Notes to the Financial Statements

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

1. ORGANISATION AND OPERATIONS

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 to take over and operate certain railroad and other businesses (the "Businesses").

Prior to the formation of the Company, the Businesses were carried on by the Company's predecessor, Guangshen Railway Company (the "Predecessor"), and certain of its subsidiaries, and in certain cases, by Guangzhou Railway (Group) Company (the "Parent Company") and certain of its subsidiaries, which were all under the common control and jurisdiction of the PRC Ministry of Railways (the "MOR"). The Predecessor was controlled by and under the administration of the Parent Company. Pursuant to a restructuring agreement entered into among the Parent Company, the Predecessor and the Company on March 8, 1996 and with effect from March 6, 1996 (the "Restructuring Agreement"), the Company issued to the Parent Company 100% of its equity interest in the form of 2,904,250,000 shares of ordinary shares (the "State-owned Domestic Shares") in exchange for the assets and liabilities of the Businesses (the "Restructuring").

In May 1996, the Company issued 1,431,300,000 shares, represented by 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 to finance the capital expenditures and working capital requirements of the Company and its subsidiaries.

The principal activities of the Company and its subsidiaries are railroad passenger and freight transportation. The Company and its subsidiaries also operate certain other businesses, principally services in the stations and sales of food, beverages and merchandise aboard the trains and in the stations.

The directors of the Company considered Guangzhou Railway (Group) Company, a company incorporated in the PRC, to be the ultimate holding company.

On December 7, 2000, the directors of the Company announced that the Company intended to apply to the China Securities Regulatory Commission for the allotment and issue of not more than 550 million new domestic ordinary shares ("A Shares") to institutional and public investors in the PRC and such A Shares are proposed to be listed on the Shanghai Stock Exchange. The net proceeds of the proposed issue of A Shares are intended to be used to finance the construction of the fourth rail track of the Company.

The financial statements were authorised for issue by the Audit Committee subsequent to their meeting held on March 9, 2001 in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiaries are as follows:

(a) Basis of presentation

The accompanying financial statements are prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC"). This basis of accounting differs from that used in the management accounts of the Company and its subsidiaries which were prepared in accordance with generally accepted accounting principles and relevant financial regulations in the PRC ("PRC GAAP").

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

The impact of IAS adjustments on consolidated profit attributable to shareholders and consolidated net assets are set forth in Note 32.

As supplemental information for North American shareholders, the differences between IAS and generally accepted accounting principles in the United States of America ("US GAAP") are set forth in Note 33.

(b) Principles of consolidation

The consolidated financial statements include those of the Company and its subsidiaries and also incorporate the Company's and its subsidiaries' interest in associates on the basis as set out in Note 2(f) below. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheets and consolidated income statements, respectively.

All significant intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(c) Fixed assets and depreciation

Fixed assets are stated at cost or revalued amount less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the fixed assets have become ready for its intended use, such as repairs and maintenance and overhaul costs, are recognised as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the asset.

Depreciation is calculated using the straight-line method to write off the cost or revalued amount, after taking into account the estimated residual value of 4% to 10% of cost, of each asset over its expected useful life. The estimated useful lives are as follows:

Land use right	Over the land use right period of 36.5 to 50 years
Buildings	25 to 40 years
Track, bridges and service roads	44 years
Locomotives and rolling stock	16 years
Communications and signaling systems	8 to 20 years
Other machinery and equipment	7 to 25 years

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their cost or revalued amounts and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

Certain fixed assets are stated at revalued amount less accumulated depreciation and accumulated impairment loss. Valuation by directors is performed annually. Any increase in valuation is credited to the revaluation reserve in shareholders' equity; any decrease is first offset against an increase on earlier valuation in respect of the same asset and is thereafter charged to the income statement. Increase on revaluation directly related to a previous decrease in carrying amount for the same asset that was recognised as an expense is credited to income to the extent that it offsets the previously recorded decrease.

Upon the disposal of revalued asset, the realised portion of the revaluation reserve is transferred from the valuation reserve to retained profits.

All land in the PRC is state-owned and no individual land ownership right exists. As part of the Restructuring, the Company and its subsidiaries acquired the right to use certain land for its rail line, stations and other businesses. The recorded value of these rights is being amortised over the land use right periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(d) Construction-in-progress

Construction-in-progress represents facilities, including railroad stations and maintenance facilities, under construction and plant and machinery pending installation, and is stated at cost. This includes cost of construction, the costs of plant and equipment, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for use.

(e) Subsidiaries

A subsidiary is a company which the Company controls. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investments in subsidiaries are carried at cost less provision for impairment in value. The results of the subsidiaries' operations are accounted for to the extent of dividends received and receivable. An assessment of investments in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(f) Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investments in associates are accounted for in the consolidated financial statements using the equity method.

Investments in associates are carried at cost less provision for impairment in value. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist. The results of the associates' operations are accounted for by the Company to the extent of dividends received and receivable.

(g) Long-term investment

Investment held for the long term is stated at cost less any impairment in value. An assessment of long-term investment is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

Upon disposal of a long-term investment, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

Notes to the Financial Statements *(Cont'd)*

December 31, 2000

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(h) Deferred staff costs

The Company and its subsidiaries have finalized a scheme for selling staff quarters to its staff in 2000. Under the scheme, the Company and its subsidiaries sold certain staff quarters to their employees at preferential prices as housing benefits to the employees. The total housing benefits, which represented the difference between the net book value of the staff quarters sold and the proceeds collected from the employees, are expected to benefit the Company and its subsidiaries over 15 years, which is the estimated remaining average service lives of the employees participated in the scheme. Upon the sales of staff quarters to the employees, the housing benefits incurred are recorded as deferred staff costs and amortised over the remaining average service lives of the employees participated in the scheme.

