Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

1. GENERAL INFORMATION

Guangshen Railway Company Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on March 6, 1996. With effective from that date, the Company assumed the business operation of certain railroad and other related businesses (collectively the "Businesses") that were undertaken previously by its predecessor, Guangshen Railway Company (the "Predecessor") together with certain of its subsidiaries; and Guangzhou Railway (Group) Company (the "Guangzhou Railway Group") and certain of its subsidiaries prior to the formation of the Company.

The Predecessor is controlled by and is under the administration of the Guangzhou Railway Group. Pursuant to a restructuring agreement entered into between the Guangzhou Railway Group, the Predecessor and the Company in 1996 (the "Restructuring Agreement"), the Company issued to the Guangzhou Railway Group 100% of its equity interest in the form of 2,904,250,000 ordinary shares (the "State-owned Domestic Shares") in exchange for the assets and liabilities associated with the operations of the Businesses (the "Restructuring"). After the Restructuring, the Predecessor changed its name to Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company.

In May 1996, the Company issued 1,431,300,000 shares, representing 217,812,000 H Shares ("H Shares") and 24,269,760 American Depositary Shares ("ADSs", one ADS represents 50 H Shares) in a global public offering for cash of approximately RMB4,214,000,000 in order to finance the capital expenditure and working capital requirements of the Company and its subsidiaries (collectively defined as the "Group").

In December 2006, the Company issued 2,747,987,000 A Shares in the Shanghai Stock Exchange through an initial public offering of shares in order to finance the acquisition of assets and liabilities associated with the railway transportation business of Guangzhou Railway Group Yangcheng Railway Company ("Yangcheng Railway", a wholly owned subsidiary of Guangzhou Railway Group) running on its railway line between the cities of Guangzhou and Pingshi in Southern China *(please see Notes 20 and 36 for further details)*.

The principal activities of the Group are railroad passenger and freight transportation. The Group also operates certain other businesses, which are principally services offered in the railway stations and sales of food, beverages and merchandises on board the trains as well as in the stations.

The registered address of the Company is No. 1052 Heping Road, Shenzhen, Guangdong Province, the People's Republic of China.

As of December 31, 2006, the Company had in total 9,411 employees, representing an increase of 529 compared to that of December 31, 2005.

The financial statements have been approved for issuance by the board of directors of the Company on April 19, 2007.

The English names of all companies listed in the financial statements are direct translations of their registered names in Chinese.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(1) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance (the "Financial Statements"). This basis of accounting differs in certain material respects from that used in the preparation of the statutory Financial Statements of the Group (the "Statutory Financial Statements") in accordance with the generally accepted accounting principles and relevant financial regulations applicable in the PRC ("PRC GAAP"). In preparing the Financial Statements, appropriate adjustments have been made to the Statutory Financial Statements to conform to IFRS, but such adjustments have not been incorporated into the Statutory Financial Statements.

The principal adjustments made to conform to IFRS include the following:

- Additional depreciation charges on fixed assets, in particular the rail-line track assets;
- Capitalisation of replacement costs of components of rail-line track assets and de-recognition of items being replaced;
- Differences in the recognition policy on housing benefits provided to employees;
- Recognition of government grants through deduction against the carrying amount of fixed assets;
- Reversal of the revaluation surplus of fixed assets *(see Note 5)*;
- Difference in recognition policy on early retirement benefit;
- Recognition of other income arising from the waiver of payables; and
- Difference in the recognition policy on interest expense capitalization.

The Financial Statements have been prepared under the historical cost convention except for the application of the fair value model to financial assets and liabilities and available-for-sale financial assets *(see Note 2(9) for details)*.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(1) Basis of presentation *(Continued)*

(a) Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations:

The following standards, amendments and interpretations are mandatory for the Group's accounting periods beginning on or after January 1, 2006 or later periods but are not relevant to the Group's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC-Int 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

The following standard, and interpretation to an existing standard, have been published that are mandatory for the Group's accounting periods beginning on or after November 1, 2006 or later periods that the Group has not early adopted:

- IFRS 7, Financial Instruments (effective for annual periods beginning on or after January 1, 2007). IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any significant impact on the classification and valuation of the Group's financial instruments;

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(1) Basis of presentation *(Continued)*

(b) *(Continued)*

- IFRIC-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006). IFRIC-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC-Int 10 from January 1, 2007, but it is not expected to have any significant impact on the Group's Financial Statements.

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 requires the reporting of financial and descriptive information about an entity's reportable segments on the basis of internal reports that are regularly reviewed by its management. The Group will apply IFRS 8 from 1 January 2009.

- IAS 23 (Amendment), Borrowing costs (effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 requires management to capitalize borrowing costs attributable to qualifying assets. The Group will apply the revised IAS 23 from 1 January 2009.

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations:

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after March 1, 2006 or later periods but are not relevant to the Group's operations:

- IFRIC-Int 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006). IFRIC-Int 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC-Int 7 is not relevant to the Group's operations.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(1) Basis of presentation *(Continued)*

(c) *Interpretations to existing standards that are not yet effective and not relevant to the Group's operations:* (Continued)

- IFRIC-Int 8, Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006). IFRIC-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of IFRS 2. As none of the group entities have such transactions, IFRIC-Int 8 is not relevant to the Group's operations.

- IFRIC-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after June 1, 2006). IFRIC-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have made the aforementioned changes in its contracts in 2006, IFRIC-Int 9 is not relevant to the Group's operations.

(2) Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Details of the Company's subsidiaries are shown in Note 10.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(2) Consolidation *(Continued)*

(a) ***Subsidiaries*** *(Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's stand alone balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) ***Transactions and minority interests***

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) ***Associates***

Associates are all entities over which the Group has the ability to exert significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Details of the Group's associates are set out in Note 11.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(2) Consolidation *(Continued)*

(c) Associates (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the income statement.

In the Company's stand alone balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(3) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

(4) Foreign currency transactions

(a) Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated Financial Statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and all its subsidiaries and it is also the presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(5) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost represents the purchase price of the assets and other costs incurred to bring the assets into existing use. The Group changed its accounting policy for fixed assets from the revaluation model to historical cost model, effective from January 1, 2006 *(please see Note 5 for details)*.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write off the cost amount, after taking into account the estimated residual value of not more than 4% of cost, of each asset over its estimated useful life. The estimated useful lives are as follows:

Buildings	25 to 40 years
Leasehold improvements	over the lease terms
Track, bridges and service roads	55 to 100 years *(Note a)*
Locomotives and rolling stock	20 years
Communications and signalling systems	8 to 20 years
Other machinery and equipment	7 to 25 years

Note a:

The estimated useful lives of tracks, bridges and service roads exceed the initial lease period of the respective land use right lease grants on which these assets are located ("the Lease Term") *(see Note 2(7))*. Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grant, the Group has the right to a renewal period that is equivalent to the initial Lease Term. This right can be exercised within one year of the expiry of the initial Lease Term, and can only be denied if such renewals are considered to be detrimental to the public interest. The Group considers the approval process to be perfunctory, and therefore has determined the estimated useful lives of these assets to extend beyond the initial Lease Term.

The assets' residual values and estimated useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount *(Note 2(8))*.

Gains and losses on disposals are determined by comparing the sales proceeds with the carrying amount and are recognised within other gain or loss, included in the income statement.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(6) Construction-in-progress

Construction-in-progress represents buildings, track, bridges and service roads, mainly including the construction related costs for the fourth railway line of the Group under construction. Construction-in-progress is stated at cost which includes all expenditures and other direct costs, site restoration costs, prepayments and deposits attributable to the construction and interest charges arising from borrowings used to finance the construction during the construction period. Construction-in-progress is not depreciated until such assets are completed and ready for their intended use.

(7) Leasehold land payments

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain parcels of land for its rail lines, stations and other businesses. The premium paid for such leasehold land payments represents pre-paid lease payments, which are amortised over the lease terms of 36.5 to 50 years using the straight-line method. Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grant, the Group has the right to a renewal period that is equivalent to the initial Lease Term. This right can be exercised within one year of the expiry of the initial Lease Term, and can only be denied if such renewals are considered to be detrimental to public interest. The Group considers the approval process to be perfunctory and the renewal to be reasonably assured.

(8) Impairment of non-financial assets

Non-financial assets that are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(9) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

A gain or loss on an available-for-sale financial assets is recognized directly in equity, through the statement of changes in equity, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognized in profit or loss.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the income statement. Impairment testing of receivables is described in Note 2(12).

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(10) Deferred staff costs

The Group implemented a scheme (the "Scheme") for selling staff quarters to its employees in 2000. Under the Scheme, the Group sells certain staff quarters to their employees at preferential prices in the form of housing benefits provided to these employees. The total housing benefits (the "Benefits"), which represented the difference between the net book value of the staff quarters to be sold and the proceeds collected from the employees, are expected to benefit the Group over 15 years, which is equal to the estimated remaining average service period of the employees participating in the Scheme. Upon the implementation of the Scheme in 2000, the Benefits were recorded as deferred staff costs and the balance is amortised over the estimated remaining service period of the employees participating in the Scheme.

At each balance sheet date, the Group assesses whether there is any indication of impairment, considering the remaining service period of the employees and other qualitative factors. If such indications exist, a detailed analysis will be performed in order to assess whether the carrying amount of the deferred staff costs can be recoverable in full. A write-down is made if the carrying amount exceeds the recoverable amount.

(11) Materials and supplies

Materials and supplies consist mainly of items for repair and maintenance of rail-line tracks, and are stated at lower of cost and net realisable value. Cost is determined using the weighted average method. Materials and supplies are expensed when used, or capitalized as fixed assets when installed, as appropriate. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

(12) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the provision asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "Operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(13) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and deposits placed with deposit centre operated by the MOR which is licensed to undertake deposits by the PRC financial authorities, other short-term highly liquid investments with original maturities of three months or less.

