61 | Independent Director | Hong Kong, the PRC | May 2005-May 2008 |
| *Deborah Kong | Female | 47 | Independent Director | Australian | May 2005-May 2008 |
| *Wilton Chau Chi Wai | Male | 45 | Independent Director | Singaporean | May 2005-May 2008 |
| Supervisors: | | | | | |
| Yao Muming | Male | 53 | Chairman of the Supervisory Committee | Chinese | May 2005-May 2008 |
| Chen Ruixing | Male | 45 | Supervisor | Chinese | June 2006-May 2008 |
| Li Jin | Female | 49 | Supervisor | Chinese | June 2006-May 2008 |
| Li Zhiming | Male | 45 | Supervisor | Chinese | May 2005-May 2008 |
| Chen Yunzhong | Male | 54 | Supervisor | Chinese | May 2005-May 2008 |
| Wang Jianping | Male | 43 | Supervisor | Chinese | May 2005-May 2008 |
| Other senior management: | | | | | |
| Wu Weimin | Male | 49 | Deputy General Manager | Chinese | January 2004-present |
| Han Dong | Male | 45 | Deputy General Manager | Chinese | August 2004-present |
| Yao Xiacong | Male | 53 | Chief Accountant | Chinese | August 2004-present |
| Guo Xiangdong | Male | 41 | Company Secretary | Chinese | January 2004-present |
| Luo Jiancheng | Male | 34 | General Manager Assistant | Chinese | January 2006-present |

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

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- Note:
1. The termination of the engagement shall be on the day when the general meeting is held at which a new board and a new supervisory committee are elected.
 2. In the period of this report, none of the directors, supervisors or other senior management held or dealt in the shares 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 Mr. Luo Jiancheng as General Manager Assistant of the Company.

On April 26, 2006, resolutions were passed at the tenth meeting of the fourth session of the Board to appoint Mr. Yang Yiping as General Manager of the Company, terminate the engagement of Mr. Li Kelie as General Manager of the Company, terminate the engagement of Mr. Li Qingyun and Mr. Zhuang Mingcan as Deputy General Managers of the Company and terminate the engagement of Mr. Sun Tao as Chief Engineer of the Company.

On June 27, 2006, resolutions were passed at the third 2006 extraordinary general meeting to elect Mr. Yang Yiping and Mr. Cao Jianguo as Directors of the fourth session of the Board and to terminate the engagement of Mr. Li Kelie and Mr. Hu Lingling as Directors of the fourth session of the Board. Resolutions were also passed to elect Mr. Chen Ruixing and Ms Li Jin as Supervisors of the fourth session of Supervisory Committee and to terminate the engagement of Mr. Tang Dinghong and Mr. Chen Yongbao as Supervisors of the fourth session of Supervisory Committee of the Company.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Wu Junguang, aged 58, 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. From April 2002 to February 2007 he was general manager of Guangzhou Railway (Group) Company. He has been chairman of Guangzhou Railway (Group) Company since June 2003. He has served as chairman and secretary of the Party committee of Guangzhou Railway (Group) Company since February 2007. Mr. Wu is also chairman of Guangmeishan Railway Company Limited, Sanmao Railway Company Limited and China Railway Holdings (Hong Kong) Company.

Yang Yiping, aged 57, joined the Company in April 2006 and is a Director, General Manager and Director of the Party and Labor Committee of the Company. Mr. Yang graduated from the Party School of the CPC (中央黨校) and holds a graduate's degree in economics and management. Mr. Yang is also a senior political engineer. Since 1970, he has served in various managerial positions in various railway departments. He was member of the senior management of Engineering Company of Guangzhou Railway Bureau, Hainan Railway Company, Guangmeishan Railway Company Limited, Guangzhou Railway (Group) Company and Yangcheng Railway Company. Before joining the Company, he was secretary of the Party and Labor Committee of Guangzhou Railway (Group) Guangzhou Office.

