

Corporate Governance Report

CORPORATE GOVERNANCE ORDINARY RULES

During the period of this report, the Company has complied with the Company Law, Securities Law and Governance Measure of Listing Company of the P.R.C. and related regulations promulgated by China Securities Regulatory Commission, as well as the Stock listing Rules promulgated by Shanghai Stock Exchange and Exchange Listing Rules. The Company continues to improve its framework of corporation governance and standardize its operation.

For the year ended December 31, 2006, to the best of the knowledge of the Company and its Directors and save as otherwise disclosed in this report, the Company has complied with the relevant code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Exchange Listing Rules.

A. Board of Directors

1. Responsibility

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 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.

2. Meetings of the Board

During 2006, the Board held 8 meetings, which were meetings from the seventh to the fourteenth of the fourth session of the Board. The main resolutions and approvals are set out below:

1. On January 13, 2006, resolution was approved by the Board that the Company signed two contracts about continuing connected transactions with Guangzhou Railway (group) Company and Guangshen Railway Enterprise Development Company, separately. The announcement and circular of these connected transactions were published on Hong Kong Economic Times dated January 14, 2006. The general meeting was proposed to approve that all the shareholders after the completion of A Share issue share the surplus profits before the A Share issue. Resolutions were also approved that Mr. Zhuang Mingcan was appointed as the deputy general manager of the Company and Mr. Luo Jiancheng was appointed as the general manager assistant.

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2. On March 20, 2006, the Board considered and approved the operating results of the Company for 2005, the details of which were published on Hong Kong Economic Times on the same day. It also approved the proposed profit distribution of the Company for 2005, as well as the Company's budget for 2006.
3. On April 26, 2006, the Board approved resolutions including the termination of engagement of Mr. Li Kelie as the general manager of the Company, the appointment of Mr. Yang Yiping as the general manager, the terminations of engagements of Mr. Li Qingyun and Mr. Zhuang Mingcan as deputy general managers and the terminations of engagements of Mr. Sun Tao as the chief engineer of the Company. It also approved resolution of holding the third extraordinary general meeting of the Company in 2006.
4. On June 13, 2006, the Board considered and approved the resolutions of the Company's Accounting Report and Consolidated Accounting Report for Reference during Three Years and One Quarter As of March 31, 2006. It also approved resolution of transferring 51 percents shares of Shenzhen Guangshen Railway Civil Engineering Company held by the Company and its subsidiaries to Guangzhou Railway Economy Development company.
5. On June 29, 2006, the Board considered and approved 20-F Report of the Company for 2005.
6. On August 22, 2006, the Board considered and approved the Company's Interim Report for 2006, details of which were published on Hong Kong Economy Times on August 23, 2006. The Board also approved the project to optimize computerized ticketing system for the "As-frequent-as-buses" Train Project between Guangzhou and Shenzhen, the Work Guidance for Company Secretary of the Company and RMB2.5 billion bank loans for the constructions of the fourth line between Guangzhou and Shenzhen.
7. On November 28, 2006, the Board considered and approved RMB0.9 billion bank loans to meet the construction progress of the fourth line.

Details of the Directors' attendance records are set out below:

Director	Number of Board meetings	Number of Board Meetings Attended in Person	Number of Board Meetings Attended by Proxy	Attendance rate
Wu Janguang	8	8	—	100%
Yang Yiping (<i>note</i>)	3	3	—	100%
Cao Jianguo (<i>note</i>)	3	2	1	66.7%
Wu Houhui	8	7	1	87.5%
Wen Weiming	8	6	2	75%
Yang Jinzhong	8	7	1	87.5%
Chang Loong Cheong (<i>Independent Director</i>)	8	8	—	100%
Deborah Kong (<i>Independent Director</i>)	8	7	1	87.5%
Wilton Chau Chi Wai (<i>Independent Director</i>)	8	7	1	87.5%

Note: On June 27, 2006, the Company held the third extraordinary general meeting, at which resolutions of appointments of Mr. Yang Yiping and MR. Cao Jianguo as directors of the fourth session of the Board were approved.