(i) Temporary cash investments

Temporary cash investments represent short-term deposits with original maturities ranging from three months to one year and are stated at cost.

(j) Materials and supplies

Materials and supplies consist mainly of items for repair and maintenance of track, and are stated at weighted average cost. Materials and supplies are expensed when used.

(k) Receivables

Receivables are stated at face value, after provision for doubtful accounts.

(l) Cash and cash equivalents

Cash represents cash on hand and deposits with banks or other financial institutions that are repayable on demand.

Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(m) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(n) Provision

A provision is recognised when, and only when an enterprise has a present legal obligation as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(o) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Rendering of services and sales of goods

Railroad revenues are recognised when services are performed. Revenues from other businesses include sales aboard the trains and in the stations of food, beverages and other merchandise and revenues from operating restaurants in major stations. Revenues from operating restaurants are recognised when services are rendered.

Sales aboard the trains and in the stations of food, beverages and merchandise are recognised upon delivery, when the significant risks and rewards of ownership of these goods have been transferred to the buyer.

Revenues are net of turnover tax.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on the assets.

(iii) Dividend income

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

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(p) Taxation

The Company and its subsidiaries provide for income tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. Taxation of the Company and its subsidiaries is based on the relevant tax laws and regulations applicable to enterprises established in the PRC.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised.

(q) Foreign currency transactions

The Company and its subsidiaries maintain their books and records in RMB. Transactions in other currencies are translated into the reporting currency at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences, other than those capitalised in fixed assets, are recognised in the consolidated income statement in the period in which they arise.

(r) Employee benefits

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Company and its subsidiaries' local staff are to be made monthly to a government agency based on 10% of the standard salary set by the provincial government, of which 5% is borne by the Company or its subsidiaries and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Company and its subsidiaries account for these contributions on an accrual basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(s) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalent, temporary cash investments, accounts receivable and payable, other receivables and payables and long-term investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company or its subsidiary has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(t) Impairment of assets

Fixed assets and investments in associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of fixed assets and investments in associates carried at cost and treated as a revaluation decrease for fixed assets that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income or as a revaluation increase.

(u) Segments

Business segments: for management purposes the Company and its subsidiaries are organised into railroad transportation and other business operations. The divisions are the basis upon which the Company and its subsidiaries report their primary segment information. Financial information on business segments is presented in Note 26.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(v) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(w) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(x) New accounting development

The IASC has recently revised IAS 10 "Events After the Balance Sheet Date" which is effective for financial statements covering periods beginning on or after January 1, 2000, and issued IAS 36 "Impairment of Assets", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 38 "Intangible Assets" which are effective for financial statements covering periods beginning on or after July 1, 1999. The Company and its subsidiaries have implemented these standards and the adoption of these new standards did not have a material impact on the reported financial position or results of the Company and its subsidiaries (except for IAS 10).

In addition, the IASC has recently issued IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" which are effective for financial statement covering periods beginning on or after January 1, 2001. The Company and its subsidiaries are currently evaluating the requirements of these standards and the potential impact on the Company and its subsidiaries' consolidated results and consolidated net assets is not expected to be material.

3. FIXED ASSETS

Movements in fixed assets of the Company and its subsidiaries were:

	2000							1999
	Land use rights RMB'000	**Buildings** RMB'000	**Track, bridges and service roads** RMB'000	**Locomotives and rolling stock** RMB'000	**Communications and signaling systems** RMB'000	**Other machinery and equipment** RMB'000	**Total** RMB'000	**Total** RMB'000
Cost/valuation								
Beginning of year	769,724	2,030,013	3,838,250	669,826	524,511	1,359,213	9,191,537	9,025,216
Additions	—	103,109	742	145,032	2,966	35,085	286,934	30,650
Transfer from construction-in-progress	—	147,010	265,568	43,458	2,390	43,572	501,998	158,571
Disposal	—	(171,634)	(1,715)	(8,854)	(19,184)	(11,427)	(212,814)	(22,900)
End of year	769,724	2,108,498	4,102,845	849,462	510,683	1,426,443	9,767,655	9,191,537
Representing:								
At cost	769,724	444,018	1,151,004	546,088	107,094	1,075,380	4,093,308	3,472,302
At professional valuation	—	1,664,480	2,951,841	303,374	403,589	351,063	5,674,347	5,719,235
	769,724	2,108,498	4,102,845	849,462	510,683	1,426,443	9,767,655	9,191,537
Accumulated depreciation								
Beginning of year	59,099	256,833	732,553	179,770	213,303	282,018	1,723,576	1,421,842
Charges for the year	15,394	43,559	121,406	44,699	52,385	46,746	324,189	311,420
Disposal	—	(14,792)	(1,637)	(8,812)	(15,074)	(9,933)	(50,248)	(9,686)
End of year	74,493	285,600	852,322	215,657	250,614	318,831	1,997,517	1,723,576
Net book value								
End of year	695,231	1,822,898	3,250,523	633,805	260,069	1,107,612	7,770,138	7,467,961
Beginning of year	710,625	1,773,180	3,105,697	490,056	311,208	1,077,195	7,467,961	7,603,374

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts at year end would have been:

