Guangshen Railway is currently the only high-speed railway in the PRC

The Board of Directors of the Company. From left: Li Qingyun, Li Peng, Wu Yiquan, Deborah Kong, Zhang Zhengqing, Chang Loong Cheong, Li Daihua, Shen Jun, Wu Houhui

The Board is pleased to present the annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December, 2000.

Principal Activities and Results

The principal activities of the Company and its subsidiaries are railroad passenger and freight transportation, provision of railway facilities and technical services, and the sale of food, beverages and merchandise aboard trains and in train stations.

The operating results of the Company and its subsidiaries for the year ended 31st December, 2000 and the financial positions of the Company and its subsidiaries as of 31st December, 2000 are set out in the Consolidated Income Statement and Balance Sheets prepared in accordance with International Accounting Standards ("IAS") on page 49 and page 48 of this annual report, respectively.

Proposed Profit Appropriation

For the year ended 31st December, 2000, the appropriations of profit as dividends and reserves as proposed by the Board are set out in Note 31 and Note 15 to the financial statements, respectively.

Dividends

The Company did not declare any interim dividend for the six months ended 30th June, 2000.

Dividends *(Cont'd)*

The Board decided on 13th March, 2001 to recommend to the shareholders a final dividend of RMB0.10 per share payable to all shareholders for the year ended 31st December, 2000.

Shareholders whose names appear on the Register of Members on 6th April, 2001 will qualify for the final dividend. The Register of Members for H shares will be closed from 6th April, 2001 to 8th May, 2001, both days inclusive.

In order for holders of H shares to qualify for the final dividend, all transfer forms must be lodged, together with the relevant share certificates, at the Company's share registrars, Hong Kong Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong before 4:00 p.m. on 4th April, 2001, the last trading day before the Register of Members is closed.

Details concerning the final dividend payments to holders of H shares are to be announced after the approval by the shareholders at the AGM, which is to be held on 8th May, 2001. The specific date and procedure for the payment of the final dividends will be separately announced.

In accordance with the articles of association of the Company (the "Articles of Association"), the dividend for domestic shares will be paid in Renminbi while the dividend for H shares will be calculated in Renminbi and paid in Hong Kong dollars. The exchange rate will be based on the average of the closing exchange rates for Hong Kong dollars as announced by the People's Bank of China during the calendar week preceding the date on which the dividend is to be distributed.

Bank Loans and Other Borrowings

As of 31st December, 2000 the Company had no bank loans.

Overdue Time Deposits

As of 31st December, 2000 the Company deposited approximately RMB1,147 million with financial institutions, among which RMB31,365 million were not paid back to the Company upon maturity. The Company has obtained judgement in its favour regarding the unpaid time deposits. However, as the judgement debtor was under restructuring, the Court ordered a stay of execution of the judgement obtained by the Company. The Company has acted actively and was granted support from the relevant government authorities. Issues concerning repayment of such deposits are being discussed and handled. The said overdue time deposit accounts for approximately 0.3% of the Company's net assets and 1.8% of the Company's cash and deposits, respectively, and has no material impact on the capital usage and operations of the Company.

Except this overdue time deposit, the Company has no other overdue time deposits. The Company has not encountered any difficulty in withdrawal of the deposits which have been placed with commercial banks in the PRC and the MOR's Railroad Deposit-taking Centre.

Entrusted Deposits

As of 31st December, 2000, the Company did not have any entrusted deposits placed with any financial institutions in the PRC.

Interest Capitalized

There was no interest capitalized in the construction-in-progress or fixed assets of the Company and its subsidiaries during the year.

Fixed Assets

Changes in fixed assets of the Company and its subsidiaries during the year are set out in Note 3 to the financial statements.