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Cao Jianguo, aged 48, joined the Company in June 2006 and is a Director of the Company. Mr. Cao graduated from Central South University, majoring in railway transportation. As an engineer, Mr. Cao has been engaged in the organization and coordination of railway transportation for a long time. He had served as stationmaster of Zhuzhou North Station and deputy general manager of Changsha Railway Company. From April 2005 to March 2006 he was vice director of Transportation Department of Guangzhou Railway (Group) Company. Since March 2006 he has been deputy general manager of Guangzhou Railway (Group) Company. Mr. Cao is also vice chairman of Shenzhen Pingnan Railway Company Limited.

Wu Houhui, aged 58, 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. Since July 2003 he has been chief economist of Guangzhou Railway (Group) Company. Mr. Wu is also chairman of Sanmao Enterprise Development Company Limited and director of Guangmeishan Railway Company Limited, Sanmao Railway Company Limited and Shichang Railway Company Limited.

Wen Weiming, aged 44, 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 director of the finance sub-section of Yangcheng Railway Company. From May 2001 to September 2003 he was vice-director and director of the finance department of Guangzhou Railway (Group) Company. Since September 2003, he has been vice chief accountant of Guangzhou Railway (Group) Company. Mr. Wen is also director of Guangmeishan Railway Company Limited and Xingguangji Company and chairman of the supervisory committee of Yuehai Railway Company Limited, CYTS Tours GuangDong Railway Co., Ltd and Guangdong Tiecheng Enterprise Company Limited.

Yang Jinzhong, aged 55, 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. Since April 2005 he has been Chairman of the Trade Union of the Company; since March 2006 he has been vice secretary of the Party and Labor Committee and Chairman of the Trade Union of the Company.

Chang Loong Cheong, aged 61, 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. Mr. Chang is also an independent non-executive director of China Technology Development Group Corp.

Deborah Kong, aged 47, 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.

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Wilton Chau Chi Wai, aged 45, 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 and Managing Partner of QLeap Asia Limited. Mr. Chau is also the Board Advisor of China Resources & Investment Vehicle Ltd and a director of Spring Leaf Company Limited and CL Shield Foundation Limited.

Supervisors

Yao Muming, aged 53, joined the Company in April 1997 and is 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 had been secretary of the Commission for Inspecting Discipline of the Parent Company. Since November 2004 he has been vice secretary of the Party Committee and secretary of the Commission for Inspecting Discipline of Guangzhou Railway (Group) Company. Mr. Yao is also chairman of the supervisory committee of Guangmeishan Railway Company Limited, Sanmao Railway Company Limited and Shichang Railway Company Limited.

Chen Ruixing, aged 45, joined the Company in June 2006 and is a Supervisor of the Company. Mr. Chen graduated from Hunan Normal University. He had served as vice director of Guangzhou Passenger Transportation Department, chief of Cadres Department, chief of Labor and Wage Sub-division, chief of Cadres Sub-division of Yangcheng Railway Company. Mr. Chen has been chief of Personnel Department of Guangzhou Railway (Group) Company since July 2003.

Li Jin, aged 49, joined the Company in June 2006 and is a Supervisor and accountant of the Company. Ms Li was chief economist of Guangzhou Passenger Transportation Department, chief of Sub-division of Planning and Statistics, chief of Sub-division of Finance and chief economist of Yangcheng Railway Company, etc. Since January 2005 she has been chief of Division of Planning and Statistics of Guangzhou Railway (Group) Company.

Li Zhiming, aged 45, 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. From 1996 to March 2005, he was chief of Sub-division of Finance of Changsha Railway Company. Since April 2005, Mr. Li has been chief of the audit department of Guangzhou Railway (Group) Company. Mr. Li is also a supervisor of Yuehai Railway Company Limited.

Chen Yunzhong, aged 54, 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. From May 2000 to March 2006 he was vice secretary of the Party Committee of the Company. Since March 2006 Mr. Chen has been secretary of the Party committee of the Diversified Business Management Center of the Company.

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Wang Jianping, aged 43, 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, Guangzhou Railway (Group) Company since then. Before joining the Company, Mr. Wang was a member of the senior management of Guangzhou Railway Foreign Trade and Economic Development Company (廣鐵外經貿發展總公司). From July 2003 to March 2006 Mr. Wang was vice secretary of Party Committee and secretary of the Commission for Inspecting Discipline of the Company. Since March 2006 he has been director and secretary of the Party Committee of the General Service Center of the Company.