(14) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

(15) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(16) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Financial Statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(17) Employee benefits

(a) Defined contribution plan

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency based on 26% of the standard salary set by the provincial government, of which 18% is borne by the Company or its subsidiaries and the remainder 8% is borne by the staff. The government agency is responsible for the pension liabilities due to such staff upon their retirement. The Group accounts for these contributions on an accrual basis and charges the related contributions to income in the year to which the contributions relate.

See also Note 2 (10) above.

(b) Early retirement benefits

Early retirement benefits are payable whenever an employee's employment is terminated before his/her normal retirement age or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises early retirement benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide early retirement benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(18) Revenue recognition

The Group recognizes revenue on the following basis, provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenues and costs, if applicable, can be measured reliably:

(a) Rendering of services and sales of goods

Railroad revenues are recognised when services are performed. Revenues from other businesses are mainly derived from the sales of food, beverages and other merchandise on board the trains and in the railway stations and revenues derived from operating restaurants in major railway stations. Sales on board the trains and in the railway stations are recognised upon delivery of the food items and merchandises, when the significant risks and rewards of ownership of these goods have been transferred to the buyers. Revenues derived from the operations of restaurants are recognised when services are rendered.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(18) Revenue recognition *(Continued)*

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(19) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of fixed assets are deducted against the carrying amount of the fixed assets.

(20) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(21) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: Currency risk, price risk, credit risk and interest rate risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group.

(a) Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. RMB is not freely convertible into other foreign currencies. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. In addition, the Group is required to pay dividends in HKD and USD in the future when dividends are declared.

The Group had USD and HKD monetary assets as of December 31, 2006 and 2005 as stated below.

Monetary assets	Currency denomination	As of December 31, 2006	2005
		(RMB'000)	*(RMB'000)*
Current assets			
Short-term deposits with original maturities of over three months	USD	**—**	503,463
Cash and cash equivalents	USD	**23,701**	9,049
Cash and cash equivalents	HKD	**51,988**	110,195

The Group may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits. The Group has not used any means to hedge the exposure to foreign exchange risk.

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale. However, the amounts of such investments are not significant and management of the Company believes that the exposure is not significant.

Notes to the Financial Statements

For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk

The carrying amount of cash and cash equivalents, trade and other receivables (excluding prepayments), short-term deposit, and amounts due from related parties represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash and short term liquid investments are placed with reputable banks and deposit taking centres operated by the MOR *(see Notes 19 and 32(b) for details)*. No significant credit risk is expected.

The majority of the Group's accounts receivable balances are due from third party customers as a result of rendering services or sales of products. The Group's other receivable balances mainly arise from services other than the main railway transportation services. The Group performs ongoing credit evaluations of its customers/debtors' financial condition and generally does not require collateral from the customers/debtors' account on the outstanding balances. Based on the expected realisability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

(d) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents to meet its current use in operations. Management aims to maintain flexibility in funding by keeping committed credit lines available. In addition, during the year, the Company issued 2,747,987,000 A Shares in the Shanghai Stock Exchange and collected net proceeds of approximately RMB10 billion in order to finance the acquisition of the net assets of Yangcheng Railway *(please see Note 36)*.

(e) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets (except for short term deposits placed with banks and deposit centre of the MOR and the restricted cash balance), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The interest rates and terms of repayment of borrowings of the Group are disclosed in Note 22.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

The critical accounting estimates and assumptions involved in the preparation of the Financial Statements include the estimates of the depreciable lives of fixed assets and the expected service period of employees for the amortisation of deferred employee benefits costs mentioned in Note 2(10).

The estimate of depreciable lives of fixed assets was made by the directors with reference to a technical assessment of the expected usage of such assets; their expected physical wear and tear; results of recent durability assessment performed by industry experts; technical or commercial obsolescence arising from changes or improvements in production of similar fixed assets, the Group's right to renewal of the land use right lease grants on which these assets are located, (please see Note 2(5)) and changes in market demand for, or legal or comparable limits on, the use of such fixed assets. The estimate of expected service period of employees entitled to the deferred housing benefits was made by the directors based on the average age of employees who have joined the Scheme and the historical attrition rate of employees.

(b) Estimated impairment of non-financial assets

The Group tests annually, or when there is any triggering event, whether non-financial assets, mainly including fixed assets, leasehold land payments and investment in associates have suffered any impairment, in accordance with the accounting policy stated in Note 2(8). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

For the impairment assessment made on the realisability of its investment made in an associate, Guangzhou Tiecheng Enterprise Company, the Group estimates the impairment based on the court verdict, consultation made with its PRC legal counsel and support obtained from Guangzhou Railway Group. Details of the estimate are described in Note 11.

(c) Fair value of financial instruments

The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for various available-for-sale financial assets that were not traded in active markets.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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5. COMPARATIVE FIGURES

(a) Change in accounting policy

During the current year, the Company changed its accounting policy in respect of fixed assets from the revaluation model to the historical cost model. The change has been made after consideration of the following factors:

— the railway industry is a specialised industry in the PRC which is controlled by the State government. There is no ready and reliable open market environment. As a result, the Financial Statements prepared under the revaluation basis will not provide relevant and useful information to readers and users of the Financial Statements;

— based on management's research performed on the industry practice, the new policy is more consistent with the local industry practice; and

— historical cost accounting would improve comparability of the state of affairs and operating results of the Group with other industry players.

This change in accounting policy has been accounted for retrospectively, and the comparative Financial Statements have also been restated. The effect of the change is tabulated below:

	2006	2005
	RMB'000	*RMB'000*
Decrease in fixed assets	**(982,268)**	(1,044,686)
Increase in deferred tax asset	**147,340**	156,703
Increase in retained earnings, net of tax	**433,429**	380,374
Decrease in share premium	**(1,268,357)**	(1,268,357)
Decrease in depreciation expense	**62,417**	39,519
Increase in income tax expense	**(9,362)**	(5,927)
Earning per share for profit		
— Basic *(RMB)*	**0.01**	0.01

(b) Certain employee benefit expenses which were recorded within "Utility and office expenses" in the prior year have been reclassified within "Labour and benefits" to conform to the presentation of the income statement in the current year.

(c) Costs incurred directly attributable to the acquisition of net assets of Yangcheng Railway recorded in "Prepayments and other receivables" under current assets in the prior year have been reclassified to form part of "Prepayment and deferred acquisition costs relating to a business combination" under non-current asset to conform to the presentation of the balance sheet in the current year.

(d) Housing fund payable which was recorded within "Accruals and other payables" in the prior year has been reclassified to "Housing fund payable" to conform to the presentation of the balance sheet in the current year.

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6. SEGMENT INFORMATION

(a) Primary reporting format — business segments

As of December 31, 2006, the Group conducts the majority of its business activities in railway transportation ("Railroad Businesses") and other related business operations *(see Note 1)*. These segments are so determined primarily due to the fact that the senior management makes key operating decisions and assesses performance of the segments separately. The accounting policies of the Group's segments are described in the principal accounting policies section in Note 2(3). The Group evaluates performance based on profit from operations.

Segment assets consist primarily of fixed assets, construction-in-progress, leasehold land payments, prepayments for fixed assets, interests in subsidiaries/associates, deferred staff costs, prepayments and other receivables, short-term deposits and cash and cash equivalents, excluding deferred tax assets. Segment liabilities primarily consist of trade payables, payables for construction-in-progress, amounts due to related parties and accruals and other payables, excluding taxes payable and deferred tax liabilities. Capital expenditure comprises additions to fixed assets *(see Note 7)*, construction-in-progress *(see Note 8)* and prepayments for fixed assets.

An analysis by business segment is as follows:

	Railroad Businesses		Other businesses		Unallocated		Elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Segment results	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		Restated *(Note 5)*				Restated *(Note 5)*				Restated *(Note 5)*
Revenues										
— External	**3,465,884**	3,099,466	**128,590**	177,462	**—**	—	**—**	—	**3,594,474**	3,276,928
— Inter-segment	**—**	—	**29,661**	159,503	**—**	—	**(29,661)**	(159,503)	**—**	—
	3,465,884	3,099,466	**158,251**	336,965	**—**	—	**(29,661)**	(159,503)	**3,594,474**	3,276,928
Other income, net	**61,991**	48,531	**2,657**	3,097	**—**	—	**—**	—	**64,648**	51,628
Segment results	**999,968**	808,613	**(34,764)**	(9,788)	**—**	—	**—**	—	**965,204**	798,825
Finance costs	**—**	—	**—**	—	**(15,970)**	(22,738)	**—**	—	**(15,970)**	(22,738)
Share of results of associates	**—**	30	**(28,306)**	(19,979)	**—**	—	**—**	—	**(28,306)**	(19,949)
Income tax expense	**—**	—	**—**	—	**(149,155)**	(110,176)	**—**	—	**(149,155)**	(110,176)
Profit/(loss) for the year	**999,968**	808,643	**(63,070)**	(29,767)	**(165,125)**	(132,914)	**—**	—	**771,773**	645,962

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For the Year Ended December 31, 2006
(All amounts expressed in Renminbi unless otherwise stated)

6. SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format — business segments *(Continued)*

	Railroad Businesses		Other businesses		Unallocated		Elimination		Total	
Segment results	**2006** **RMB'000**	2005 *RMB'000* Restated *(Note 5)*	**2006** **RMB'000**	2005 *RMB'000*	**2006** **RMB'000**	2005 *RMB'000* Restated *(Note 5)*	**2006** **RMB'000**	2005 *RMB'000*	**2006** **RMB'000**	2005 *RMB'000* Restated *(Note 5)*
Other information										
Segment assets	**24,082,977**	11,445,233	**69,299**	218,545	**—**	—	**—**	—	**24,152,276**	11,663,778
Deferred tax assets	**—**	—	**—**	—	**190,843**	192,692	**—**	—	**190,843**	192,692
Total assets									**24,343,119**	11,856,470
Segment liabilities	**3,962,820**	1,789,264	**23,285**	115,388	**—**	—	**—**	—	**3,986,105**	1,904,652
Taxes payable	**—**	—	**—**	—	**127,282**	102,155	**—**	—	**127,282**	102,155
Deferred tax liabilities	**—**	—	**—**	—	**9,802**	4,830	**—**	—	**9,802**	4,830
Total liabilities									**4,123,189**	2,011,637
Capital expenditure	**3,584,388**	2,248,976	**1,048**	9,335	**—**	—	**—**	—	**3,585,436**	2,258,311
Non-cash expenses										
Depreciation	**317,358**	289,185	**2,529**	2,773	**—**	—	**—**	—	**319,887**	291,958
Amortisation of leasehold land payments	**16,776**	15,416	**—**	165	**—**	—	**—**	—	**16,776**	15,581
Amortisation of deferred staff costs	**15,091**	15,090	**—**	—	**—**	—	**—**	—	**15,091**	15,090
Recognition of early retirement benefit	**22,420**	—	**—**	—	**—**	—	**—**	—	**22,420**	—
Provision for doubtful accounts	**(4,331)**	8,550	**16**	1,190	**—**	—	**—**	—	**(4,315)**	9,740

(b) Secondary reporting format — geographical segments

For the year ended December 31, 2006 (2005 — same), all of the Group's business operations are conducted within the PRC. Accordingly, no analysis of geographical segment information is presented.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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7. FIXED ASSETS

	Group						
	Buildings	Leasehold improvements	Tracks, bridges and service roads	Locomotives and rolling stock	Communications and signalling systems	Other machinery and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 5	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*
At January 1, 2005							
Cost, restated	1,454,071	38,500	3,600,161	1,051,648	326,129	1,612,792	8,083,301
Accumulated depreciation, restated	(250,555)	(28,875)	(783,294)	(339,400)	(246,265)	(530,543)	(2,178,932)
Impairment	—	—	—	(14,284)	—	(1,011)	(15,295)
Net book amount, restated	1,203,516	9,625	2,816,867	697,964	79,864	1,081,238	5,889,074
Year ended December 31, 2005							
Opening net book amount, restated	1,203,516	9,625	2,816,867	697,964	79,864	1,081,238	5,889,074
Additions	145,981	—	65,069	28,896	1,326	39,760	281,032
Transfer from Construction-in-progress	388,217	—	2,700	3,301	14,556	121,520	530,294
Reclassifications	(87,677)	—	87,806	—	14	(143)	—
Disposals	(23,250)	—	(28,673)	—	(853)	(8,844)	(61,620)
Depreciation charges, restated	(29,445)	(7,700)	(90,755)	(45,858)	(14,933)	(103,267)	(291,958)
Closing net book amount, restated	1,597,342	1,925	2,853,014	684,303	79,974	1,130,264	6,346,822
At December 31, 2005							
Cost, restated	1,864,120	38,500	3,720,018	1,083,845	339,403	1,730,730	8,776,616
Accumulated depreciation, restated	(266,778)	(36,575)	(867,004)	(385,258)	(259,429)	(599,503)	(2,414,547)
Impairment	—	—	—	(14,284)	—	(963)	(15,247)
Net book amount, restated	1,597,342	1,925	2,853,014	684,303	79,974	1,130,264	6,346,822
Year ended December 31, 2006							
Opening net book amount	1,597,342	1,925	2,853,014	684,303	79,974	1,130,264	6,346,822
Additions	5,563	—	—	306,757	3,812	36,389	352,521
Transfer from Construction-in-progress	371,501	—	—	527	35,012	40,629	447,669
Assets acquired as a result of business combinations	6,007	—	—	—	—	179	6,186
Reclassifications	55,199	—	(57,964)	(611)	(16,987)	20,363	—
Disposals	(33,560)	—	—	—	—	(17,448)	(51,008)
Government grants received	(34,957)	—	—	—	—	(8,869)	(43,826)
Depreciation charges	(75,029)	(1,925)	(81,135)	(60,189)	(8,595)	(93,014)	(319,887)
Closing net book amount	1,892,066	—	2,713,915	930,787	93,216	1,108,493	6,738,477
At December 31, 2006							
Cost	2,245,311	38,500	3,644,108	1,392,654	349,980	1,751,185	9,421,738
Accumulated depreciation	(353,245)	(38,500)	(930,193)	(447,583)	(256,764)	(642,338)	(2,668,623)
Impairment	—	—	—	(14,284)	—	(354)	(14,638)
Net book amount	1,892,066	—	2,713,915	930,787	93,216	1,108,493	6,738,477

Notes to the Financial Statements

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7. FIXED ASSETS *(Continued)*

	Company						
	Buildings	Leasehold improvements	Tracks, bridges and service roads	Locomotives and rolling stock	Communications and signalling systems	Other machinery and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 5	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*
At January 1, 2005							
Cost, restated	1,292,035	38,500	3,569,572	1,051,648	326,070	1,561,616	7,839,441
Accumulated depreciation, restated	(176,455)	(28,875)	(764,284)	(339,400)	(246,247)	(496,756)	(2,052,017)
Impairment	—	—	—	(14,284)	—	(1,011)	(15,295)
Net book amount, restated	1,115,580	9,625	2,805,288	697,964	79,823	1,063,849	5,772,129
Year ended December 31, 2005							
Opening net book amount, restated	1,115,580	9,625	2,805,288	697,964	79,823	1,063,849	5,772,129
Additions	144,315	—	65,069	28,896	1,326	33,966	273,572
Transfer from Construction-in-progress	387,321	—	2,700	3,301	14,556	121,521	529,399
Reclassifications	(87,677)	—	87,806	—	14	(143)	—
Disposals	(10,034)	—	(31,795)	—	(853)	(5,388)	(48,070)
Depreciation charges, restated	(26,776)	(7,700)	(86,960)	(45,858)	(14,930)	(100,241)	(282,465)
Closing net book amount, restated	1,522,729	1,925	2,842,108	684,303	79,936	1,113,564	6,244,565
At December 31, 2005							
Cost, restated	1,714,875	38,500	3,689,429	1,083,845	339,344	1,684,617	8,550,610
Accumulated depreciation, restated	(192,146)	(36,575)	(847,321)	(385,258)	(259,408)	(570,090)	(2,290,798)
Impairment	—	—	—	(14,284)	—	(963)	(15,247)
Net book amount, restated	1,522,729	1,925	2,842,108	684,303	79,936	1,113,564	6,244,565
Year ended December 31, 2006							
Opening net book amount	1,522,729	1,925	2,842,108	684,303	79,936	1,113,564	6,244,565
Additions	1,251	—	—	306,757	3,811	34,660	346,479
Transfer from Construction-in-progress	366,565	—	—	527	35,012	40,628	442,732
Reclassifications	58,088	—	(57,964)	(611)	(16,987)	17,474	—
Disposals	(25,188)	—	—	—	—	(6,048)	(31,236)
Government grants received	(34,957)	—	—	—	—	(8,869)	(43,826)
Depreciation charges	(72,080)	(1,925)	(81,064)	(60,189)	(8,587)	(90,812)	(314,657)
Closing net book amount	1,816,408	—	2,703,080	930,787	93,185	1,100,597	6,644,057
At December 31, 2006							
Cost	2,095,646	38,500	3,613,519	1,392,654	349,821	1,730,936	9,221,076
Accumulated depreciation	(279,238)	(38,500)	(910,439)	(447,583)	(256,636)	(629,985)	(2,562,381)
Impairment	—	—	—	(14,284)	—	(354)	(14,638)
Net book amount	1,816,408	—	2,703,080	930,787	93,185	1,100,597	6,644,057

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7. FIXED ASSETS *(Continued)*

As of December 31, 2006, the ownership certificates of certain buildings ("Building Ownership Certificates") of the Group and the Company with an aggregate carrying value of approximately RMB1,298,350,000 (2005: RMB1,297,947,000) had not been obtained by the Group. After consultation made with the Company's legal counsel, the directors of the Company consider that there is no legal restriction for the Group or the Company to apply for and obtain the Building Ownership Certificates and it should not lead to any significant adverse impact on the operations of the Group or the Company. In addition, the Group has started the application process. Accordingly, no provision for fixed assets impairment was considered necessary.

8. CONSTRUCTION-IN-PROGRESS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At January 1	**1,449,358**	345,313	**1,443,510**	339,723
Additions	**3,304,379**	1,634,339	**3,304,264**	1,633,186
Transfer to fixed assets	**(447,669)**	(530,294)	**(442,732)**	(529,399)
Disposal of a subsidiary	**(911)**	—	**—**	—
At December 31	**4,305,157**	1,449,358	**4,305,042**	1,443,510

The construction-in-progress of the Group represents plant and facilities, mainly including the construction related costs for the fourth railway line of the Group under construction. For the year ended December 31, 2006, approximately RMB24,903,000 (2005: Nil) of interest expenses were capitalised in the construction-in-progress balance. A capitalisation rate of 5.83% (2005: Nil) per annum was used to determine the amount of borrowing costs eligible for capitalisation.

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9. LEASEHOLD LAND PAYMENTS

	Group	Company
	RMB'000	*RMB'000*
At January 1, 2005		
Cost	770,774	750,710
Accumulated amortization	(134,395)	(133,152)
Net book amount	636,379	617,558
Year ended December 31, 2005		
Opening net book amount	636,379	617,558
Amortisation charges	(15,581)	(15,002)
Closing net book amount	620,798	602,556
At December 31, 2005		
Cost	770,774	750,710
Accumulated amortization	(149,976)	(148,154)
Net book amount	620,798	602,556
Year ended December 31, 2006		
Opening net book amount	620,798	602,556
Additions	21,879	—
Amortisation charges	(16,776)	(15,001)
Disposal of a subsidiary	(273)	—
Closing net book amount	625,628	587,555
At December 31, 2006		
Cost	792,654	750,710
Accumulated amortization	(167,026)	(163,155)
Net book amount	625,628	587,555

Notes to the Financial Statements

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9. LEASEHOLD LAND PAYMENTS *(Continued)*

As of December 31, 2006, land use right certificates ("Land Certificates") of certain parcels of land of the Group and the Company with an aggregate area of approximately 1,733,987 square meters (2005: 3,450,962 square meters) had not been obtained. After consultation made with the Company's legal counsel, the directors consider that there is no legal restriction for the Group or the Company to apply for and obtain the Land Certificates and it should not lead to any significant adverse impact on the operations of the Group or the Company. In addition, the Group has started the application process. Accordingly, no provision for impairment was considered necessary.

10. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted shares, at cost	**105,347**	162,992
Less: provision for impairment in value *(Note a)*	**(10,459)**	—
Due from subsidiaries	**10,165**	13,854
	105,053	176,846

The amounts due from subsidiaries were unsecured, interest free and had no fixed repayment terms.

Note a: The provision for impairment loss recorded at the Company level as of December 31, 2006 represents the cumulative share of losses incurred by such subsidiaries up to December 31, 2006. As of December 31, 2006, the directors consider that the impact of the disposal process did not bear any material impact on the Financial Statements as a whole.

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10. INTERESTS IN SUBSIDIARIES *(Continued)*

(i) As of December 31, 2006, the Company had direct or indirect interests in the following principal subsidiaries which were incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-in capital	Principal activities
Directly held by the Company				
Shenzhen Railway Station Passenger Services Company	December 18, 1986	100%	RMB1,500,000	Catering services and sales of merchandise
Shenzhen Fu Yuan Enterprise Development Company ("Fu Yuan")	November 1, 1991	100%	RMB18,500,000	Hotel management
Dongguan Changsheng Enterprise Company	May 22, 1992	51%	RMB38,000,000	Warehousing
Guangzhou East Station Dongqun Trade and Commerce Service Company	November 23, 1992	100%	RMB1,020,000	Sales of merchandise
Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company	September 11, 1993	55%	RMB10,000,000	Cargo loading and unloading, warehousing, freight transportation
Shenzhen Jing Ming Industrial & Commercial Company Limited	January 18, 1994	100%	RMB2,110,000	Maintenance of water and electrical equipment
Guangzhou Tielian Economy Development Company Limited ("Tielian") *(Note b)*	December 27, 1994	50.50%	RMB1,000,000	Warehousing and freight transport agency services
Shenzhen Guangshen Railway Travel Service Ltd.	August 16, 1995	100%	RMB2,400,000	Travel agency

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10. INTERESTS IN SUBSIDIARIES *(Continued)*

(i) *(Continued)*

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-in capital	Principal activities
Indirectly held by the Company				
Shenzhen Road Multi-modal Transportation Company Limited	March 17, 1994	60%	RMB1,000,000	Freight transportation
Shenzhen Nantie Construction Supervision Company	May 8, 1995	100%	RMB2,000,000	Supervision of construction projects
Shenzhen Yuezheng Enterprise Company Limited	June 24, 1996	100%	RMB1,000,000	Freight transport agency, cargo loading and unloading, warehousing
Shenzhen Railway Property Management Company Limited	November 13, 2001	100%	RMB3,000,000	Property management
Shenzhen Guangshen Railway Economic and Trade Enterprise Company	March 7, 2002	100%	RMB2,000,000	Catering management

Note b: On January 17, 2006, the Company acquired an additional 16.5% equity interest in Tielian from a third party. As a result the total equity interests increased from 34% to 50.5%, and Tielian became a subsidiary of the Company from then onward.

All the above subsidiaries are limited liability companies.

(ii) Subsidiary disposed

On June 13, 2006, the Company and Fu Yuan (the Company's wholly-owned subsidiary) signed equity transfer agreements with Guangzhou Railway Economic and Technology Development Group Company ("Economic and Technology Company), separately. The Company and Fu Yuan transferred 41% and 10% equity interest in Shenzhen Guangshen Railway Civil Engineering Company ("SZ Civil Engineer") to the Economic and Technology Company, separately. The total consideration of these agreements is RMB35,224,400. Upon the completion of the disposal, the equity interest held by the Group decreased from 100% to 49% and the results of SZ Civil Engineer has not been consolidated in the Group's Financial Statements from then onwards.

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11. INTERESTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**210,455**	170,814
Share of net assets	**152,209**	137,578	**—**	—
Less: provision for impairment in value *(Note a)*	**(29,689)**	(29,689)	**(92,711)**	(65,738)
Interest in associates, net	**122,520**	107,889	**117,744**	105,076
Due from associates	**12,312**	12,423	**12,312**	12,413
Less: provision for doubtful accounts *(Note a)*	**(12,312)**	(12,312)	**(12,312)**	(12,312)
	—	111	**—**	101
Due to associates	**(29,686)**	—	**(29,686)**	—
	92,834	108,000	**88,058**	105,177

The movement of interests in associates of the Group and Company during the year is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**107,889**	127,838	**105,076**	139,825
Additions — cost	**45,891**	—	**39,640**	1,300
Less: provision for impairment in value	**—**	—	**(26,972)**	(36,049)
Share of results after tax	**(28,306)**	(19,949)	**—**	—
Disposal	**(2,954)**	—	**—**	—
End of the year	**122,520**	107,889	**117,744**	105,076

Note a:

The provision at the Group level as of December 31, 2006 represents (i) provision for full impairment losses in investment in Zengcheng Lihua Stock Company Limited ("Zengcheng Lihua") at approximately RMB29,700,000 and (ii) full impairment loss provision against a receivable balance due from Zengcheng Lihua at approximately RMB12,300,000. Both provisions (the "Zengcheng Lihua Provision") were brought forward from prior years.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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11. INTERESTS IN ASSOCIATES *(Continued)*

Note a: (Continued)

The provision balance at the Company level as of December 31, 2006 includes the Zengcheng Lihua Provision and provision for impairment loss of the Company's investment in Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng") amounting to approximately RMB 63,000,000, representing the cumulative equity share of losses incurred by Tiecheng up to December 31, 2006.

As of December 31, 2006, the Company had direct or indirect interests in the following companies which were incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Registered capital amount of the associate	Principal activities
Directly held by the Company				
SZ Civil Engineer *(Note 10(ii))*	March 1, 1984	49%	RMB55,000,000	Construction of railroad properties
Zengcheng Lihua	July 30, 1992	27%	RMB100,000,000	Real estate construction, provision of warehousing, cargo uploading and unloading services
Tiecheng *(Note b)*	May 2, 1995	49%	RMB245,000,000	Properties management and trading of merchandise
Indirectly held by the Company				
Guangzhou Huangpu Yuehua Freight Transportation Joint Venture Company Limited	July 20, 1990	33.3%	RMB6,610,000	Cargo loading and unloading, warehousing, freight transport agency services

All the above associates are limited liability companies.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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11. INTERESTS IN ASSOCIATES *(Continued)*

The Group's share of the results with its percentage ownership of its principal associates, and its share of the related assets and liabilities are as follows:

	Assets	Liabilities	Revenues	Profit/(Loss)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2005				
Tiecheng	152,499	48,648	2,534	(19,979)
Tielian	3,488	287	1,253	30
	155,987	48,935	3,787	(19,949)
2006				
Tiecheng	184,428	93,560	2,899	(26,973)
Shentu	77,689	72,760	90,092	1,509
	262,117	166,320	92,991	(25,464)

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For the Year Ended December 31, 2006
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11. INTERESTS IN ASSOCIATES *(Continued)*

Note b:

As indicated above, the carrying amount of the Company's investment in Tiecheng as of December 31, 2006 was approximately RMB90,868,000.

In 1996, Tiecheng and a third party company jointly established a sino-foreign contractual joint venture, Guangzhou Guantian Real Estate Company ("Guangzhou Guantian"), in Guangzhou for developing certain properties near a railway station operated by the Group. In 2000, Guangzhou Guantian together with two other parties, namely Guangzhou Guanhua Real Estate Company Limited ("Guangzhou Guanhua") and Guangzhou Guanyi Real Estate Company Limited ("Guangzhou Guanyi"), agreed to act as joint guarantors (collectively the "Guarantors") for certain payable balances (the "Payables") due from Guangdong Guancheng Real Estate Company Limited ("Guangdong Guancheng") to a third party creditor (the "Creditor").

Guangzhou Guantian, Guangzhou Guanhua, Guangzhou Guanyi and Guangdong Guancheng are related companies to the extent that they have one common chairman. Guangdong Guancheng has failed to settle the Payables, as a result, the Guarantors were found to be jointly liable to the Creditor an amount of approximately RMB257,000,000 plus accrued interest (collectively the "Damages") according to a court verdict made in 2001 (the "Verdict"). In the case that Guangzhou Guantian had to honour its joint obligation to settle the Damages, the carrying value of the Company's investment in Tiecheng would have been further impaired.

In 2003, Guantian applied to the People's High Court of Guangdong Province (the "High Court") for a re-trial to discharge its obligation under the aforesaid guarantee. In 2005, the People's Supreme Court of Guangdong Province granted an order for the High Court to launch such a re-trial and certain preparatory procedures were undertaken by the High Court. Two trials were held by the High Court, on November 14, 2006 and December 25, 2006 respectively, but no judgement had yet been made as at the date of approval of these Financial Statements. After consultation made with its PRC legal counsel, the directors are of the opinion that there is a high possibility that the above guarantee arrangement would be determined to be invalid according to the relevant rules and regulations of the PRC. Management has determined that no provision for impairment loss of the Company's 49% interest in Tiecheng is required on the basis that the estimated fair value of the properties exceeds the carrying value. In addition, in order to avoid any monetary losses that the Company might suffer arising from this outstanding legal proceeding, the Company has also obtained a letter of undertaking issued by the Guangzhou Railway Group dated December 14, 2004, whereby the Guangzhou Railway Group has undertaken to adopt relevant procedures and actions to ensure that the investment interests of the Company in Tiecheng would not be adversely affected by this outstanding proceeding.

