



**The Company's high-speed trains have become the first choice of transportation between Guangdong and Hong Kong**

## Management's Discussion and Analysis



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### Total Business Revenues

In 2000, the Company's revenues from operations were approximately RMB1,980.4 million, representing an increase of approximately 8.9% from RMB1,818.8 million in 1999. Revenues from passenger and freight transportation accounted for approximately 69.2% and 30.8% respectively of the total revenues generated from the railroad businesses, and approximately 62.5% and 27.8% of the total revenues generated by the Company.

### Passenger Transportation

Revenues from passenger transportation business were RMB1,237.3 million in 2000, representing an increase of 11.1% from RMB1,114.0 million in 1999. The table below illustrates the revenues from passenger transportation and the volume of passengers for the year ended 31st December, 2000 as compared with the same period last year.

|                                                           | Year ended             |                        | Increase/<br>(decrease)<br>from 1999 |
|-----------------------------------------------------------|------------------------|------------------------|--------------------------------------|
|                                                           | 31st December,<br>2000 | 31st December,<br>1999 |                                      |
| Revenues from passenger transportation<br>(RMB thousands) | <b>1,237,289</b>       | <b>1,114,046</b>       | <b>11.1%</b>                         |
| — Domestic trains                                         | <b>960,532</b>         | <b>852,810</b>         | <b>12.6%</b>                         |
| — Hong Kong through trains                                | <b>276,757</b>         | <b>261,236</b>         | <b>5.9%</b>                          |
| Total passengers (thousand persons)                       | <b>34,947</b>          | <b>31,639</b>          | <b>10.5%</b>                         |
| — Domestic trains                                         | <b>33,041</b>          | <b>29,961</b>          | <b>10.3%</b>                         |
| — Hong Kong through trains                                | <b>1,906</b>           | <b>1,678</b>           | <b>13.6%</b>                         |
| Revenue per passenger (RMB)                               | <b>35.40</b>           | <b>35.21</b>           | <b>0.5%</b>                          |
| — Domestic trains                                         | <b>29.07</b>           | <b>28.46</b>           | <b>2.1%</b>                          |
| — Hong Kong through trains                                | <b>145.20</b>          | <b>155.68</b>          | <b>(6.7%)</b>                        |
| Total passenger-kilometres (millions)                     | <b>3,051.7</b>         | <b>2,804.2</b>         | <b>8.8%</b>                          |
| Revenue per passenger-kilometre (RMB)                     | <b>0.41</b>            | <b>0.40</b>            | <b>2.5%</b>                          |

In 2000, the Company recorded an increase in the total number of passengers and total passenger-kilometres of 10.5% and 8.8% respectively, whilst the overall revenue per passenger and overall revenue per passenger-kilometre also increased by 0.5% and 2.5% respectively.

In 2000, the number of long-distance passengers increased by approximately 9.1%. This was mainly due to (1) an increase of 5 pairs of domestic long-distance trains, increasing their daily frequency from 24 pairs to 29 pairs; (2) the Company's improvements in respect of the transit and boarding conditions of various stations, including Guangzhou East Station, Dongguan Station, Pinghu Station and Shenzhen Station; (3) the benefits attributable to the steady growth of the PRC's economy and other PRC government policies to promote tourism and the economy; and (4) the benefits of the overall improvement of transportation conditions of neighbouring railways.

The total number of passengers on the Guangzhou-Shenzhen line grew 11.7% from 1999, which was mainly attributable to (1) the increase in frequency of high-speed train services on 1st March and 21st October, 2000, resulting in an increase in Guangzhou-Shenzhen train services from 22 pairs to 29 pairs per day and 31

pairs per day during festivals and on public holidays; (2) the overall strategy of the Company to establish a brand name of "the High-speed Train" and the continuous improvement of overall services in accordance with the ISO9000 standards, which has helped the Company establish a good reputation among its passengers; and (3) the benefits of economic growth in Guangdong Province and Hong Kong, leading to an increase in business and other passengers.

The total number of passengers on the Hong Kong through trains rose by 13.6% in 2000 from approximately 1.678 million in 1999 to approximately 1.906 million in 2000 and total revenues from the Hong Kong through train passenger transportation service also increased from RMB261.2 million in 1999 to RMB276.8 million in 2000, representing an increase of approximately 5.9%. This was mainly due to (1) an increase of 3 pairs of Hong Kong through trains since 28th June, 1999 and the continued effective promotion of discounted fares to group tourists; (2) an improvement in the environment of train station and quality of services; and (3) the economic growth of Guangdong Province and Hong Kong, leading to an increase in business and other passengers travelling between the two places.