Other senior management

Wu Weimin, aged 49, 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-section and director of the social insurance centre of Yangcheng Railway Company from December 2000 to January 2004. Since January 2004 he has been a Deputy General Manager of the Company.

Han Dong, aged 45, 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 equipment and property department of the Company between September 2001 and August 2004. Since August 2004 he has been a Deputy General Manager of the Company.

Yao Xiacong, aged 53, 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 director of the accounting department of Guangzhou Railway (Group) Company before joining the Company as the Chief Accountant in August 2004. Mr. Yao is also an independent director of Shenzhen Great Wall Kaifa Technology Co., Ltd.

Guo Xiangdong, aged 41, is Company Secretary and 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.

Luo Jiancheng, aged 34, 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 planning and transportation departments of Yangcheng Railway Company, Guangzhou Railway (Group) Company and Sanmao Railway Company Ltd. From 2002 to September 2003, Mr. Luo was chief of the research supervisory section of Guangzhou Railway (Group) Company. From September 2003 to August 2004, he was stationmaster of Shiweitang Station. From August 2004 to January 2006, Mr. Luo served as deputy director of the transportation department of Guangzhou Railway (Group) Company. Since January 2006 he has been the General Manager Assistant of the Company.

Report of Directors

REMUNERATION OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

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, 2006 are set out below:

Unit: RMB

| Name | Position | Fees | Total remuneration received from the Company in the period of this report | | | | Total | Whether receive remuneration from shareholders or other related parties |
|--------------------|--------------------------------------|---------|--|---------|--|--------------------|---------|---|
| | | | Salary | Bonus | Employer's contribution pension to scheme | Other allowance | | |
| Wu, JunGuang | Chairman of the Board | 18,000 | — | — | — | — | 18,000 | Yes |
| Yang, YiPing | Director, General Manager | 9,000 | 19,553 | 239,222 | 6,316 | 7,052 | 281,143 | No |
| Cao, JianGuo | Director | 6,000 | — | — | — | — | 6,000 | Yes |
| Wu, HouHui | Director | 12,000 | — | — | — | — | 12,000 | Yes |
| Wen, WeiMing | Director | 12,000 | — | — | — | — | 12,000 | Yes |
| Yang, JinZhong | Director, Chairman of Trade Union | 12,000 | 30,657 | 281,934 | 6,405 | 9,306 | 340,302 | No |
| Chang Loong Cheong | Independent Director | 143,033 | — | — | — | — | 143,033 | No |
| Deborah Kong | Independent Director | 143,033 | — | — | — | — | 143,033 | No |
| Wilton Chau | Independent Director | 143,033 | — | — | — | — | 143,033 | No |
| Yao, MuMing | Chairman of Supervisory Committee | 12,000 | — | — | — | — | 12,000 | Yes |
| Chen, RuiXing | Supervisor | 6,000 | — | — | — | — | 6,000 | Yes |
| Li Jin | Supervisor | 6,000 | — | — | — | — | 6,000 | Yes |
| Li, ZhiMing | Supervisor | 12,000 | — | — | — | — | 12,000 | Yes |
| Chen, YunZhong | Supervisor | 10,000 | 32,745 | 262,408 | 6,908 | 9,870 | 321,931 | No |
| Wang, JianPing | Supervisor | 10,000 | 30,273 | 263,131 | 6,473 | 9,600 | 319,477 | No |
| Wu, WeiMin | Deputy General Manager | 10,000 | 31,441 | 284,794 | 6,704 | 9,648 | 342,587 | No |
| Han, Dong | Deputy General Manager | 10,000 | 29,152 | 263,742 | 5,966 | 9,342 | 318,202 | No |
| Yao, XiaoCong | Chief Accountant | 10,000 | 32,277 | 304,419 | 6,820 | 9,756 | 363,272 | No |
| Guo, XiangDong | Company Secretary | 10,000 | 28,324 | 243,701 | 6,105 | 9,210 | 297,340 | No |
| Luo, JianCheng | General Manager Assistant | 10,000 | 1,718 | 90,052 | 189 | 747 | 102,706 | No |

Notes: Details of the remuneration of the Directors, Supervisors and senior management of the Company for 2006 are also set out in Note 26 to the financial statement of this annual report.

