

Supervisory Committee's Report

In 2006, pursuant to Company Law, the Articles of Association, the Listing Rules and the Rules of Meeting of the Supervisory Committee, members of the Supervisory Committee performed their duties prudently and effectively with respect to the supervision of company operations and business activities in accordance with applicable rules and regulations so as to safeguard shareholders' and the Company's interests.

I. Meetings of the supervisory committee

The key contents were as follows:

1. During the year, the Company has held one supervisory committee meeting.

The third meeting of the first term supervisory committee was held on 24 June 2006 at Zhuzhou, Hunan Province. The meeting considered and passed the following resolutions:

- Approving the 2005 working report of the supervisory committee;
- Approving the Company's 2006 annual financial budget reports;
- Approving the signing of connected transaction agreements;
- Approving the resolution on the "appointment of audit firm for 2006";
- Approving the "resolution on the amendment of the terms of the rules of meeting of the supervisory committee";
- Approving auditors' reports for 2003, 2004 and 2005 issued by Ernst & Young.

2. During the year, members of the supervisory committee attended the 2005 Annual General Meeting, the first shareholders' meeting in 2006, the second shareholders' meeting in 2006, the fourth meeting of the first term of the Board of Directors, the fifth meeting of the first term of the Board of Directors, the sixth meeting of the first term of the Board of Directors, and the seventh meeting of the first term of the Board of Directors in person or via telecommunications means.

II. Independent opinion of the supervisory committee on certain issues in 2006

1. The Company carried on its operations lawfully

In 2006, in accordance with applicable laws and regulation, the supervisory committee carried out supervision with respect to the Company's shareholders' meeting, procedures adopted in the convening of directors' meetings, resolutions adopted, deliberation procedures, results of voting, implementation of resolutions of shareholders' meeting by Directors, the performance of duties of senior management and the management system of the Company. The supervisory committee believes that the Directors and senior management of the Company had dutifully performed their responsibilities and operated in a lawful manner. Internal control system has been strengthened in 2006, and the



Company accepts supervision by relevant supervisory authorities as well as by domestic and foreign investors. During the reporting period no major breaches of law or actions which would damage the image of the Company or harm the interests of shareholders were found.

2. Financial reports give a true and accurate view

The supervisory committee had reviewed the Group's financial system and financial conditions diligently and carefully. The supervisory committee considers the Group's 2006 financial reports to be true and accurate and present the financial conditions and operating results objectively, and that the audit opinion and other relevant comments made by Ernst & Young are also true and accurate.

3. Use of proceeds

During the year, the Company completed its initial public offering of 414,644,000 H shares (including shares issued pursuant to the over-allotment option) at an issue price of HK\$5.30 per share, raising a total of approximately HK\$2,197,613,000 and an additional interest income of approximately RMB22.67 million. The net proceeds raised was approximately RMB2,109,852,000 after deduction of listing expenses. The above funds have been deposited into the Company's accounts. There were no deviations in the use of proceeds from what was disclosed in the Company's prospectus.

4. Connected transactions

The supervisory committee considers that transactions between the Group and the Parent Group, CSR Group, Kunming China Railway were purchase and sale of goods in the ordinary course of business. The various transactions complied with the principles of openness, fairness and reasonableness. The transaction prices were set in accordance with terms of the mutually agreed contracts. Those contractual terms were entered into in the interests of the Group and the shareholders as a whole. After completing its review, the supervisory committee found that the Group's transactions in 2006 complied with relevant laws, regulation and policies of the State and had not discovered any connected transactions which would harm the Company's and shareholders' interests, and the total amount of connected transactions was below the upper limit permitted by the Stock Exchange of Hong Kong.

5. The implementation of non-competition agreements

The supervisory committee was of the opinion that during the year, the Parent Group and the CSR Group had complied with the terms of non-competition and indemnity agreements, performed their undertakings, and had not discovered any businesses in competition with the Group's businesses.

6. The implementation of resolutions of the Annual General Meeting

During the year, members of the supervisory committee attended four board meetings and three shareholders' meetings. There were no objections to the various reports submitted by the Board for consideration at shareholders' meetings and resolutions tabled for shareholders' meetings. The Board of Directors had dutifully carried out resolutions of the Annual General Meeting.