Taxation

As the Company was registered and established in the Shenzhen Special Economic Zone of the PRC, it is subject to income tax at 15%. The reduced rate is 18% lower than that of the standard income rate for PRC companies of 33%. The preferential 50% discount on the Company's income tax in respect of the operation of its high-speed rail line as a project utilising advanced and new technology was expired at the end of 1999. The Company was subject to the 15% tax rate for Shenzhen enterprises in 2000. Details regarding taxation of the Company and its subsidiaries are set out in Note 19 to the financial statements.

The Company does not have any items covered by the PRC's tax return policies which ceased to be effective from 1st January, 2000.

Reserves

Changes in the reserves of the Company and its subsidiaries during the year are set out in Note 15 to the financial statements.

Report of Directors

Statutory Common Welfare Fund

Details of the Company's statutory common welfare fund are set out in Note 15 to the financial statements.

Subsidiaries

Details of the Company's principal subsidiaries as of 31st December, 2000 are set out in Note 5 to the financial statements.

Equipment and Maintenance

The Company owns 17 semi-high-speed diesel locomotives, 5 high-speed electric locomotives, 21 shunting locomotives, 1 high-speed electric passenger train, 115 high-speed passenger coaches and 53 regular-speed passenger coaches. The Company leases a daily average of 21 regular-speed passenger coaches and 50 regular-speed locomotives from Yangcheng Railway Company for part of its regular-speed passenger service and for the hauling of its freight trains between Guangzhou and Shenzhen. The freight cars used by the Company are all leased from the MOR, to which the Company pays uniform rental fees and depreciation fees based on the national standards set by the MOR.

The Company has actively taken advantage of its advanced and new technology to renovate its passenger service facilities and upgrade its passenger transport services. Currently, the two high-speed tracks owned by the Company are the only tracks in the PRC which meet technical requirements to allow trains to run at a speed of 210 kilometres per hour.

Information Relating to the Original Issue and Listing

20,536,760 ADSs (each ADS represents 50 H shares) of the Company were listed on the New York Stock Exchange on 13th May, 1996 (New York time) and 217,812,000 H shares were listed on the Hong Kong Stock Exchange on 14th May, 1996 (Beijing time). Under the over-allotment options exercised by the underwriters, the Company also issued 186,650,000 H shares in the form of ADSs on 24th May, 1996. The aggregate number of issued H shares of the Company was thereby increased to 1,431,300,000 (par value of RMB1.00 per share).

	H Shares listed in Hong Kong (HK$/H share)	ADSs listed in New York (US$/ADS)
Issue price	2.91	19.00
Highest traded price during 2000	1.26	7.625
Lowest traded price during 2000	0.70	4.56
Opening price on the first trading day of 2000	0.88	5.75
Closing price on the last trading day of 2000	0.97	6.06
Total transaction volume for 2000	2,382,976,783	9,230,000

A Share Issue

The Company convened an extraordinary general meeting on 8th February, 2001, at which A share issue was approved.

(1)	Class of securities to be issued:	Domestic listed RMB denominated ordinary shares ("A Shares").
(2)	Number of A Shares to be issued:	Not more than 550 million shares of nominal value of RMB1.00 each.
(3)	Proposed place of listing:	Shanghai Stock Exchange.
(4)	Target subscribers and markets:	*Target Subscribers* Natural persons and institutional investors (except those prohibited by the PRC laws or regulations) within the PRC. *Target Markets* All securities trading centres in the PRC that are within the system network of Shanghai Stock Exchange
(5)	Issuing mechanism:	A "book-building" process will be conducted to determine the issue price and a combination of offline placing and online issue will be adopted.
(6)	Use of proceeds:	The proceeds of the A Share Issue are intended to be used to finance the construction of the fourth track of Guangshen Railway. The total construction costs of the project is estimated to be around RMB3,600 million. The details of the A Share Issue will be disclosed in the Prospectus.
(7)	Conditions for implementation:	The A Share Issue was approved in the extraordinary general meeting. Upon the approval by the State in respect of the establishment of the project of construction of the fourth track of Guangshen Railway, the Board will, subject to compliance with the Company Law of the PRC and the relevant policies and regulations, submit the A Share Issue to the China Securities Regulatory Commission for approval and to proceed with implementation accordingly.