Report of Directors

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

As of December 31, 2006, 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 Hong Kong 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Exchange 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).

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 2006 to which the Company or any of its subsidiaries was a party.

PURCHASE, SALE AND REDEMPTION OF H SHARES

During the year ended December 31, 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of H shares of the Company.

MATERIAL LITIGATION

The Company and its subsidiaries were not involved in any material litigation in 2006 except for the Item 9 "Potential impairment loss in an associate" of "Management's Discussion and Analysis in this Report.

Report of Directors

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, 2006. 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, 2006 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, 2006 to December 31, 2006, the amortization charged to the deferred labour costs of the consolidated income statement was RMB15.09 million and the accumulated amortization amounted to RMB105.64 million.

As of December 31, 2006, the unamortized deferred losses, which were recorded as deferred labour costs in the balance sheet of the Company and its subsidiaries, were RMB120.73 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.

MATERIAL ACQUISITION OR DISPOSAL

The Company and Guangzhou Railway Group Yangcheng Railway Company ("Yangcheng Railway") entered into the Railway Operating Assets Acquisition Agreement (the "Acquisition Agreement") regarding the acquisition of railway transportation assets of Yangcheng Railway by the Company with the proceeds raised in an A shares offering of the Company. On December 29, 2006, the Company paid RMB5,265,250,000 of the proceeds raised from the A Share issue to the Yangcheng Railway. The Company has engaged qualified accountants to conduct an audit of the acquired assets to determine the final consideration for the payment of the remaining amount. The completion of the acquisition will have material impact on the operating scale, financial position and operating results of the Company. Details of the acquisition and its impact on the Company are set out in Note 36 and Note 20 to the Financial Statements of this annual report.

Report of Directors

MATERIAL CONTRACTS

1. Contracts for material connected transactions of the Company

As of December 31, 2006:

(1) *Contracts for material connected transactions being fulfilled by the Company or its subsidiaries (Details of the Acquisition Agreement are set out in "Material Acquisition or Disposal" of this report)*

On January 13, 2006, the Company entered into two continuing connected transactions: Provisional Comprehensive Services Agreement with Guangzhou Railway (Group) Company and Comprehensive Services Agreement with Guangshen Railway Enterprise Development Company ("GEDC"), details of which are set out in the announcement and circular issued by the Company dated January 16, 2006 and January 27, 2006, respectively.

(2) *Contracts for material connected transactions to be performed*

The Company issued A Shares in December 2006 and raised funds for the acquisition of railway operating assets and businesses of Yangcheng Railway. To ensure the smooth operation of the Company after the acquisition, the Company entered into continuing connected transactions with Guangzhou Railway (Group) Company and Yangcheng Railway, details of which are set out in the announcement and circular issued by the Company dated November 16, 2004 and December 6, 2004, respectively.

2. Substantial contracts being fulfilled or to be fulfilled by the Company or its main subsidiaries

(1) *Construction Services Agreements and the Surveying and Design Services Agreements for the Fourth Rail Line*

On May 15, 2006, the Company entered into eight Construction Services Agreements and seven Surveying and Design Services Agreements with various parties with a total contract price of RMB2,678 million, details of which are set out in related announcement and circular issued.

Report of Directors

(2) Demolition compensation Contracts regarding the construction of the Fourth Railway Line

As of the December 31, 2006, the Company had entered into several demolition compensation contracts with various parties. Details of these agreements are set out in the Prospectus for A Share offering by the Company dated December 21, 2006.