Cost	769,724	1,269,959	3,324,244	825,171	479,757	1,310,992	7,979,847	7,403,729
Accumulated depreciation	(74,493)	(163,677)	(527,379)	(176,762)	(235,645)	(289,897)	(1,467,853)	(1,242,335)
	695,231	1,106,282	2,796,865	648,409	244,112	1,021,095	6,511,994	6,161,394

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

3. FIXED ASSETS *(Cont'd)*

Movements in fixed assets of the Company were:

	2000							1999
	Land use rights RMB'000	Buildings RMB'000	Track, bridges and service roads RMB'000	Locomotives and rolling stock RMB'000	Communications and signaling systems RMB'000	Other machinery and equipment RMB'000	Total RMB'000	Total RMB'000
Cost/valuation								
Beginning of year	769,724	1,924,961	3,764,449	669,195	520,931	1,309,871	8,959,131	8,787,607
Additions	—	103,110	—	145,032	2,800	29,365	280,307	29,551
Transfer from construction-in-progress	—	144,473	265,568	43,458	2,390	43,571	499,460	158,518
Disposal	—	(171,634)	(1,717)	(8,736)	(19,184)	(6,166)	(207,437)	(16,545)
End of year	769,724	2,000,910	4,028,300	848,949	506,937	1,376,641	9,531,461	8,959,131
Representing:								
At cost	769,724	419,305	1,147,978	545,287	103,069	1,042,557	4,027,920	3,416,075
At professional valuation	—	1,581,605	2,880,322	303,662	403,868	334,084	5,503,541	5,543,056
	769,724	2,000,910	4,028,300	848,949	506,937	1,376,641	9,531,461	8,959,131
Accumulated depreciation								
Beginning of year	59,099	221,121	707,811	179,339	208,294	254,227	1,629,891	1,337,892
Charges for the year	15,394	38,481	115,877	44,732	55,968	37,791	308,243	297,497
Disposal	—	(14,792)	(1,637)	(8,736)	(15,074)	(4,911)	(45,150)	(5,498)
End of year	74,493	244,810	822,051	215,335	249,188	287,107	1,892,984	1,629,891
Net book value								
End of year	695,231	1,756,100	3,206,249	633,614	257,749	1,089,534	7,638,477	7,329,240
Beginning of year	710,625	1,703,840	3,056,638	489,856	312,637	1,055,644	7,329,240	7,449,715

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts at year end would have been:

	Land use rights	Buildings	Track, bridges and service roads	Locomotives and rolling stock	Communications and signaling systems	Other machinery and equipment	Total 2000	Total 1999
Cost	769,724	1,171,392	3,249,699	825,228	476,010	1,270,765	7,762,818	7,190,488
Accumulated depreciation	(74,493)	(125,414)	(497,108)	(176,701)	(234,223)	(272,406)	(1,380,345)	(1,164,503)
	695,231	1,045,978	2,752,591	648,527	241,787	998,359	6,382,473	6,025,985

On March 6, 1996, the fixed assets of the Company and its subsidiaries were revalued by Vigers Hong Kong Limited (the "Valuer"), a qualified independent valuer in Hong Kong, using a replacement cost approach and open market value approach. The replacement cost approach considers the cost to replace in new condition the assets appraised for similar assets, and includes purchase price, delivery charge and installation cost. The purchase price is based on the open market value. The Valuer assumed that the assets will be used for the purposes for which they are presently used and did not consider alternative uses. The revaluation surplus of fixed assets amounting to approximately RMB1,492,185,000 was recorded by the Company and its subsidiaries as of March 6, 1996, and depreciation on the increment to fixed assets commenced on that date. Upon the Restructuring, the revaluation surplus was converted to shares alloted to the Parent Company.

4. CONSTRUCTION-IN-PROGRESS

	Consolidated		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*
Beginning of year	**653,958**	394,049	**622,011**	337,110
Additions	**217,325**	418,480	**223,347**	443,419
Transfer to fixed assets	**(501,998)**	(158,571)	**(499,460)**	(158,518)
End of year	**369,285**	653,958	**345,898**	622,011

As of December 31, 2000, there was no interest capitalised in the construction-in-progress as the Company and its subsidiaries had no bank borrowings.

5. INVESTMENTS IN SUBSIDIARIES

In the balance sheet of the Company, investments in subsidiaries as of December 31, 2000 comprised the following:

	Company	
	2000	1999
	RMB'000	RMB'000
		(Note 35)
Investments	**110,780**	120,777
Due from subsidiaries	**49,102**	68,888
	159,882	189,665

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

The Company's directors are of the opinion that the recoverable amount of the subsidiaries was not less than the Company's carrying value of the subsidiaries as of year end.