Upon implementation of the A Share Issue, the total share capital of the Company will be increased to not more than 4,885 million shares.

Report of Directors

Share Capital Structure

As of 31st December, 2000, the Company's share capital consisted of :

Type of share capital	Number of shares ('000)	Percentage of share capital (%)
State-owned Domestic Shares	2,904,250	66.99
H Shares	1,431,300	33.01
Total	4,335,550	100.00

There was no change in the Company's share capital during the year.

Substantial Shareholders

As of 31st December, 2000, holders of 10% or more of the Company's shares were as follows:

Name of shareholder	Number of shares ('000)	Percentage of share capital (%)
Guangzhou Railway (Group) Company	2,904,250	66.99
HKSCC Nominees Limited	1,387,619	32.01

As of 31st December, 2000, holders of H shares of 10% or more of the Company's issued share capital as recorded in the Central Clearing System of HKSCC Nominees Limited were as follows:

Name of shareholder	Number of shares ('000)	Percentage of share capital (%)
Hongkong and Shanghai Banking Corporation (Nominees) Limited	760,509	53.13
Standard Chartered Bank	146,471	10.23

Other than the information stated above, the Company is not aware of any interests required to be recorded by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Cap 396 of the Laws of Hong Kong) ("SDI Ordinance") as of 31st December, 2000.

Purchase, Sale and Redemption of Shares

During 2000, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

At the annual general meeting of shareholders of the Company, extraordinary general meetings of holders of domestic shares and holders of H shares of the Company held on 8 June 2000, the Board was conditionally granted the authority to repurchase during the relevant period H shares up to 10% of the aggregate nominal amount of the H shares of the Company in issue at the date of passing the relevant resolutions. Approval is yet to be obtained from the relevant government authorities and the mandate has not yet been exercised.

Use of Proceeds

The total net proceeds from the Company's initial public offering in May 1996 were equivalent to RMB4,214 million. As of 31st December, 1998, the net proceeds were fully utilized by the Company. Amongst the net proceeds received, RMB2,276 million was invested in the High-Speed Programme and its ancillary projects (including the electrification project), RMB330 million was used for the purchase of high-speed rolling stock, RMB1,240 million was used for repayment of debt to the parent company of the Company and RMB368 million was used as repayment of short-term bank loans and as working capital.

Pre-emptive Rights

Under the Articles of Association and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to existing shareholders in proportion to their shareholdings.

Confirmation by Independent Non-executive Directors of Connected Transactions

The independent non-executive directors of the Company confirmed that the connected transactions (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) that were entered into by the Company during 2000 were entered into in the ordinary and usual course of its business, were entered into either on normal commercial terms or on terms that were fair and reasonable so far as the shareholders were concerned, or in accordance with the terms of an agreement governing such transactions or, where there was no such agreement, on terms no less favorable than those offered to third parties.

Report of Directors

Directors, Supervisors and Senior Management

Information relating to the Company's directors, supervisors and senior management as of 13th March, 2001 is as follows:

Name	Age	Position	Nationality
Directors:			
Zhang Zhengqing	59	Chairman of the Board	Chinese
Li Daihua	58	Director	Chinese
Wu Yiquan	57	Director and General Manager	Chinese
Li Qingyun	37	Director and Deputy General Manager	Chinese
Wu Houhui	52	Director	Chinese
Shen Jun	51	Director	Chinese
Li Peng	55	Director and Chairman of the Trade Union	Chinese
*Chang Loong Cheong	55	Director	Hong Kong SAR, the PRC
*Deborah Kong	41	Director	Australian
Supervisors:			
Gu Hongxi	54	Chairman of the Supervisory Committee	Chinese
Zhao Genrong	56	Supervisor	Chinese
Chen Yunzhong	49	Supervisor	Chinese
Yao Muming	48	Supervisor	Chinese
Zeng Xiangqiu	59	Supervisor	Chinese
Zhu Delin	39	Supervisor	Chinese
Other Senior Management:			
Chen Jianfu	56	Deputy General Manager	Chinese
Luo Qingming	44	Deputy General Manager & Chief Engineer	Chinese
Ye Yongming	45	Deputy General Manger	Chinese
Yan Ping	41	Deputy General Manger	Chinese
Yao Xiaocong	48	Chief Accountant and Company Secretary	Chinese