Notes to the Financial Statements

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12. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**46,108**	167,962	**46,108**	167,962
Disposals	**—**	(121,854)	**—**	(121,854)
End of the year	**46,108**	46,108	**46,108**	46,108

The Company's ownership in the equity interests in each of these investments is less than 10%. The directors of the Company are of the opinion that no quoted market price in an active market is available for these investments and their fair values cannot be reliably measured by alternative valuation methods. In accordance with the provisions under IFRS, the above non-current available-for-sale investments were carried at cost subject to review for impairment loss. As of December 31, 2006, no impairment provision was considered necessary by the directors to write down the carrying amounts of these investments.

13. DEFERRED TAX ASSETS/LIABILITIES

Deferred income taxes are calculated in full on temporary differences under the liability method using the applicable tax rates for the respective companies affected.

	Group and Company	
	2006	2005
	RMB'000	*RMB'000*
		(Restated)
		Note 5
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**175,700**	183,329
— Deferred tax assets to be recovered within 12 months	**15,143**	9,363
	190,843	192,692
Deferred tax liabilities:		
— Deferred tax liabilities to crystallise after more than 12 months	**9,802**	4,830

Notes to the Financial Statements

For the Year Ended December 31, 2006
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13. DEFERRED TAX ASSETS/LIABILITIES *(Continued)*

The movement in deferred tax assets and liabilities of the Group and the Company during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Group and Company				
	At January 1, 2005	Credited to the income statement	At 31 December 2005	(Charged)/ Credit to the income Statement	At 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)		
	Note 5	*Note 5*	*Note 5*		
Deferred tax assets:					
Provision for doubtful debts	10,463	3,627	14,090	185	14,275
Impairment provision for fixed assets	2,946	—	2,946	(750)	2,196
Impairment provision for interests in associates	4,453	—	4,453	—	4,453
Adjustments made to carrying value of fixed assets	162,630	5,229	167,859	572	168,431
Others	544	2,800	3,344	(1,856)	1,488
	181,036	11,656	192,692	(1,849)	190,843

	Group and Company				
	At 1 January 2005	Charged to the income statement	At 31 December 2005	Charged to the income Statement	At 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)		
	Note 5	*Note 5*	*Note 5*		
Deferred tax liabilities:					
Capitalisation of replacement costs of rail-line track assets	—	4,830	4,830	(66)	4,764
Difference on deferral of acquisition cost	—	—	—	3,082	3,082
Difference on capitalisation of interest expense	—	—	—	1,956	1,956
	—	4,830	4,830	4,972	9,802

Notes to the Financial Statements

For the Year Ended December 31, 2006
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14. DEFERRED STAFF COSTS

	Group and Company	
	2006	2005
	RMB'000	*RMB'000*
At January 1		
Cost	**226,369**	226,369
Accumulated amortization	**(90,548)**	(75,458)
Net book amount	**135,821**	150,911
Year ended December 31,		
Opening net book amount	**135,821**	150,911
Amortization	**(15,091)**	(15,090)
Closing net book amount	**120,730**	135,821
At December 31,		
Cost	**226,369**	226,369
Accumulated amortization	**(105,639)**	(90,548)
Net book amount	**120,730**	135,821

15. MATERIALS AND SUPPLIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Train compartment materials	**34,331**	34,420	**34,331**	34,420
Reusable rail-line track materials	**8,532**	8,708	**8,532**	8,708
Track and track diversion joints materials	**6,849**	4,735	**6,849**	4,735
Construction materials	**—**	4,579	**—**	—
Locomotive materials	**5,949**	4,063	**5,949**	4,063
Electrical materials	**2,770**	2,909	**2,770**	2,909
Others	**8,536**	5,539	**5,618**	2,898
	66,967	64,953	**64,049**	57,733

The costs of materials and supplies consumed of the Group were recognised as "operating expenses" amounting to approximately RMB351,331,000 (2005: RMB387,151,000). As of December 31, 2006, there were no inventories stated at net realisable value.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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16. TRADE RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**71,614**	116,877	**69,292**	17,234
Less: Provision for doubtful accounts	**(8,745)**	(10,484)	**(8,712)**	(9,229)
	62,869	106,393	**60,580**	8,005

The credit period of trade receivables is generally within one year. As of December 31, 2006 and 2005, the aging analysis of trade receivables was as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**62,769**	101,729	**60,481**	7,944
Over 1 year but within 2 years	**100**	4,645	**99**	47
Over 2 years but within 3 years	**—**	19	**—**	14
	62,869	106,393	**60,580**	8,005

Concentration of credit risk with respect to trade receivables is low due to the fact that the Group has a large number of customers, which are widely dispersed. Accordingly, management believes that there is no additional credit risk beyond the amount already provided for expected collectibility losses.

As of December 31, 2006, the carrying amounts of the above trade receivables approximated to their fair values.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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17. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables	**156,072**	211,969	**150,817**	196,793
Less: Provision for doubtful accounts *(Note a)*	**(60,441)**	(71,717)	**(59,927)**	(71,717)
Other receivables, net	**95,631**	140,252	**90,890**	125,076
Prepayments	**3,005**	30,355	**2,884**	25,869
	98,636	170,607	**93,774**	150,945

Note a: Included in the balance was a doubtful debt provision of approximately RMB31,365,000 set up by the Company in prior years in order to provide for potential recoverability losses associated with a deposit at a principal balance of the same amount ("the Deposit"). The Deposit was placed with a deposit-taking agency, Zeng Cheng City Li Cheng Credit Cooperative ("Li Cheng") and the Company has been unable to recover it from Li Cheng upon maturity. The Company has initiated several legal proceedings to enforce the recovery but without success. Accordingly, a full doubtful debt provision had been made.

Other receivables mainly represent miscellaneous deposits and receivables arising during the course of the provision of non railway transportation services by the Group. Prepayments mainly represent amounts paid in advance to the suppliers for utilities and other operating expenses of the Group.

18. RESTRICTED CASH

Restricted cash represents an employee housing fund that the Company has specifically set up pursuant to applicable government policies and regulations for the benefits of its employees *(see Note 26(b))*. The Company is responsible to administer the fund on behalf of them. Appropriations at 7% of the aggregate salaries of the employees residing in the Guangzhou area or along the Guangzhou-Shenzhen rail-line route, and 13% of the aggregate salaries of the employees residing in the Shenzhen area, are made to the fund. The funds collected have been deposited in designated bank accounts under the names of the company for the respective employees. The Company does not have any right to use the funds for other purposes except for making housing welfare payments upon requests made from the respective employees.

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19. SHORT-TERM DEPOSITS

Short-term deposits with original maturities ranging from three months to one year are held for investment purposes and are stated at amortised cost.

		Group and Company	
		2006	2005
	Note	***RMB'000***	*RMB'000*
Time deposits with maturities over three months in banks	*(a)*	**—**	598,131
Time deposits with maturities over three months in the deposit-taking centre of MOR ("MOR Depositing-taking Centre")	*(b)*	**169,739**	168,000
		169,739	766,131

(a) In 2006, time deposits with maturities over three months in banks consist of short-term deposits denominated in RMB, HKD, and USD (2005: RMB, HK$, USD) with original maturities of six months placed with banks in the PRC. The annual interest rates of these deposits are 2.07% for RMB deposits (2005: 2.07%); 1.2% for HK$ deposits (2005: 1.2%); and LIBOR for USD deposits (2005: LIBOR minus of maximum floating rate of 0.2%). Total interest income derived from these deposits amounted to approximately RMB13,056,857 (2005: RMB7,968,000).

(b) Time deposits with maturities over three months were maintained in the MOR Deposit-taking Centre, which has been licensed by the People's Bank of China to engage in deposit taking activities in the PRC for companies under its control. The balances consist of short-term deposits denominated in RMB (2005: RMB) with original maturities of six months (2005: six months). The annual interest rate is 2.07% in 2006 (2005: 2.07%). Total interest income derived from these deposits amounted to approximately RMB3,496,000 (2005: approximately RMB2,885,000) for the year ended December 31, 2006 *(see also Note 35(b))*.

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20. SHARE CAPITAL

As of December 31, 2006, the total authorised number of ordinary shares is 7,083,537,000 shares (2005: 4,335,550,000 shares) with a par value of RMB1.00 per share (2005: RMB1.00 per share).

	2006			2005		
	Number of shares	**Nominal value**	**Percentage of share capital**	Number of shares	Nominal value	Percentage of share capital
	'000	***RMB'000***		*'000*	*RMB'000*	
Authorised, issued and fully paid:						
State-owned domestic shares	**2,904,250**	**2,904,250**	**41%**	2,904,250	2,904,250	67%
H shares	**1,431,300**	**1,431,300**	**38.8%**	1,431,300	1,431,300	33%
A shares	**2,747,987**	**2,747,987**	**20.2%**	—	—	—
	7,083,537	**7,083,537**	**100%**	4,335,550	4,335,550	100%

In December 2006, the Company issued 2,747,987,000 A shares on the Shanghai Stock Exchange through an initial public offering at RMB3.76 per share, resulting in the receipt net proceeds of approximately RMB10 billion. The issuance is for the financing of the acquisition of net assets of Yangcheng Railway relating to its railway transportation business *(please see Note 36)*.

21. RESERVES

According to the provisions of the articles of association of the Company, the Company shall first set aside 10% of its profit attributable to shareholders after tax as indicated in the Company's statutory Financial Statements for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered share capital) in each year. The Company may also make appropriations from its profit attributable to shareholders to a discretionary surplus reserve provided it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from the shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good for any losses of the Company from previous years, the current year profit attributable to shareholders shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve.

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21. RESERVES *(Continued)*

The statutory surplus reserve, the discretionary surplus reserve and the share premium account may be converted into share capital of the Company provided it is approved by a resolution passed in a shareholders' general meeting with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital amount. The Company may either allot newly created shares to the shareholders at the same proportion of the existing number of shares held by these shareholders, or it may increase the par value of each share.