## Management's Discussion and Analysis

### Freight Transportation

Revenues from the Company's freight transportation in 2000 were approximately RMB549.7 million, representing an increase of approximately 2.2% from RMB538.0 million in 1999. Set out below are the revenues from the freight transportation and freight volume for the year ended 31st December, 2000 as compared with the year ended 31st December 1999.

|                                                           | Year ended<br>31st December,<br>2000 | Year ended<br>31st December,<br>1999 | Increase/<br>(decrease)<br>from 1999 |
|-----------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Revenues from freight transportation<br>(RMB thousands)   | 549,694                              | 537,970                              | 2.2%                                 |
| Revenues from outbound freight                            | 95,140                               | 102,849                              | (7.5%)                               |
| Revenues from transit and inbound freight                 | 259,017                              | 237,993                              | 8.8%                                 |
| Revenues from storage, loading and<br>miscellaneous items | 195,537                              | 197,128                              | (0.8%)                               |
| Total tonnage (thousand tonnes)                           | 28,733                               | 27,782                               | 3.4%                                 |
| Revenue per tonne (RMB)                                   | 19.13                                | 19.36                                | (1.2%)                               |
| Total tonne-kilometres (millions)                         | 2,071.6                              | 2,082.1                              | (0.5%)                               |
| Revenue per tonne-kilometre (RMB)                         | 0.27                                 | 0.26                                 | 3.8%                                 |

In 2000, due to the economic growth in the service territory of the Company, the demand for the Company's freight transportation services increased. However, further growth was restrained by: (1) the adjustment of the industrial structure and import/export policies by the PRC Government, leading to the decrease of tonnage of cargo such as imported chemical fertilizers and steel material; (2) the intensified competition from road transportation; and (3) the competition from water transportation operators as a result of the improvements of coastal and river ports and infrastructure.

Despite an increase of 1.3% in outbound freight volume, the revenues in this respect dropped by 7.5%. This was due to the decrease in volume of freight items transported for which the Company charges higher fees. On the other hand, due to the Company's expansion of sources of inbound freight and the increase of pass-through freight from the Beijing-Jiujiang line via the Company's line, the Company's pass-through and inbound freight volume rose to 22.22 million tonnes and revenues to RMB259.0 million. Meanwhile, as a result of the 10% to 30% discounts offered by the Company to cargo in large quantities solicited from new freight sources, revenues per tonne dropped from RMB19.36 in 1999 to RMB19.13 in 2000.

Due to the adjustments of the industrial structure and import/export policies by the PRC Government, the freight composition of the Company changed as follows:

|                        | Outbound Freight |       | Inbound Freight |       |
|------------------------|------------------|-------|-----------------|-------|
|                        | 2000             | 1999  | 2000            | 1999  |
| Construction materials | 13.6%            | 12.4% | 28.2%           | 27.2% |
| Energy products        | 18.8%            | 16.6% | 17.9%           | 17.8% |
| Food products          | 10.4%            | 12.8% | 22.2%           | 22.9% |
| Chemicals              | 12.6%            | 14.2% | 11.0%           | 10.7% |
| Manufactured goods     | 6.5%             | 6.4%  | 4.0%            | 3.5%  |
| Containers             | 9.8%             | 11.1% | 5.9%            | 5.7%  |
| Other goods            | 28.3%            | 26.4% | 10.8%           | 12.2% |
| Total                  | 100%             | 100%  | 100%            | 100%  |

## Other Businesses

Revenues from the Company's other businesses in 2000 were approximately RMB193.4 million, representing an increase of 15.9% from RMB166.8 million in 1999. Such increase was mainly due to the increase in rental income and the development of tourism and advertising businesses.

The gross profit of other businesses also increased by 17.6% from RMB61.12 million in 1999 to RMB71.88 million in 2000. Revenues from other businesses of the Company in 2000 accounted for approximately 9.8% of the total revenues.

The table below sets forth a breakdown of the different types of other businesses:

| Category of Activity            | 2000<br>(in RMB thousands) | 1999<br>(in RMB thousands) |
|---------------------------------|----------------------------|----------------------------|
| On-board and station sales      | 58,030                     | 55,487                     |
| Station services                | 65,934                     | 59,123                     |
| Tourism, advertising and others | 69,451                     | 52,190                     |
| Total                           | 193,415                    | 166,800                    |

## Management's Discussion and Analysis

### Operating Expenses of the Railroad Businesses

In 2000, the Company's railroad business operating expenses were approximately RMB1,297.5 million, representing an increase of approximately 9.1% from RMB1,189.6 million in 1999. The increase in operating expenses was mainly attributable to (1) an increase in staff payroll and welfare expenses of RMB22.18 million as a result of an increase in passenger transport services and workload; (2) an increase in oil prices and additional electric train services, leading to an increase of materials and

supplies expenses of approximately RMB14.32 million; (3) housing losses of approximately RMB18.06 million in relation to employee housing; (4) an increase in depreciation expense of RMB12.28 million as a result of the commencement of operation of the newly acquired trains and the electrification of the third track; and (5) additional expenses of RMB30.98 million in respect of equipment leases and services and repair costs (excluding materials and supplies) as a result of additional train services.