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

5. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

As of December 31, 2000, the Company had direct or indirect interests in the following principal subsidiaries which were established and are operating in the PRC:

Name of the entity	Date of Incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Guangzhou East Station Passenger Services Company	November 23, 1988	100%	RMB1,440,000	Food services and travel agency
Shenzhen Fu Yuan Enterprise Development Company	November 1, 1991	100%	RMB18,000,000	Hotel management
Shenzhen Guangshen Railway Civil Engineering Company	March 1, 1984	100%	RMB6,660,000	Construction of railroad properties
Shenzhen Guangshen Railway Travel Service Ltd.	August 16, 1995	100%	RMB2,400,000	Travel agency
Shenzhen Jian Kai Trade Company	December 6, 1993	100%	RMB2,000,000	Construction materials trading
Shenzhen North Station Auto Repair Plant*	April 19, 1993	100%	RMB3,500,000	Repair and maintenance of vehicles
Shenzhen North Station Loading and Unloading Transportation Company*	September 20, 1993	100%	RMB3,750,000	Cargo loading and unloading, freight transportation
Shenzhen North Station Railway Industry Technology Development Company*	March 10, 1993	100%	RMB1,640,000	Maintenance of equipment
Shenzhen Xiang Qun Enterprise Company	June 30, 1994	100%	RMB2,000,000	Sales of merchandise
Shenzhen Jing Ming Industrial & Commercial Company Limited (i)	January 18, 1994	100%	RMB2,110,000	Maintenance of water and electrical equipment
Shenzhen Yuezheng Enterprise Company Limited* (i)	June 24, 1996	91%	RMB1,000,000	Freight transport agency, cargo loading and unloading, warehousing
Guangzhou Donglian Travel Service Company Limited* (ii)	April 6, 1991	70%	RMB6,393,965	Food services
Shenzhen Railway Station Travel Service Company (ii)	January 1, 1990	70%	RMB6,720,000	Food services and sales of merchandise
Shenzhen Hongdali Auto Repair Company Limited* (i)	January 3, 1995	60%	RMB1,300,000	Repair and maintenance of vehicles
Shenzhen Road Multi-modal Transportation Company Limited* (i)	March 17, 1994	60%	RMB1,000,000	Freight transportation
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 Huasheng Container Transportation Company Limited (ii)	December 4, 1991	53%	RMB13,488,000	Warehousing
Dongguan Changsheng Enterprise Company	May 22, 1992	51%	RMB5,686,000	Warehousing
Beijing Guangshen Hotel	December 21, 1995	100%	RMB4,000,000	Hotel management

** These are subsidiaries which are indirectly owned by the Company through subsidiaries.*

(i) Companies with limited liability
(ii) Sino-foreign contractual joint ventures

6. INTERESTS IN ASSOCIATES

Supplementary financial information of associates:

	Consolidated	
	2000	1999
	RMB'000	RMB'000
		(Note 35)
Consolidated balance sheet		
The Company's share of net identifiable assets of associates	**118,133**	38,593
Due from associates	**67,718**	114,753
Due to associates	**(578)**	(1,839)
	185,273	151,507
Less: Provision for impairment in value	**(29,689)**	(29,689)
Provision for doubtful accounts	**(33,362)**	(33,110)
	122,222	88,708
Consolidated income statement		
The Company's share of associates':		
(Loss) profit before taxation	**(60)**	742
Taxation	**(112)**	(96)
Dividends	**425**	654
Net profit	**253**	1,300

	Company	
	2000	1999
	RMB'000	RMB'000
		(Note 35)
Investments in associates	**114,580**	34,995
Amounts due from associates	**66,467**	112,489
Amounts due to associates	**(378)**	(296)
	180,669	147,188
Less: Provision for impairment in value	**(29,689)**	(29,689)
Provision for doubtful accounts	**(33,110)**	(33,110)
	117,870	84,389

The amounts due from/to associates are unsecured, interest free and had no fixed repayment dates.The Company's directors are of the opinion that the recoverable amount of the associates are not less than the Company's carrying value of the associates as of year end.

Notes to the Financial Statements *(Cont'd)*

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6. INTERESTS IN ASSOCIATES *(Cont'd)*

As of December 31, 2000, the Company had direct or indirect interests in the following companies which were established and are operating in the PRC:

Name of the entity	Date of Incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Guangzhou Dongqun Advertising Company Limited* (i)	March 6, 1996	40%	RMB500,000	Design and production of advertisements
Guangzhou Tielian Economy Development Company Limited (i)	December 27, 1994	34%	RMB1,000,000	Warehousing and freight transport agency
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
Zengcheng Lihua Stock Company Limited (ii)	July 30, 1992	27%	RMB100,000,000	Real estate, warehousing, cargo loading and unloading
Guangzhou Tiecheng Enterprise Company Limted (i)	May 2, 1995	49%	RMB10,000,000	Properties management and trading of merchandise
Shenzhen Huatie Enterprise Company Limited** (iii)	August 31, 1993	51%	RMB170,000,000	Production of construction materials

* These are associates which are indirectly owned by the Company through subsidiaries.

** Pursuant to a resolution of Board of Directors of Shenzhen Huatie Enterprise Company Limited ("Hua Tie") dated August 20, 1998, the Company's equity interest in this company was increased from 32% to 51%. However, the Company was temporarily unable to exercise control over the financial and operating decisions of Hua Tie. In addition, relevant legal procedures for the change of equity structure have not been completed or approved by the relevant regulatory authorities. In conforming to IAS, the consolidated income statement of the Company and its subsidiaries only accounted for the results of Hua Tie to the extent of dividend received and receivable.

(i) Companies with limited liability
(ii) Joint stock company with limited liability
(iii) Sino-foreign equity joint ventures

7. LONG-TERM INVESTMENT

Long-term investment represented the Company's investment in Shenzhen Innovation Technology Investment Co., Ltd., representing its 4.29% equity interest in the company. The directors of the Company are of the opinion that the recoverable amount of the long-term investment was not less than carrying value of the long-term investment as of year end.