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

On 6th April, 2000, resolutions were passed at the fourth meeting of the second Board to discharge Mr. Liao Xuezhi as Deputy General Manager and to appoint Mr. Li Qingyun as Deputy General Manager of the Company.

Directors, Supervisors and Senior Management *(Cont'd)*

On 8th June, 2000, resolutions were passed at the Company's annual general meeting to terminate the appointment of Mr. Liao Xuezhi and Mr. Zhao Genrong as directors of the Company, to terminate the appointment of Mr. Shen Jun as a supervisor of the Company's supervisory committee, to elect Mr. Li Qingyun and Mr. Shen Jun as new directors of the Company and to elect Mr. Zhao Genrong as a new supervisor of the Company.

On 30th August, 2000, resolutions were passed at the fifth meeting of the second Board to discharge Mr. Chen Meisheng as Deputy General Manager and to appoint Mr. Ye Yongming as Deputy General Manger of the Company.

On 7th December, 2000, resolutions were passed at the sixth meeting of the second Board to discharge Mr. Wen Jiyuan as Deputy General Manager of the Company.

On 8th February, 2001, resolutions were passed at the extraordinary general meeting of shareholders of the Company to terminate the appointment of Mr. Sun Renkun as a supervisor of the Company's supervisory committee and to elect Mr. Chen Yunzhong as a new supervisor of the Company.

On 13th March, 2001, resolutions were passed at the seventh meeting of the Second Board to appoint Mr. Yan Ping as Deputy General Manager of the Company.

Interests of Directors, Supervisors and Other Senior Management in the Share Capital of the Company

None of the directors or supervisors or senior management or any of their spouses or children under the age of 18 had, as at 31st December, 2000, any interest in any shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they have taken or are deemed to have taken under Section 31 or Part 1 of the Schedule to the SDI Ordinance) or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein, or any interests in warrants to subscribe for shares in the Company or any associated corporation (as so defined) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of supervisors, which would be required to be notified as described above if they had been directors.

Service Contracts of the Directors and Supervisors

Each of the directors of the second session of the Board entered into a service agreement with the Company for an initial term of three years commencing on 6th March, 1999. No other service contract exists or has been proposed between the Company or any of its subsidiaries and any of the directors or supervisors. Subject to the above, no director or supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Contracts entered into by the Directors and Supervisors

No director or supervisor has any material interest in any of the major contracts entered into by the Company or any of its subsidiaries during the year.

Remuneration of the Directors and Supervisors

The remuneration of the directors, supervisors and senior management staff of the Company are set out in Note 17 to the financial statements of this annual report.

Impact of the Recent Economic Developments

The Company is of a view that other than the continued adjustment by the PRC government of the economic structure and import and export policies that resulted in limited growth of freight volumes and the intensified competition from the expressways in the Pearl River Delta, which has negatively impacted the Company's business, it is not aware of any other material adverse effects on the Company's businesses and financial position in 2001.

Pricing Formula

In 2000, the Company did not carry out any overall adjustments to its passenger and freight transportation pricing formula except for the following adjustments:

1. With a view to promote the sales of its freight services, the Company, with the approval of the parent company of the Company or by MOR, offered a 10% to 30% price reduction on freight in large quantities solicited from competitors. This reduction, though directly negatively affects freight revenues, can effectively attract freight customers in the Company's service territory and enhance the Company's competitiveness in the freight transport market.