For the years ended December 31, 2006 and 2005, the directors proposed the following appropriations to reserves of the Company:

		2006		2005
	Percentage	***RMB'000***	Percentage	*RMB'000*
Statutory surplus reserve	**10%**	**71,469**	10%	61,060
Statutory public welfare fund *(Note a)*	**—**	**—**	5%	30,530
		71,469		91,590

Note a: Pursuant to the Notice of Caiqi [2006]67 dated March 15, 2006 issued by the Ministry of Finance, the statutory public welfare fund is no longer to be provided with effect from January 1, 2006, and the balance of the statutory public welfare fund was transferred to the statutory surplus reserve by the Company.

In accordance with the provisions of the articles of association of the Company, the profit after appropriation to reserves and available for distribution to shareholders shall be the lower of the retained earnings determined under (a) PRC GAAP, (b) IFRS and (c) the accounting standards of the countries in which its shares are listed. Due to the fact that the Statutory Financial Statements of the Company have been prepared in accordance with PRC GAAP, the retained earnings so reported may be different from those reported in the statement of changes in shareholders' equity prepared under IFRS contained in these financial statements.

As of December 31, 2006, the reserve of the Company available for distribution to the shareholders was approximately RMB1,250,854,000 (2005: approximately RMB1,088,684,000 as restated).

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22. BORROWINGS

	Group and Company	
	2006	2005
	RMB'000	*RMB'000*
Bank borrowings		
— Unsecured	**1,860,000**	—

The borrowing is obtained specifically for the construction of a fourth rail-line of the Group. The carrying amounts of the Group's borrowings are all denominated in RMB.

The maturity of these borrowings is as follows:

	Group and Company	
	2006	2005
	RMB'000	*RMB'000*
Within 2 to 5 years*	**1,860,000**	—

** The maturity dates of all the borrowings are in 2011.*

The interest rate exposure of the borrowings of the Group is as follows:

	Group and Company	
	2006	2005
	RMB'000	*RMB'000*
At floating rates (Relevant official rates of interest minus a maximum range of 10%)	**1,860,000**	—

The effective interest rate of the bank borrowings as of December 31, 2006 was 5.83% p.a. (2005: Nil).

As of December 31, 2006, the carrying amounts of the Group's borrowings approximate their fair values.

As of December 31, 2006, the Group had RMB4,900,000,000 unutilized banking facilities granted (2005: approximately RMB8,100,000,000).

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For the Year Ended December 31, 2006
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23. EARLY RETIREMENT OBLIGATIONS

	Group and Company 2006 *RMB'000*
At January 1	—
Addition	22,420
At December 31	22,420

	Group and Company 2006 *RMB'000*
Early retirement obligation	22,420
Less: current portion included in accruals and other payables	(5,503)
	16,917

Pursuant to an early retirement scheme implemented by the Group in 2006, certain employees who meet certain specified criteria were provided with an offer to early retirement and enjoy certain early retirement benefits, such as payments of the basic salary and other fringe benefits, offered by the Group, until they reach the statuory retirement age. Under the terms of the scheme, all applications are subject to the approval of the Group. Expenses incurred on such employee early retirement benefits have been recognised in the income statement when the Group approved such application from the employees. The specific terms of these benefits vary among different employees, depending on their position held, tenure of service and employment location.

Where the obligation does not fall due within twelve months, the obligation payable has been discounted using a pre-tax rate that reflects management's current market assessment of the time value of money and risk specific to the obligation (the discount rate was determined with reference to market yields at the balance sheet date on high quality investments in the PRC).

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24. TRADE PAYABLES

The aging analysis of trade payables was as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**238,381**	114,651	**233,311**	65,301
Over 1 year but within 2 years	**1,875**	3,696	**1,875**	1,123
Over 2 years but within 3 years	**78**	360	**78**	14
	240,334	118,707	**235,264**	66,438

25. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advance for construction projects carried out for customers	**38,484**	113,038	**36,024**	91,397
Accrued expenses	**21,541**	23,941	**21,474**	23,905
Salary and welfare payables	**28,075**	17,872	**25,525**	17,176
Other payables	**321,541**	183,656	**359,563**	196,679
	409,641	338,507	**442,586**	329,157

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26. LABOUR AND BENEFITS

	2006	2005
	RMB'000	*RMB'000*
Wages and salaries	**570,049**	477,799
Provision for staff welfare and bonus	**71,451**	71,391
Contributions to a defined contribution pension scheme *(a)*	**62,274**	52,949
Contributions to the housing scheme *(b)*	**29,142**	23,941
Medical and other employee benefits	**13,318**	14,845
Amortisation of deferred staff cost	**15,091**	15,090
Early retirement obligations *(Note 23)*	**22,420**	—
	783,745	656,015

(a) Pension scheme

All the full-time employees of the Group are entitled to a pension equal to their basic salaries beginning at their retirement dates until death from a statutory pension scheme. A government agent is responsible for honouring the pension liabilities relating to such retired staff and the obligation of the Group is limited to making the monthly contributions to the scheme, computed at 18% of the standard salary set by the provincial government. The Group has no further legal or constructive obligation to the pension costs beyond making its monthly contribution.

(b) Housing scheme

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored Housing Fund at 7% or 13% of the specific salaries of the employees. At the same time, the employees are also required to make a contribution at 7% or 13% of the specific salaries out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances *(please see Note 18)*. The Group have no further legal or constructive obligation for housing benefits beyond the above contributions made.

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26. LABOUR AND BENEFITS *(Continued)*

(c) Directors' and senior management's emoluments

The remuneration of every Director, Supervisor and Senior Management personnel for the year ended December 31, 2006 is set out below:

Unit: RMB

	2006						2005
Name of Director	Fees	Salary	Bonus	Employer's contribution to pension scheme	Other benefit	Total	Total
Directors							
Wu, JunGuang	18,000	—	—	—	—	18,000	15,500
Yang, JinZhong	12,000	30,657	281,934	6,405	9,306	340,302	104,035
Wu, HouHui	12,000	—	—	—	—	12,000	11,000
Wen, WeiMing	12,000	—	—	—	—	12,000	11,000
Chang Loong Cheong	143,033	—	—	—	—	143,033	136,080
Deborah Kong	143,033	—	—	—	—	143,033	136,080
Wilton Chau Chi Wai	143,033	—	—	—	—	143,033	136,080
Cao, JianGuo	6,000	—	—	—	—	6,000	—
Yang, YiPing	9,000	19,553	239,222	6,316	7,052	281,143	—
Li, KeLie*	9,000	7,578	99,143	2,544	2,400	120,665	334,952
Li, Peng*	5,000	7,380	158,552	2,416	2,373	175,721	107,180
Li, QingYun*	5,000	6,456	194,437	1,973	2,232	210,098	265,650
Hu, LingLing*	6,000	—	—	—	—	6,000	11,000

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26. LABOUR AND BENEFITS *(Continued)*

(c) Directors' and senior management's emoluments *(Continued)*

	2006						2005
Name of Director	Fees	Salary	Bonus	Employer's contribution to pension scheme	Other benefit	Total	Total
Supervisors							
Yao, MuMing	12,000	—	—	—	—	12,000	11,000
Chen, YunZhong	10,000	32,745	262,408	6,908	9,870	321,931	262,488
Wang, JianPing	10,000	30,273	263,131	6,473	9,600	319,477	260,508
Li, ZhiMing	12,000	—	—	—	—	12,000	6,000
Li, Jin	6,000	—	—	—	—	6,000	78,540
Chen, RuiXing	6,000	—	—	—	—	6,000	—
Chen, YongBao*	6,000	—	—	—	—	6,000	11,000
Tang, DingHong*	5,000	7,740	98,565	2,640	2,424	116,369	318,972
Senior Mangement							
Wu, WeiMin	10,000	31,441	284,794	6,704	9,648	342,587	—
Han, Dong	10,000	29,152	263,742	5,966	9,342	318,202	218,437
Yao, XiaoCong	10,000	32,277	304,419	6,820	9,756	363,272	199,194
Sun, Tao	10,000	6,342	165,005	1,799	2,079	185,225	207,650
Guo, XiangDong	10,000	28,324	243,701	6,105	9,210	297,340	148,260
Luo, QingMing	—	6,870	4,152	2,176	2,295	15,493	175,064
Luo, JianCheng	10,000	1,718	90,052	189	747	102,706	—

* *Such directors and supervisors have resigned from the positions from April 2006.*

No directors and senior management waived or agreed to waive any emoluments during the year.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2005: three) director, two (2005: two) supervisors and two (2005: none) senior management personnel whose emoluments are reflected in the analysis presented above.

During the year, no emoluments (2005: Nil) were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments paid to the five highest paid individuals are all to directors and supervisors of the Company (2005: same). The emolument range is in the band of Nil to HK$1,000,000 (equivalent to RMB1,004,700) (2005: same).

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For the Year Ended December 31, 2006
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27. FINANCE COSTS

	2006	2005
	RMB'000	*RMB'000*
Interest expenses on bank borrowings	24,903	—
Less: interest capitalized as construction-in-progress *(Note 8)*	(24,903)	—
Interest expenses incurred for current account balances maintained with related parties wholly repayable within five years	1,745	654
Bank charges	546	323
Net foreign exchange losses *(Note 3(a))*	13,679	21,761
	15,970	22,738

28. INCOME TAX EXPENSE

Enterprises established in the Shenzhen Special Economic Zone of the PRC are subject to income tax at a reduced preferential rate of 15% as compared with the standard income tax rate for PRC companies of 33%. The Shenzhen Municipal Tax Bureau confirmed that entitlement of the Company in 1996 and the preferential rate has been applied from that year onwards. Accordingly, the enacted income tax rate of the Company for the year ended December 31, 2006 is 15% (2005 — same).

According to the relevant income tax laws of the PRC, the subsidiaries of the Group are subject to income tax rates of 15% or 33%, mainly depending on the places of incorporation/establishment.