The following table sets forth the principal operating expenses associated with the Company's railroad business as a percentage of railroad business revenues:

|                                                | Year ended 31st December, |       |
|------------------------------------------------|---------------------------|-------|
|                                                | 2000                      | 1999  |
| Railroad business revenues (RMB millions)      | <b>1,787</b>              | 1,652 |
| Labor and benefits                             | 15%                       | 15%   |
| Equipment leases and services                  | 15%                       | 15%   |
| Materials and supplies                         | 7%                        | 6%    |
| Repair costs, excluding materials and supplies | 5%                        | 5%    |
| Depreciation                                   | 18%                       | 19%   |
| Fees for social services                       | 3%                        | 3%    |
| General and administrative expenses            | 7%                        | 6%    |
| Others                                         | 3%                        | 3%    |
| Operating ratio (see note below)               | 73%                       | 72%   |
| Railroad business operating margin             | 27%                       | 28%   |

*Note: The operating ratio indicates total railroad operating expenses as a percentage of railroad business revenues.*



## Management's Discussion and Analysis



### Operating Profits and Profits After Tax

The overall operating profit of the Company recorded an increase of 8.7% from RMB477.9 million in 1999 to RMB519.4 million in 2000. However, profit after tax dropped by 7.2% from RMB529.6 million in 1999 to RMB491.3 million in 2000. This was mainly due to (1) the expiration of the preferential 50% discount on the Company's income tax in respect of the operation of the Guangzhou-Shenzhen high-speed train services on 31st December, 1999, resulting in the Company being subject to a 15% income tax rate effective from January 2000, and affecting the net profits of the Company by approximately RMB41.51 million; and (2) the decrease of cash balances and temporary cash investments, and a downward adjustment of RMB interest rates, resulting in a decrease in interest income of approximately RMB14.26 million.

### Year ended 31st December, 2000 compared with year ended 31st December, 1999

Total revenues from the Company's railroad businesses increased by 8.2% to RMB1,787 million in 2000 from RMB1,652 million in 1999. Operating profit increased by 8.7% to RMB519.4 million in 2000 from RMB477.9 million in 1999. Net profit decreased by 7.1% to RMB492.1 million in 2000 from RMB529.7 million in 1999.

Passenger transportation revenues increased by 11.0% to RMB1,237 million in 2000 from RMB1,114 million in 1999. Freight transportation revenues increased by 2.2% to RMB549.7 million in 2000 from RMB538.0 million in 1999. Revenues from other businesses increased 15.9% to RMB193.4 million in 2000 from RMB166.8 million in 1999. Total revenues of the Company increased by 8.9% to RMB1,980 million in 2000 from RMB1,819 million in 1999, as a result of the factors mentioned hereinbefore.



Total operating expenses increased by 8.9% to RMB1,461 million in 2000 from RMB1,341 million in 1999. Railroad operating expenses increased by 9.0% to RMB1,297 million in 2000 from RMB1,190 million in 1999. Such increases were due to the factors mentioned hereinbefore.

Cost of sales of other businesses increased to RMB121.5 million in 2000 from RMB105.7 million in 1999. General and administrative expenses decreased to RMB41.99 million in 2000 from RMB45.57 million in 1999, due to the reasons mentioned hereinbefore.

The overall operating profit of the Company grew by 8.7% to RMB519.4 million from RMB477.9 million in 1999 and its operating margin decreased from 26.3% to 26.2%, as a result of the factors mentioned hereinbefore. The operating margin on its railroad businesses decreased from 28.0% in 1999 to 27.4% in 2000, and the operating margin on its other businesses increased from 9.3% in 1999 to 15.5% in 2000. In 2000, the railroad business operating profit contributed 94.2% of total operating profit, representing a decrease of 2.5% compared with 96.7% in 1999.

Profit before taxation increased by 1.9% to RMB590.7 million in 2000 from RMB579.9 million in 1999. Provision for taxation increased to RMB99.38 million in 2000 from RMB50.23 million in 1999. Profit attributable to shareholders decreased by 7.1% from RMB529.7 million in 1999 to RMB492.1 million in 2000.

## Liquidity and Capital Resources

The Company's principal sources of capital have been cash flow from operations. Its principal uses of capital are to fund capital expenditures and investment, and pay taxes and dividends.

The Company generated approximately RMB729.2 million in net cash flow from operating activities. Substantially all of the Company's railroad business revenues are received in cash, with accounts receivable arising primarily from long distance passenger and pass-through freight transactions originating from other railroads whose lines connect to the Company's line. Similarly, some accounts payable arise from payments for railway transportation services that the Company collects on behalf of other railroads. Accounts receivable and payable are generally settled either quarterly or monthly between the Company and other PRC railroads. Most of the Company's revenues of other businesses are received in cash. These businesses, however, also have payables associated with purchases of materials and supplies.

In 2000, the Company's primary capital requirements were for the upgrade and expansion of its facilities. In 1991, the Company began implementing an approximately RMB7,350 million multi-year capital expenditure programme. It includes an upgrade of its existing infrastructure, construction of the West Wing of Shenzhen Station and the electrification of the Company's third track. As of 31st December, 2000, the project had been completed in principle and the Company had invested a total of approximately RMB7,400 million, of which approximately RMB504.3 million was invested in 2000. Most of the expenditures were financed by the cash flow from operations.

Other uses of funds in 2000 included meeting working capital needs and payment of taxes and dividends. Funds not needed in the short term are kept in short and medium-term investments and bank deposits.

The Company is of the opinion that it has sufficient working capital to satisfy its present requirements.