Pricing Formula *(Cont'd)*

2. During the Spring Festival holidays of 2000, the Company made different upward adjustments to passenger fares based on different classes of fares of domestic trains.

3. During the Labour Day holidays and the National Day holidays of 2000, the Company increased the fare of the high-speed passenger trains between Guangzhou and Shenzhen by RMB5 per single trip.

4. From 1st July, 2000, the Company had begun adjusting its regular-speed passenger train fares either upwards or downwards to make the unit digit of the fare to be either RMB5 or RMB10. Regular-speed passenger train fares were increased on average by approximately 10% after these adjustments.

Exchange Risk

The management of the Company believes that the operation of the Company is not subject to significant exchange risk.

Material Litigation

The Company and its subsidiaries were not involved in any material litigation or dispute in 2000.

Related Party Transactions

In order to further develop its Hong Kong through train service, the Company entered into a contract with Chiwen Trading Company Limited, a subsidiary of Guangzhou Railway (Group) Company, to purchase two houses located at No. 3 and No. 5 Cambridge Road, Kowloon Tong, Hong Kong, as apartments for the Company's Hong Kong through train crew. The purchase price of these two houses was HK$82 million and was determined by an independent valuation company in Hong Kong in accordance with relevant commercial terms and based on their market values.

Passenger Train Settlement Method

From 1st January, 2001, the MOR started to separate the settlement of passenger services, freight services and network facilities and implemented a new settlement method for passenger trains. This new method stipulates that all passenger transport revenues generated from relevant passenger train services (including revenues generated from luggage and parcel trains) are considered passenger transport revenues and belong to the railway administration (or company) that runs that train. This railway administration (or company) in turn pays relevant parties (railway administrations (or companies)) fees for the use of their railway track, hauling fees, in-station passenger service fees, water supply fee, consumption of electricity for electric locomotives and contact wire service fees, and so on.

The implementation of the new settlement method does not make any change to the existing settlement method on transportation revenues generated by the passenger trains between Gaungzhou and Shenzhen, the Beijing-Hong Kong long-distance passenger train, the Shanghai-Hong Kong long-distance passenger train, the Zhaoqing-Hong Kong through train, through trains from Guangzhou East to Hong Kong, or freight transportation revenues. However, it changes the settlement method of revenues generated from long-distance passenger trains dispatching from, arriving at or passing through the Company's rail line. Before the implementation of this new settlement method, the Company received transportation revenues from those railway administrations (or companies) that operated long-distance train services on the Guangshen Railway in accordance with relevant standard of special pricing formula implemented by the Company. With the new settlement method in effect, those railway administrations (or companies) operating long-distance train services on the Company's line shall pay to the Company the following fees as the Company's transportation revenues: (1) the part of revenues generated from ticket prices which are higher than national railway standards due to the special pricing formula of the Company; and (2) fees including railway line usage fees, in-station passenger service fees, hauling fees, power supply fees consumed by electric locomotives, usage fees of contact wires, and water supply fees. The Company has made a preliminary assessment of the new settlement method and is of the opinion that the Company's revenues generated from long-distance passenger trains under the new settlement method should not be lower than that with the original settlement method.

Employees, Employee Payment Policy and Training Plans

As at 31st December, 2000, the Company had a total number of 7,659 employees.

Employees, Employee Payment Policy and Training Plans *(Cont'd)*

The Company's employees are paid on the basis of their positions and performance. The employees' salaries are determined according to the operating income, workload, costs and safety and quality considerations. The Company paid RMB261 million in total as labour and benefits of railroad business operating expenses for the year.