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3. *Directors*

The Board comprises 9 members, including three executive Directors, three non-executive Directors and three independent non-executive Directors. The board of directors shall have one Chairman. 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 in accounting or related. All independent non-executive Directors confirmed that they have met the criteria of Rule 3.13 of the Exchange Listing Rules regarding the guidelines for the assessment of independence. The names, biographical details of the Directors and relationship among them are shown in the Report of the Board in this Annual Report.

NOMINATION

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.

Commission

Directors shall be elected at the shareholders' general meeting. The term of office of the directors is three (3) years. At the expiry of a director's term, the term is renewable upon re election. The term of office of the independent directors is three (3) years. At the expiry of an independent director's term, the term is renewable upon re election. However, the consecutive time of an independent director's term shall not exceed six years. The Chairman shall be elected and removed by more than one half of the directors. The term of office of the chairman is three (3) years, renewable upon re election. The shareholders' general meeting may by ordinary resolution remove any director before the expiration of his term of office on the condition that all the relevant laws and administrative regulations are fully complied with.

CHAIRMAN AND GENERAL MANAGER

Mr. Wu Janguang and Mr. Yang Yiping are the Chairman of the Board and the General Manager of the Company, respectively and each has independent functions and duties.

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.

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Information Support

The Company provides business development information to all the directors, including report forms, documents and meeting summaries. All the directors, especially independent directors, may know the operating situation of the Company through hearing reports or spot visits. The Company shall ensure the working conditions for the independent directors performing their duties. The Company Secretary and other relevant persons shall assist the independent directors while performing their duties. The fees required for the engagement of intermediaries and discharge of other duties by the independent directors shall be borne by the Company.

REMUNERATION OF DIRECTORS

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 authorized 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 Annual Remuneration of Directors, Supervisors and Senior Management in Report of Directors of this annual report.

INDEPENDENCE OF INDEPENDENT DIRECTORS

The independent directors of the Company counts one-third of all the 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.

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 Exchange 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, 2006, each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

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B. Special Committees of the Board

1. 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 of the Audit Committee), 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 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.

In 2006, the Audit Committee held four meetings for purposes including reviewing the final results for the year ended December 31, 2005 and interim accounts for the six months ended June 30, 2006, 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.

The Audit Committee has reviewed and confirmed the Financial Statement of the Company for the year ended December 31, 2006.

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

Number of meetings	4	
Director	Audit Committee meetings attended	Attendance rate
Chang Loong Cheong	4	100%
Deborah Kong	4	100%
Wilton Chau Chi Wai	4	100%

2. Remuneration Committee

The Remuneration Committee founded by the approval of the Board of the Company. Work rules of Remuneration Committee were set down at the same time. 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 authorized by the shareholders at general meetings of the Company. No Director or Supervisor is involved in determining his own remuneration.

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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 Janguang (Chairman of the Remuneration Committee), Mr. Yang Yiping, Mr. Wilton Chau Chi Wai, Mr. Chang Loong Cheong and Ms. Deborah Kong. The Company Secretary, Mr. Guo Xiangdong is the secretary of the Remuneration Committee. 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.

There has not been any change to the remuneration packages granted to the existing Directors or Supervisors of the Company. The Remuneration Committee did not hold any meeting in 2006. The Remuneration Committee will meet at times as and when required to consider remuneration-related matters of the Company.

C. Internal Supervision and Control

1. *The Supervisory Committee*

The Company shall have a supervisory committee. The supervisory committee shall comprise of representatives of shareholders and representatives of staff, among which at least one-third representatives shall be elected from staff. Representatives of shareholders and shall be elected or removed by the shareholders in general meeting and representatives of staff of the Company shall be elected or removed democratically at the by the staff and workers. The supervisory committee shall have one chairman who is subject to election or removal with the consent of half or more of the members of the supervisory committee. The directors, general manager, deputy general managers and financial controller shall not act concurrently as supervisors.