(3) Electric Multiple Units trains (“EMUs”) Purchase Contract

On May 30, 2005, the Company and China International Tendering Company (“CITC”), the purchaser’s agent (together as the “Purchaser”), entered into EMUs Purchase Contract with Bombardier Sifang Power (Qingdao) Transportation Ltd. and Bombardier Transportation Sweden AB (together as the “Seller”) for the purchase of 20 sets of EMUs with a speed of 200 kilometers per hour and spare parts and components by the Company from the Seller. The consideration is RMB2,095.42 million and SEK 449.425 million.

(4) Passenger trains leasing agreement

On June 22, 2006, the Company renewed the 200Km/h AC-driven Electric Passenger Trains (“Blue Arrow”) Lease Contract with Guangzhou Zhongche Railway Rolling Stock Sales and Service Company Limited. The total rent for eight Blue Arrows is RMB8.99 million per month. The term of renewal is 12 months and the rent is settled monthly. Details of the lease are set out in the Prospectus dated December 21, 2006.

(5) Loan contracts

Details of loan contracts are set out in “Bank Borrowings” of the Report of Directors of this annual report.

Save as disclosed, there were no contract of significance, between the Company, its major 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 2006 or at any time during 2006.

Report of Directors

CONNECTION TRANSACTIONS

Details of the Acquisition Agreement and continuing connected transactions are set out in “Material Acquisition or Disposal” of this report.

On June 13, 2006, each of the Company and Shenzhen Fuyuan Enterprise Development Company (“Fuyuan”, a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Guangzhou Railway Economic and Technological Development General Company (“Guangzhou Railway General Company”, a wholly-owned subsidiary of the Guangzhou Railway (Group) Company), pursuant to which, the Company and Fuyuan transferred 41% and 10% of the equity interest held in Shenzhen Guangzhou Railway Civil Engineering Company, respectively, to Guangzhou Railway General Company for a total consideration of RMB35.2244 million. The transfer of equity interest had no negative impact on the consistency of the main businesses of the Company or the stability of management, and had no material impact on the financial position or operating results of the Company.

The connected transactions in the railway business of the Company in 2006 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.

Details of the transactions with related parties are set out in Note 35 to the Financial Statements of this annual report.

CONFIRMATION BY INDEPENDENT DIRECTORS OF CONNECTED TRANSACTIONS

The independent non-executive Directors of the Company confirmed that the connected transactions (as defined in the Stock Listing Rules of Hong Kong Stock Exchange) entered into by the Company during 2006 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.

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 Exchange Listing Rules. The Company confirms that the independent non-executive Directors are independent of the Company.

AUDIT COMMITTEE

Members of the Audit Committee are appointed by the Board. It consists of three independent non-executive Directors at present. The principal duties of the Audit Committee include reviewing the financial performance of the Company and its subsidiaries, 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.

Report of Directors

AUDITORS

The Company appointed PricewaterhouseCoopers as the international auditors of the Company for 2006 and appointed Deloitte Touche Tohmatsu CPA Ltd. as its PRC auditors for 2006.

UNDERTAKING ISSUES

As of December 31, 2006, Guangzhou Railway (Group) Company had observed its undertaking of locking up the shares of the Company for 36 months since December 22, 2006.

PUNISHMENT INCURRED TO THE COMPANY, THE BOARD AND DIRECTORS AND RECTIFICATION

During the period of this report, none of the Company, the Board or the Directors were subject to check, administrative punishment or criticism by the China Securities Regulatory Commission or public condemnation by stock exchanges.

OTHER MATERIAL MATTERS

The Articles of Association of the Company were amended at the 2005 Annual General Meeting held on May 11, 2006. According to the comments of the State-owned Assets Administration Bureau, part of the provisions were amended at the fifteenth meeting of the fourth session of the Board upon authorization of annual general meeting. The amendments were published in Hong Kong Commercial Daily and THE STANDARD.

In December 2006, the A Shares offer of the Company was completed and the shares began to be listed on the Shanghai Stock Exchange. The Company has gone through the relevant registration alternation procedures in March 2007 to change the registered capital from RMB4,335,550,000 to RMB7,083,537,000.

There were no other material matters except for the one disclosed above.

DOCUMENTS AVAILABLE FOR INSPECTION

The full text of the 2006 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

April 19, 2007