8. DEFERRED TAX ASSETS (LIABILITIES)

Components of deferred tax (liabilities) assets were as follows:

	2000	1999
	RMB'000	RMB'000
		(Note 35)
Deferred tax (liabilities) assets:		
— Provision for doubtful accounts	**(2,333)**	2,700

9. DEFERRED STAFF COSTS

	As of December 31, 2000	
	Consolidated	**Company**
Deferred staff costs, at cost	216,910	216,910
Less: Accumulated amortisation	(14,461)	(14,461)
	202,449	202,449

Notes to the Financial Statements *(Cont'd)*

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10. ACCOUNTS RECEIVABLE, NET

	Consolidated		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*
Accounts receivable	**96,077**	109,063	**67,474**	72,047
Less: Provision for doubtful accounts	**(8,633)**	(8,284)	**(6,609)**	(6,482)
	87,444	100,779	**60,865**	65,565

The aging analysis of accounts receivable was as follows:

	Consolidated		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*
Within 1 year	**41,956**	33,149	**38,167**	25,774
Over 1 year but within 2 years	**16,545**	24,983	**5,269**	24,983
Over 2 years but within 3 years	**14,112**	33,520	**14,112**	17,114
Over 3 years	**23,464**	17,411	**9,926**	4,176
	96,077	109,063	**67,474**	72,047

11. PREPAYMENTS AND OTHER RECEIVABLES, NET

	Consolidated		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*
Prepayments and other receivables	**215,217**	167,514	**179,889**	149,818
Less: Provision for doubtful accounts	**(19,144)**	(4,500)	**(12,931)**	(4,500)
	196,073	163,014	**166,958**	145,318

12. TEMPORARY CASH INVESTMENTS

	Note	Consolidated 2000 RMB'000	Consolidated 1999 RMB'000 *(Note 35)*	Company 2000 RMB'000	Company 1999 RMB'000 *(Note 35)*
Temporary cash investments in banks (see Note 27)	*(a)*	**1,147,301**	830,791	**1,147,301**	830,791
Temporary cash investments in the MOR's Railway Deposits-taking Centre	*(b)*	**304,029**	681,989	**304,029**	681,989
		1,451,330	1,512,780	**1,451,330**	1,512,780

(a) Temporary cash investments in banks consist of short-term deposits denominated in RMB, Hong Kong dollars ("HK$") and United States dollars ("USD") with original maturities ranging from six months to one year, placed with banks in the PRC. The annual interest rates of RMB deposits ranged from 2.16% to 2.88% in 2000 (1999: from 2.16% to 2.88%), the annual interest rates of HK$ deposits ranged from 5.13% to 6.45% in 2000 (1999: from 4.88% to 5.31%) and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0.1%. Total interest earned from such deposits amounted to approximately RMB44,382,000 for the year (1999: approximately RMB29,198,000). As of December 31, 2000, USD1,000,000 (1999: Nil) of temporary cash investments in banks were pledged as security for a letter of credit issued for certain capital expenditures (see Note 30(a)).

(b) Temporary cash investments in the MOR's Railroad Deposit-taking Center consist of short-term deposits denominated in RMB and USD with original maturities ranging from six months to one year. The annual interest rates of RMB deposits ranged from 2.16% to 3.78% in 2000 (1999: from 2.16% to 3.78%) and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0.1%. Total interest earned from such deposits amounted to approximately RMB28,792,000 (1999: approximately RMB54,726,000) for the year (see Note 25(b)).

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

13. ACCOUNTS PAYABLE

The aging analysis of accounts payable was as follows:

	Consolidated		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*
Within 1 year	**52,766**	45,407	**52,665**	34,215
Over 1 year but within 2 years	**8,104**	3,810	**6,255**	1,305
Over 2 years but within 3 years	**—**	369	**—**	369
Over 3 years	**277**	—	**82**	—
	61,147	49,586	**59,002**	35,889

14. SHARE CAPITAL

As of December 31, 2000, the authorised capital of the Company consisted of ordinary shares of par value RMB1.00 per share:

	Number of shares '000	Nominal value RMB'000	Percentage of share capital
Authorised, issued and fully paid or credited as fully paid:			
Domestic legal person shares	2,904,250	2,904,250	67%
H Shares	1,431,300	1,431,300	33%
	4,335,550	4,335,550	100%

15. RESERVES

According to the articles of association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its net profit after tax based on the Company's local statutory accounts for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered share capital) and 5% to 10% for the statutory public welfare fund at a percentage determined by the directors. The Company may make appropriation from its net profit to the discretionary surplus reserve provided it is approved by a resolution of 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 prior approval from a shareholders' general meeting under certain conditions.

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

15. RESERVES *(Cont'd)*

The statutory public welfare fund is used to build or acquire capital items, such as dormitories and other facilities for the Company's employees and cannot be used to pay for welfare expenses. Title of these capital items will remain with the Company.

The statutory surplus reserve, the discretionary surplus reserve and the share premium may be converted into share capital provided it is approved by a resolution at a shareholders' general meeting and the balance of the statutory surplus reserve does not fall below 25% of the registered share capital. The Company may either distribute new shares in proportion to the number of shares held by shareholders, or increase the par value of each share.

For the current year, the directors proposed the following appropriations to reserves:

	Year ended December 31,			
	2000		1999	
	Percentage	**RMB'000**	Percentage *(Note 35)*	RMB'000 *(Note 35)*
The Company				
Statutory surplus reserve	**10%**	**52,625**	10%	54,950
Statutory public welfare fund	**10%**	**52,625**	10%	54,950
Discretionary surplus reserve *(see Note 23)*	**10%**	**54,950**	10%	64,407
	30%	**160,200**	30%	174,307
Subsidiaries				
Statutory surplus reserve		**1,177**		2,808
Statutory public welfare fund		**982**		1,481
		2,159		4,289
		162,359		178,596

In accordance with the articles of association of the Company, dividends are determined based on the least of profits determined in accordance with (a) PRC GAAP, (b) IAS and (c) the accounting standards of the countries in which its shares are listed. As the statutory accounts have been prepared in accordance with PRC GAAP, the retained earnings as reported in the statutory accounts may be different from the amount reported in the accompanying consolidated income statement.