The supervisory committee shall carry out its duties honestly and faithfully in accordance with laws, administrative regulations and these articles of association. It shall also examine the Company's financial situation and supervise the directors and senior management when they perform duties in the Company to ensure the legal rights of shareholders, the Company and employees.

The component, curriculum vitae and term of members of the supervisory committee are set out in Report of Directors of this annual report.

The number and component of members of the supervisory committee of the Company comply with the requirement of laws and regulations. During 2006, the supervisory committee held two meetings. Representing shareholders, it performed its duties by supervising the Company's financial situation and the directors and senior management when they perform duties in the Company and by attending all meetings of the Board and the general meeting of the Company. The instances of the supervisory committee are set out in Report of the supervisory committee of this annual report.

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2. Internal Control

In accordance with our continuous commitment to establish and maintain a high standard in corporate governance, we have commenced conducting an annual review of our internal control system. In addition to our practice in the past years, we have engaged an external adviser to assist us in the conduct of the review on internal controls over financial reporting in accordance with the requirements of Section 404 of the United States Sarbanes-Oxley Act of 2002 (the "Act"). In the course of the review, we have identified a number of deficiencies in our internal control system. Our management is in the process of completing the evaluations of these deficiencies and remedying these deficiencies. In addition, further deficiencies may be identified as the Company completes the process of reconciling its financial statements prepared under IFRS to those prepared under US GAAP. If any of these deficiencies is determined to be a material weakness in our internal controls over financial reporting in accordance with the Act upon completion of our management's assessment in or about June 2007, a detailed description of these deficiencies and the steps being taken to remedy them will be included in our U.S. annual report on Form 20-F for the year ended December 31, 2006. By then, we will also publicly announce the results of such evaluation in Hong Kong and the stock exchange in the PRC on which the Company's stock is listed.

3. 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.

The Audit Committee is authorized to consider the engagement, dismissal and replacement of the independent auditors, to determine their remuneration and to make suggestions to the Board. The engagement and replacement of auditors of the Company and the audit fees are proposed by the Board and approved or authorized by the general meeting of the Company. The Audit Committee believes that remuneration of the auditors is reasonable.

As of December 31, 2006, the Company's international auditor has served for a consecutive term of four years and its PRC auditor has served for a consecutive term of two years.

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The remunerations of the Company's auditors for 2006 are as follows:

<i>RMB (thousand)</i>	2006		2005	
	Audit expenses	Non-audit expenses	Audit expenses	Non-audit expenses
PricewaterhouseCoopers	2,200	928	2,000	—
Deloitte Touche Tohmatsu CPA Ltd.	5,200	—	4,200	—

Note:

1. Allowances for business trip are included in the annual audit expenses. The Company need not pay again.
2. As of December 31, 2006, the Company paid all the payables.
3. The Company believes that other service fees shall not influence the independent of the auditors.

D. 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, 2006, the Directors have selected suitable accounting policies and applied them consistently, made judgments 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 Exchange 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 of the annual report.

E. Appraisal and Promotion of Senior Management

The Company enhances the promotion and restriction of senior management by implementing objective responsibility appraising system. The Board signs agreements with the senior managements of the Company and its subsidiaries to appraise their work and results of management through index of passenger and freight transportation volume, revenues from transportation, safety, cost, profit and administration. These agreements can also encourage the management to improve their managing ability and level, to enhance managing measures and to optimize managing flow. When appraising period expired, the Company encourages the management according to the completion of their objectives and their appraising grade.

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F. Communication with Shareholders

The Company maintains various communication channels with its shareholders during 2006, 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. Annual and interim results are announced within the limits of 4 months and 3 months after the end of the relevant period, respectively, so as to enhance its transparency on business of the Company.

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.

G. 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.