On March 16, 2007, the National People's Congress approved the new Corporate Income Tax Law of the PRC, which is effective from January 1, 2008. Please see Note 37.

An analysis of the current year taxation charges is as follows:

	2006	2005
	RMB'000	*RMB'000*
		(Restated)
		(Note 5)
Current income tax	142,334	117,002
Deferred income tax *(Note 13)*	6,821	(6,826)
	149,155	110,176

Notes to the Financial Statements

For the Year Ended December 31, 2006
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28. INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2006	2005
	RMB'000	*RMB'000*
		(Restated)
		(Note 1(d))
Profit before tax	**920,928**	756,138
Tax calculated at the statutory rate of 15% (2005: 15%)	**138,139**	113,421
Tax effect of expenses that are not deductible in determining taxable profit:		
Effect of different tax rates of certain subsidiaries	**1,495**	1,111
Tax losses for which no deferred tax asset was recognised	**4,284**	2,992
Expenses not deductible for tax purposes	**5,237**	4,944
Provision of deferred tax for adjustments made to carrying value of fixed assets	**—**	(12,292)
Income tax expense	**149,155**	110,176

The weighted average applicable tax rate was 16.2% (2005: 14.6%).

29. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year was approximately RMB763,556,000 (2005: RMB633,161,000, restated).

30. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of approximately RMB771,513,000 (2005: RMB646,960,000, restated), divided by the weighted average number of ordinary shares outstanding during the year of 4,418,427,000 shares (2005: 4,335,550,000 shares). There were no dilutive potential ordinary shares as at the year end.

31. DIVIDENDS

	2006	2005
	RMB'000	*RMB'000*
Final, proposed, of RMB0.08 (2005: RMB0.12) per ordinary share	**566,683**	520,266

Notes to the Financial Statements

For the Year Ended December 31, 2006
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31. DIVIDENDS *(Continued)*

At a meeting of the directors held on April 19, 2007, the directors proposed a final dividend of RMB0.08 per ordinary share for the year ended December 31, 2006. This proposed dividend has not been reflected as a dividend payable in the Financial Statements, but will be reflected as an appropriation of retained earnings for the year ended December 31, 2007.

32. CASHFLOW GENERATED FROM OPERATIONS

(a) Reconciliation from profit attributable to shareholders to cash generated from operations:

	2006	2005
	RMB'000	*RMB'000*
		(Restated)
		Note 5
Profit before income tax:	**920,928**	756,138
Adjustments for:		
Depreciation of fixed assets *(Note 7)*	**319,887**	291,958
Amortisation of leasehold land payments *(Note 9)*	**16,776**	15,581
Loss on disposal of fixed assets	**8,414**	23,385
Amortisation of deferred staff costs *(Note 14)*	**15,091**	15,090
Share of losses of associates *(Note 11)*	**28,306**	19,949
(Reversal)/provision for doubtful accounts *(Notes 16, 17)*	**(4,315)**	9,740
Interest expenses	**1,745**	654
Interest income	**(30,735)**	(53,409)
Operating profit before working capital changes	**1,276,097**	1,079,086
Decrease in trade receivables	**45,263**	5,198
Increase in materials and supplies	**(2,014)**	(4,351)
Decrease in prepayments and other current assets	**5,963**	31,286
Increase in restricted cash	**(60,061)**	(48,787)
(Increase)/decrease in due from related parties	**(46,556)**	54,792
Decrease in due from associates	**111**	398
Increase in trade payables	**121,627**	81,571
Increase in early retirement obligations *(Note 23)*	**22,420**	—
Increase in due to associates	**29,686**	—
(Decrease)/increase in due to related parties	**(287,271)**	199,838
Increase in housing fund payable	**60,061**	48,787
Increase in accrued expenses and other payables	**65,632**	23,707
Cash generated from operations	**1,230,958**	1,471,525

Notes to the Financial Statements

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32. CASHFLOW GENERATED FROM OPERATIONS

(b) Analysis of the balance of cash and cash equivalents

	2006	2005
	RMB'000	RMB'000
Cash at the MOR Deposit-taking Centre *(Note i)*	25,786	628,746
Cash at bank and in hand	5,406,045	113,382
Short-term deposits with maturities no more than three months *(Note ii)*	420,000	370,000
	5,851,831	1,112,128

Notes:

i. The amount of approximately RMB25,786,000 (2005: RMB628,746,000) was deposited with the MOR Deposit-taking Centre at an annual interest rate of 0.72% (2005: 0.72%), which is commensurate with the prevailing interest rates offered by banks in the PRC.

ii. Short term time deposits with maturities no more than three months consist of deposits denominated in RMB. The effective interest rate of RMB deposits is 1.665% (2005: 1.71%). These deposits have an average maturity of 90 days.

33. CONTINGENCY

There were no significant contingent liabilities as at the date of approval of these Financial Statements.

34. COMMITMENTS

(a) Capital commitments *(except for 34(b))*

As of December 31, 2006, the Group had the following capital commitments which are authorized but not contracted for, and contracted but not provided for:

	2006	2005
	RMB'000	RMB'000
Authorised but not contracted for	1,384,287	3,985,253
Contracted but not provided for	3,137,581	3,331,311

A substantial amount of these commitments is related to the construction of the fourth rail-line of the Company ("Fourth Rail-Line") and purchase of new locomotives.

Notes to the Financial Statements

For the Year Ended December 31, 2006
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34. COMMITMENTS *(Continued)*

(b) Capital commitments relating to the acquisition of net assets of Yangcheng Railway

Please refer to Note 36 for details.

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases were as follows:

	2006	2005
	RMB'000	*RMB'000*
Machinery and equipment		
— not more than one year	**69,673**	75,375
— more than one year but not more than five years	**—**	—
	69,673	75,375

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) The Group has the following material related parties:

Name of related parties	**Relationship with the Company**
Major shareholder and fellow subsidiaries *(Note a)*	
Guangzhou Railway (Group) Company	Major shareholder
Guangzhou Railway Group Yang Cheng Railway Company ("Yangcheng Railway")	Subsidiary of the major shareholder
Guangmeishan Railway Company Limited ("Guangmeishan")	Subsidiary of the major shareholder
Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company (the Predecessor as defined in Note 1, "GEDC")	Subsidiary of the major shareholder
Guangzhou Railway Material Supply Company	Subsidiary of the major shareholder
Guangzhou Railway Engineer Construction Enterprise Development Company ("Engineer Construction Enterprise")	Subsidiary of the major shareholder
Guangzhou Guangtie Huake Technology Service Company ("Guangtie Huake")	Subsidiary of the major shareholder

Notes to the Financial Statements

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35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of related parties	Relationship with the Company
Associates of the Group	
Guangzhou Tiecheng Enterprise Company Limited	Associate of the Company
Zengcheng Lihua Stock Company Limited	Associate of the Company
Shenzhen Guangshen Railway Civil Engineering Company	Associate of the Company
Guangzhou Huangpu Yuehua Freight Transportation Company Limited	Associate of the Company
State-owned Companies *(Note a)*	
Ministry of Railways ("MOR") of the PRC	
MOR's Railroad Deposit-taking Centre	
Shenyang Train Class Company	
Puzhen Train Company	
Changchun Tracks and Equipment Company	
Sifang Passenger Trains Repair Stock Company	
Qixuyan Locomotive and Carriages Company	
Dalian Locomotives and Carriages Company	
Chengdu Materials Companay	
Liuzhou Wood Company	
Hengyang Mechanism Company	
Construction Technique Company of China	
Nanfang Railway Repair Center	
The Fourth Railway Reconnaissance Design House	
Railway construction bureaus (including Third bureau, Seventh bureau, Eleventh bureau, Thirteenth bureau and others)	
The Forth Construction Bureau of China	

Note a:

Prior to the A share issuance in December 2006, the Company was controlled by Guangzhou Railway Group which is a subsidiary of the MOR and is ultimately controlled by the PRC government. The PRC government also controls a significant portion of the productive assets and entities in the PRC. Consequently, in accordance with the requirements of IAS 24, Related Party Disclosures, all other state controlled enterprises and their subsidiaries, other than Guangzhou Railway Group, the MOR and fellow subsidiaries and associates, were also related parties of the Company ("State-owned Companies") prior to the A share issuance in December 2006.

Subsequent to the A share issuance on December 22, 2006, the Company is no longer controlled by Guangzhou Railway Group. Such Stated-Owned Companies were consequently no longer considered as related parties of the Group as of December 31, 2006. However, the transactions conducted between the Group and such State-Owned Companies during the period from January 1, 2006 to December 21, 2006 have been disclosed as related party transactions in the Financial Statements.