As of December 31, 2000, the reserve of the Company available for distribution determined in accordance with PRC GAAP, IAS and US GAAP were approximately RMB206,619,000 (1999: approximately RMB367,115,000), RMB635,697,000 (1999: approximately RMB814,455,000), and RMB834,632,000 (1999: approximately RMB917,282,000), respectively.

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

16. RETIREMENT BENEFITS

All the full-time staff of the Company and its subsidiaries are covered by a pension scheme. Pursuant to a circular dated October 24, 1995 issued by the Parent Company, the Company is required to pay to the Parent Company an amount equivalent to 19% of the salary and certain amount of bonus of the staff for pension benefits, and the Parent Company is responsible for the ultimate pension liability to the staff. During the year, the percentage borne by the Company changed to 18% pursuant to another circular dated December 21, 2000 issued by the Parent Company.

Pension expenses for the year were as follows:

	2000	1999
	RMB'000	RMB'000
		(Note 35)
Pension expenses	27,396	22,816

Pension obligations as of December 31, 2000 were as follows:

	Consolidated		**Company**	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*
Pension obligations	**12,773**	16,905	**12,675**	16,905

17. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' and supervisors' emoluments were as follows:

	2000	1999
	RMB'000	RMB'000
Fees for executive directors	**288**	257
Fees for non-executive directors	**334**	295
Fees for supervisors	**—**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**24**	18
— Bonus	**—**	—
— Retirement benefits	**9**	15
Other emoluments for non-executive directors	**30**	27
Other emoluments for supervisors	**170**	266
	855	878

No director waived any emoluments during the year.

17. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

(b) Analysis of directors' emoluments by number of directors and emolument ranges was as follows:

	2000	1999
Executive directors		
— Nil to RMB1,000,000	**4**	4
Non-executive directors		
— Nil to RMB1,000,000	**5**	5

(c) Details of emoluments paid to the five highest paid individuals (including directors and employees) were as follows:

	2000 **RMB'000**	1999 RMB'000
Fees for directors	**466**	417
Basic salaries and allowances	**51**	45
Bonus	**63**	72
Retirement benefits	**10**	17
	590	551

	2000	1999
Number of directors	**4**	4
Number of employees	**1**	1
	5	5

(d) Analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emolument ranges was as follows:

	2000	1999
Nil to RMB1,000,000	**5**	5

During the year, no emolument (1999: Nil) were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Company and its subsidiaries or as compensation for loss of office.

Notes to the Financial Statements *(Cont'd)*

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

18. PROFIT BEFORE TAX

The consolidated profit before taxation was determined after charging (crediting) the following:

	2000 RMB'000	1999 RMB'000 *(Note 35)*
Staff costs		
— Salaries and wages	**177,176**	169,409
— Provision for staff welfare and bonus	**134,583**	107,456
— Retirement benefits	**27,396**	22,816
— Employee benefits	**19,839**	15,048
Operating lease rentals of equipment	**199,872**	194,353
Depreciation of fixed assets	**324,189**	311,420
Provision for doubtful accounts	**17,030**	23,145
Directors, supervisors and senior executives' emoluments	**1,380**	1,307
Auditors' remuneration	**3,800**	2,600
Amortisation of deferred staff costs	**14,461**	—
Exchange losses	**1,528**	1,296
Interest expense	**3,887**	404
Interest income	**(80,452)**	(94,712)

19. INCOME TAX EXPENSE

Enterprises established in Shenzhen Special Economic Zone are subject to income tax at a reduced rate of 15% as compared with the standard rate for PRC companies of 33%. The Shenzhen Municipal Tax Bureau confirmed in 1996 that the Company is subject to a reduced income tax rate of 15% starting from the same year. Pursuant to an approval from Shenzhen Municipal Tax Bureau dated November 12, 1997, the Company is entitled to a 50% further reduction of income tax arising from the Guangzhou-Shenzhen high speed train services in the years ended December 31, 1997, 1998 and 1999. The income tax rate of the Company for the year ended December 31, 2000 is 15%.

According to the relevant income tax laws, other businesses of the Company and its subsidiaries are subject to income tax rates of 15% or 33%, depending mainly on their places of incorporation. Furthermore, certain subsidiaries engaged in other businesses are Sino-foreign joint ventures which are entitled to full exemption from the PRC income tax for two years and a 50% reduction in the next three years starting from the first profit-making year, after offsetting available tax losses carried forward from prior years. There is no material effect on the consolidated financial statements of the Company arising from these tax holidays.

Save as described above, the directors of the Company are not being informed of any change in the enterprise income tax treatment applicable to the Company and its subsidiaries. In addition, in the opinion of the directors of the Company, any "Pay first, Refund then" tax policies set out by any local government are not applicable to the Company or any of its subsidiaries.