Pursuant to relevant State policies and regulations, the Company's employees enjoy the following welfare benefits: (1) retirement pension — the Company is required to set aside a sum equivalent to 18% of its total labour costs for the year and 5% of its total labour costs for the previous year as employees' retirement pension and supplemental retirement pension, respectively; (2) welfare fund — the Company is required to set aside 14% of its total labour costs as employees' welfare fund contributions and medical service fees; and (3) housing fund — the Company and its employees each deposit 7% (for Guangzhou residents), or 13% (for Shenzhen residents) of the employee's monthly salary into the employee's personal housing fund account.

During 2000, the Company carried out training programmes for approximately 1,600 employees. 900 of them were trained for implementation of ISO 9000 standards, whereas the rest were related to office automation, human resources management, operation and management of high-speed electric trains, management of equipment and materials, management of work teams and safety, and modern financial and accounting management. The training courses were mainly organized by the Company's Employee Training Centre. The Company also employed certain experts from outside the Company for these purposes. The total direct cost for the training programme for the year 2000 was approximately RMB1,473,000.

Employees' Housing and Accounting for Differences between Sales Prices of Houses and Costs

In 2000, the Company constructed and purchased new residential houses for its employees in order to improve the living conditions of its employees. Under a housing benefit scheme, the Company sold these residential houses to its employees at a price approved by the government. The losses arising from the sale of these staff quarters, which represented the differences between the net book value of the staff quarters sold and the proceeds collected from the employees, were estimated to be not more than RMB220.5 million up to 31st December, 2000. Pursuant to the prevailing policies issued by the Ministry of Finance, the losses arising therefrom should be credited to beginning retained earnings in the statutory accounts as of 1st January, 2001, or in case of a debit balance to offset against statutory public welfare fund, statutory surplus reserve and discretionary surplus reserve upon the approval by the Board. Such treatment was in accordance with the accounting rules and regulations applicable to the Company and its subsidiaries in the PRC.

Employees' Housing and Accounting for Differences between Sales Prices of Houses and Costs *(Cont'd)*

In the financial statements as of 31 December 2000 of the Company prepared in accordance with IAS, the Company accounted for the housing losses as follows: (i) losses of approximately RMB3.6 million arising from staff quarters sold to employees for past services were charged to the income statements for 2000; and (ii) losses of approximately RMB216.9 million from completed staff quarters sold to employees, or from premises under construction of which the losses could be reasonably estimated and for the future services, were amortized on a straight line basis over the estimated remaining average service lives of 15 years. During the year ended 31st December, 2000, the housing losses charged to the consolidated income statement was approximately RMB14.5million. As of 31st December 2000, the unamortized deferred losses, which were recorded as deferred staff costs in the balance sheet of the Company and its subsidiaries, amounted to approximately RMB202.4 million. In the opinion of the directors of the Company, had the housing losses been written off in 2000, the consolidated net assets of the Company and its subsidiaries as of 31st December, 2000 would have been reduced by approximately RMB202.4 million.

Other than employees' housing and welfare mentioned above, the Company had not implemented any other plans in relation to the employees' housing in 2000.

Major Suppliers and Customers

Most of the locomotives, passenger coaches and major railway supplies and equipment of the Company are owned directly or indirectly by the MOR. The Company also purchases some of this equipment from foreign vendors and other domestic suppliers. In 2000, the Company purchased from a Swedish manufacturer a high-speed electric train which it originally leased from this manufacturer and five electric locomotives from Guangzhou China Railway Rolling Stock Sales and Service Company Limited which the Company used to lease. The Company's five largest customers combined accounted for less than 30% of the Company's turnover and the Company's five largest suppliers combined accounted for less than 30% of the Company's purchases.

Compliance with the Code of Best Practice

The Company and its directors hereby state that, to the best of their knowledge, the Company has, throughout the financial year ended 31st December, 2000, complied with the Code of Best Practice which incorporates the items set out in Appendix 14 of the Listing Rules.

By Order of the Board
Zhang Zhengqing
Chairman

Shenzhen, the PRC, 13th March, 2001