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35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Save as disclosed in other notes to the Financial Statements, during the year, the Group had the following material transactions undertaken with related parties:

	2006	2005
Recurring Transactions:	***RMB'000***	*RMB'000*
Transactions with the MOR and its related entities		
I. Income		
Provision of train transportation and related services to other railway companies controlled by the MOR *(i)*	**(315,847)**	(304,842)
Revenue received, processed and allocated by the MOR *((i) and (vi))*		
— long distance passenger transportation	**(800,859)**	(575,849)
— cargo forwarding railway usage fees	**(124,465)**	(123,763)
Provision of repairing service for cargo truck of Guangzhou Railway Group *(i)*	**(32,787)**	(28,799)
Operating lease rentals received/receivable from Guangzhou Railway Group *(i)*	**(6,568)**	—
Provision of train transportation service to Guangzhou Railway Group *(i)*	**(15,727)**	—
Interest income received/receivable from the MOR Deposit-taking Centre *(see Notes 19 and 32(b))*	**(5,331)**	(5,530)
II. Charges and Payments		
Services charges allocated from the MOR for train transportation and related services offered by other railway companies controlled by the MOR *((i) and (vi))*	**410,353**	290,825
Operating lease rentals paid/payable to the MOR *(i)*	**40,885**	50,804
Lease of locomotives and related services provided from Yangcheng Railway *(i)*	**26,065**	8,449
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the GEDC under a service agreement *(ii)*	**74,520**	78,227
Purchase of materials and supplies from Guangzhou Railway Material Supply Company *(iii)*	**89,731**	73,146
Interest expenses paid/payable to Guangzhou Railway Group, net *(iv)*	**—**	721

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35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

Non-Recurring Transactions:	**2006** **RMB'000**	2005 *RMB'000*
I. Transactions with the MOR and its related entities		
Disposal of an available-for-sale investments *(Note 11)*	**—**	(121,854)
Disposal part of equity interests in a subsidiary *(Note 10 (ii))*	**(35,224)**	—
Provision of repair and maintenance services by subsidiaries held by Guangzhou Railway Group *(i)*	**21,779**	73,134
Provision of construction management services by Guangzhou Railway Group in connection with the construction of fixed assets of the Company *(v)*	**9,326**	6,194
Provision of supplies and materials by subsidiaries of Guangzhou Railway Group *(iii)*	**4,045**	5,249
Provision of construction projects *(ii)*	**70,537**	—
Payment of a deposit for the acquisition of net assets of Yangcheng Railway *(c) (viii)*	**5,265,250**	—
II. Transactions with Other State-Owned Companies		
Provision of construction project and related service *(iii)*	**3,112,131**	1,148,781
Provision of repair and maintenance services *(iii)*	**105,641**	75,867
Provision of supplies and materials *(iii)*	**15,051**	5,977
Purchase of fixed assets *(iii)*	**207,688**	55,803

(i) The service charges are determined based on a pricing scheme set by the MOR or by reference to current market prices with guidance provided by the MOR.

(ii) The service charges are levied based on contract prices determined based on cost plus a profit margin.

(iii) The prices are determined based on mutual negotiation between the contracting parties with reference to guidance provided by the MOR.

(iv) Interest was calculated and levied based on the average balances due from/to Guangzhou Railway Group on a quarterly basis at the prevailing lending interest rates of bank loans borrowed from banks in the PRC.

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35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

(v) Pursuant to the provisions of a construction management agreement and several supplementary agreements (collectively, the "Management Agreements") entered into with the Guangzhou Railway Group in 2005 and 2006, Guangzhou Railway Group has undertaken to provide project management services to the Company on monitoring the construction services provided/to be provided by certain contractors and sub-contractors, which are substantially State-Owned Companies, employed for the construction of certain railway assets and railway stations of the Company, including the Fourth Rail-Line. The management service fees are determined based on the pricing scheme set by the MOR.

(vi) Due to the fact that the railway business is centrally managed by the MOR within the PRC, the Company works in co-operation with the MOR and other railway companies owned and controlled by the MOR in order to operate certain long distance passenger train transportation and cargo forwarding services within the PRC. The related revenues are collected by other railway companies, which are then remitted to the MOR, and centrally processed. A certain portion of the revenues so collected are allocated to the Company for the use of its rail-lines or for services rendered by the Company in conjunction with the delivery of these services. On the other hand, the Company is also allocated by the MOR certain charges for the use of the rail lines and services provided by other railway companies. Such allocation is determined by the MOR based on its standard charges applied on a nationwide basis.

(c) As of December 31, 2006, the Group and the Company had the following material balances maintained with related parties:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and cash equivalents maintained in the MOR Deposit-taking Centre *(see Note 32(b))*	**25,786**	628,746	**12,305**	612,423
Short-term time deposits in the MOR Deposit-taking Centre *(see Note 19)*	**169,739**	168,000	**169,739**	168,000
Due from/(to) Guangzhou Railway Group *(vi)*	**31,584**	15,636	**31,584**	17,431
— Trade balance *(vii)*	**28,234**	(43,518)	**28,234**	(41,723)
— Non-trade balance	**3,350**	59,154	**3,350**	59,154

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35. RELATED PARTY TRANSACTIONS *(Continued)*

(c) *(Continued)*

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposit for acquisition of Yangcheng Railway *(viii)*	**5,265,250**	—	**5,265,250**	—
Due from subsidiaries of Guangzhou Railway Group	**173**	64,670	**173**	60,274
— Trade balance	**61**	25,257	**61**	23,173
— Non-trade balance	**112**	39,413	**112**	37,101
Due to subsidiaries of Guangzhou Railway Group	**(220,915)**	(276,520)	**(220,915)**	(276,520)
— Trade balance *(ix)*	**(39,813)**	(276,520)	**(27,728)**	(276,520)
— Non-trade balance *(x)*	**(181,102)**	—	**(193,187)**	—
Due from/(to) an associate	**(17,374)**	12,423	**(17,374)**	12,413
— Trade balance	**12,312**	12,423	**12,312**	12,413
— Non-trade balance *(xii)*	**(29,686)**	—	**(29,686)**	—
Due from State-Owned Companies included in prepayments for fixed assets	**—**	55,803	**—**	55,803
Due to State-Owned Companies	**—**	(897,581)	**—**	(888,910)
— Trade balance *(vii)*	**—**	(50,564)	**—**	(50,563)
— Non-trade balance *(xi)*	**—**	(847,017)	**—**	(838,347)

(vii) The trade balances due from/to Guangzhou Railway Group, subsidiaries of Guangzhou Railway Group and the MOR mainly represented service fees and charges payable and receivable balances arising from the provision of passenger transportation and cargo forwarding businesses jointly with these related parties within the PRC as described in (iv).

(viii) As of December 31, 2006, the balance represents 51% of the agreed purchase consideration paid to Guangzhou Railway Group for the acquisition of net assets of Yangcheng Railway *(Note 36)*.

(ix) The trade balances due to related parties mainly represent payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between the Group and the parties *(see Note (b) above)*.

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35. RELATED PARTY TRANSACTIONS *(Continued)*

(c) *(Continued)*

(x) The non-trade balances due to related parties mainly represent the deposits received from those related parties.

(xi) The non-trade balance due to other state-owned companies as of December 31, 2005 mainly represents the payable balances arising from unsettled fees for construction projects undertaken for the Group.

(xii) The non-trade balance due to associate mainly represents the payable balance arising from unsettled balance for the construction project services undertaken by an associate.

As of December 31, 2006, all the balances maintained with related parties are unsecured, non-interest bearing and are repayable on demand, except for those short-term deposits balances maintained with the MOR Deposit-taking Centre disclosed above.

36. THE ACQUISITION OF NET ASSETS OF YANGCHENG RAILWAY

On 15 November 2004, the Company entered into an agreement to acquire the railway transportation business of Yangcheng Railway which consists of all of its assets and liabilities related to its railway transportation business ("Yangcheng") on the rail line running between the cities of Guangzhou and Pingshi in Southern China.

The purchase price of approximately RMB10.3 billion was determined based on an appraised value of Yangcheng performed by an independent appraisal firm as of 31 March 2006. The primary source of funding (at least 65%) for the acquisition was derived from the issuance of A shares of the Company, as discussed in Note 20. The acquisition received the approval of more than 50% of the then H share shareholders attending a special shareholders'meeting for the approval of the transaction on 30 December 2004.

As disclosed in Note 20, the offering of A shares of the Company was completed in December 2006. On 28 December 2006, the Company paid 51% of the Consideration (approximately RMB5.3 billion) as a deposit to Yangcheng Railway in accordance with the provisions of the agreement. Pursuant to the agreement, the remaining 49% of the Consideration (approximately RMB5 billion) is due for payment to Yangcheng Railway within 2 months after the completion of a closing audit of Yangcheng.

Costs incurred by the Company that are directly attributable to the acquisition of Yangcheng have been deferred and recorded as non-current deferred acquisition costs, and amounted to RMB31,343,000 as of 31 December 2006 (2005: RMB25,214,000)

On 1 January 2007, control of the assets and operations of Yangcheng was transferred to the Company. Accordingly, for accounting purposes, 1 January 2007 is considered by the directors of the Company to be the effective date of acquisition. The results of operations of Yangcheng have been included in the Group's consolidated income statement from that date onwards.

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36. THE ACQUISITION OF NET ASSETS OF YANGCHENG RAILWAY *(Continued)*

Prior to the acquisition, Yangcheng Railway and the Group were both controlled by the MOR, on the basis that the MOR indirectly held controlling interests in both companies. Subsequent to the A share issuance in December 2006, the equity interests of the MOR in the Group was diluted to 41%. As a result, upon the acquisition date on 1 January 2007, Yangcheng Railway and the Group were no longer under common control. Under IFRS 3 "Business Combination", the transaction does not constitute a business combination under common control as the Group and Yangcheng Railway are not ultimately controlled by the same party (the MOR) both before and after the business combination. Accordingly, the transaction has been accounted for using the purchase method of accounting with the acquired identifiable assets, liabilities and contingent liabilities stated at their respective fair values as at the date of acquisition.

As at the date of approval of these Financial Statements, disclosures relating to the preliminary allocation of the purchase price to the fair values of the acquired assets, liabilities and contingent liabilities has not been provided because it was considered by the directors of the Company to be impracticable. The Group is still in the process of determining the respective carrying values (on an IFRS basis) and fair values of the acquired assets, liabilities and contingent liabilities of Yangcheng. Furthermore, the Group has appointed an independent appraisal firm to assist them in the process; however, the valuation process has not been completed.

37. SUBSEQUENT EVENTS

Save as disclosed in other notes to the financial statements, the Group had the following significant subsequent events:

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from January 1, 2008.

Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and deferred tax liabilities of the Group.

As at the date that these Financial Statements were approved for issue, detailed measures of the new CIT Law have yet to be issued, specific provisions concerning the applicable income tax rates, computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions for the periods from 2008 and onwards have not been clarified. Consequently, the Group is not in a position to reasonably assess the impact, if any, to the carrying values of deferred tax assets and deferred tax liabilities as the result of the implementation of the new CIT Law. The Group will further evaluate the impact to its operating results and financial positions of future periods as and when more detailed measures and other related regulations are announced.