19. INCOME TAX EXPENSE *(Cont'd)*

Details of taxation charged to the consolidated income statement during the year were as follows:

	2000 RMB'000	1999 RMB'000 *(Note 35)*
Provision for PRC income tax	**94,347**	52,929
Deferred tax loss (income) resulting from provision for doubtful accounts	**5,033**	(2,700)
	99,380	50,229

The reconciliation of the statutory tax rate to effective tax rate is as follows:

	2000		1999	
	RMB'000	**Percentage**	RMB'000 *(Note 35)*	Percentage *(Note 35)*
Accounting profit	**590,687**	**100.0%**	579,868	100.0%
Income tax at the statutory tax rates of 15%	**88,603**	**15.0%**	86,980	15.0%
Tax effect of expenses that are not deductible in determining taxable profit:				
— Provision for doubtful accounts	**7,216**	**1.2%**	—	—
— Amortisation of deferred staff costs	**2,709**	**0.5%**	—	—
Effect of tax reduction on high speed train services	—	—	(35,985)	(6.2%)
Effect of different tax rates for certain subsidiaries and others	**852**	**0.1%**	(766)	(0.1%)
Income tax expense	**99,380**	**16.8%**	50,229	8.7%

Pursuant to various tax rules and regulations, the Company and its subsidiaries are subject to turnover taxes payable to the national and local tax authorities for the year at the following rates:

Segment	
Railroad businesses	3%
Sales of merchandise	*
Sales of food and beverages	5%
Operating restaurants	5%

* Value-added tax ("VAT") on sales of merchandise is levied at the rate of 17% of the invoiced value of goods and is payable by the customers. VAT paid on purchases of merchandise can be used to offset VAT on sales to determine the net VAT payable. Revenues from railroad businesses, sales of food and beverages and operating restaurants are not subject to VAT but instead are subject to business tax which is also a kind of turnover tax.

Notes to the Financial Statements *(Cont'd)*

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20. DIVIDENDS

In 2000, the directors have recommended and paid a final dividend of RMB0.12 (1999: RMB0.10) per share in respect of the financial year ended December 31, 1999, totaling RMB520,266,000 (1999: RMB433,555,000).

21. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

In the consolidated profit attributable to shareholders for the year, approximately RMB501,708,000 (1999: approximately RMB523,371,000) was dealt with in the financial statements of the Company.

22. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period attributable to ordinary shareholders of RMB492,089,000 (1999: RMB529,674,000), divided by the weighted average number of ordinary shares outstanding during the year of 4,335,550,000 shares (1999 : 4,335,550,000 shares). No diluted earnings per share were presented as there were no dilutive potential ordinary shares as of year end.

23. CHANGE IN ACCOUNTING POLICY

During the year, the Company changed its accounting policy with respect to the revised IAS 10, which states that dividends proposed or declared after the balance sheet date should not be recognised as a liability at the balance sheet date. In addition, appropriation of profit into discretionary surplus reserve that is proposed or decided after the balance sheet date should be treated as a non-adjusting event. This change in accounting policy has been accounted for retrospectively. The comparative statement for 1999 has been restated to conform to the changed policy. The effect of the change for 2000 is an increase in dividends of RMB86,711,000 and an increase in discretionary surplus reserve of approximately RMB54,950,000 (1999 : an decrease in dividends of RMB86,711,000 and an increase in discretionary surplus reserve of approximately RMB9,457,000). Beginning retained profits for 1999 have been increased by approximately RMB497,962,000 which is the net effect of the adjustments relating to periods prior to 1999.

24. CASH GENERATED FROM OPERATIONS

(a) Reconciliation from profit before tax but after minority interests to cash generated from operations:

	2000 RMB'000	1999 RMB'000 *(Note 35)*
Cash Flows From Operating Activities:		
Profit before taxation but after minority interests	**591,469**	579,903
Adjustments for:		
Depreciation	**324,189**	311,420
Disposal of fixed assets	**4,579**	13,214
Amortisation of deferred staff costs	**14,461**	—
Housing benefits charged for retired employees	**3,602**	—
Share of profit of associates	**(253)**	(1,300)
Provision for doubtful accounts	**17,030**	23,145
Minority interests	**(782)**	(35)
Interest expense	**3,887**	404
Interest income	**(80,452)**	(94,712)
Operating profit before working capital changes	**877,730**	832,039
Decrease (increase) in accounts receivable	**12,986**	(54,096)
(Increase) decrease in materials and supplies	**(5,526)**	8,938
Increase in prepayments and other current assets	**(47,702)**	(48,470)
Increase in due from Parent Company	**(32,119)**	(38,819)
Decrease (increase) in due from affiliates	**48,482**	(76,453)
Increase in accounts payable	**11,561**	1,933
Decrease in due to affiliates	**(90,594)**	—
Increase in accrued expenses and other payables	**22,382**	89,306
Cash generated from operations	**797,200**	714,378

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

	2000 RMB'000	1999 RMB'000
Cash and bank deposits	**330,054**	579,405

Notes to the Financial Statements *(Cont'd)*

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25. RELATED PARTY TRANSACTIONS

(a) During the year, the Company and its subsidiaries had the following material transactions with related parties:

Recurring transactions

A significant portion of transactions undertaken by the Company and its subsidiaries during the year was with related PRC state-owned enterprises and on such terms as determined by the relevant PRC authorities and stipulated in the related agreements entered into with these parties. The following is a summary of significant recurring transactions carried out in the ordinary course of business by the Company and its subsidiaries with affiliates during the year:

	Year ended 31st December,	
	2000	1999
	RMB'000	RMB'000
		(Note 35)
Lease of locomotives and related services from Yang Cheng Railway Company, a subsidiary of the Parent Company (i)*	**132,576**	130,501
Provision of trains and related services from Guangmeishan Railway Company Limited, a subsidiary of the Parent Company*	**23,839**	22,564
Provision of trains and related services from Sanmao Railway Company Limited, an associate of the Parent Company*	**3,546**	2,866
Provision of trains and related services from Changsha Railway Company, a subsidiary of the Parent Company*	**5,336**	7,348
Provision of trains and related services from Huaihua Railway Company, a subsidiary of the Parent Company*	**3,317**	—
Purchases of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of the Parent Company*	**22,846**	3,822

25. RELATED PARTY TRANSACTIONS *(Cont'd)*

	Year ended 31st December, 2000 RMB'000	1999 RMB'000 *(Note 35)*
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the Parent Company and affiliates (including Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company ("GEDC"))*	**58,300**	56,700
Operating lease rentals paid to the MOR**	**50,435**	49,106
Operating lease rentals and maintenance fee paid to Guangzhou Zhongche Railway Locomotive Vehicle Tenancy Co., Ltd., a subsidiary of the MOR**	**15,660**	23,290
Repair and maintenance fee paid to the Parent Company*	**—**	1,390
Interest received from the Parent Company (ii)*	**447**	981
Interest expenses paid to the Parent Company (ii)*	**3,886**	404
Interest received from the MOR's Railroad Deposit-taking Centre ** (see Note 12(b))	**25,792**	54,726
Interest received from Pingnan Railway Company Limited, an associate of the Parent Company (ii)*	**1,712**	1,684
Interest received from Guangmeishan Railway Company Limited (ii)*	**833**	2,945

* These transactions constituted connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Connected Transactions").

** These transactions did not constitute Connected Transactions.

(i) The lease agreement with Yang Cheng Railway Company was revised on March 6, 1996 and provides for a 10-year lease period starting from 1996. The lease with MOR is renewable annually.

(ii) The interest was resulted from the long-distance transportation services, which was calculated based on the average balances due from/to related parties on a quarterly basis, at the prevailing interest rates of six-month bank loans.

Substantially all the above transactions will continue in the future, although not necessarily on the same terms.

Notes to the Financial Statements *(Cont'd)*

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25. RELATED PARTY TRANSACTIONS *(Cont'd)*

Non-recurring transaction

Pursuant to an agreement with Chi Wen Trading Company Limited, a subsidiary of the Parent Company, dated January 25, 2000, the Company purchased a property from Chi Wen Trading Company at a consideration of HK$82,000,000 (equivalent to RMB87,330,000) plus relevant stamp duty for accommodating its through train officers when they are working in Hong Kong.

(b) As of December 31, 2000, the Company and its subsidiaries had the following material balances with related parties:

	Consolidated		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Temporary cash investments in the MOR's Railroad Deposit-taking Centre	**304,029**	681,989	**304,029**	681,989
Due from Parent Company	**80,604**	48,485	**83,183**	49,125
Due from affiliates, net*	**247,932**	298,199	**246,728**	286,170
Due to affiliates*	**(63,734)**	(154,328)	**(63,662)**	(142,679)

* Affiliates mainly include GEDC and Guangmeishan Railway Company Limited.

As of December 31, 2000, the balances with the MOR, the Parent Company and affiliates are unsecured, non-interest bearing and repayable on demand, except for those disclosed in Notes 12 and 25(a). These balances were resulted from transactions carried out by the Company and its subsidiaries with related parties in the ordinary course of business.

26. SEGMENT INFORMATION

The Company and its subsidiaries conduct the majority of their business activities in railroad and other business operations in Guangdong Province, the PRC. An analysis by business segment is as follows:

	Railroad businesses		Other businesses		Total	
	2000	1999	**2000**	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*		*(Note 35)*
Revenues	**1,786,983***	1,652,016*	**193,415**	166,800	**1,980,398**	1,818,816
Results						
Operating profit	**489,519**	462,375	**29,886**	15,545	**519,405**	477,920
Other income, net					**74,916**	101,052
Finance cost					**(3,887)**	(404)
Share of profit of associates	**253**			1,300	**253**	1,300
Provision for taxation					**(94,347)**	(52,929)
Deferred tax (loss) income					**(5,033)**	2,700
Minority interests					**782**	35
Profit attributable to shareholders					**492,089**	529,674
Other information						
Segment assets	**10,029,499**	10,256,746	**765,843**	625,042	**10,795,342**	10,881,788
Interests in associates	**121,352**	—	**870**	88,708	**122,222**	88,708
Total assets					**10,917,564**	10,970,496
Total liabilities	**796,587**	757,469	**85,539**	148,443	**882,126**	905,912
Capital expenditures	**420,356**	238,194	**83,903**	210,936	**504,259**	449,130
Non-cash expenses						
— Depreciation	**320,694**	308,411	**3,495**	3,009	**324,189**	311,420
— Provision for doubtful accounts	**16,261**	16,497	**769**	6,648	**17,030**	23,145
— Amortisation	**14,461**	—	**—**	—	**14,461**	—

Notes to the Financial Statements *(Cont'd)*

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

26. SEGMENT INFORMATION *(Cont'd)*

* Revenues from railroad businesses include:

	2000 RMB'000	1999 RMB'000
Passenger	**1,237,289**	1,114,046
Freight	**549,694**	537,970
Total	**1,786,983**	1,652,016

Cash flows by segment are as follows:

	Railroad businesses RMB'000	Other businesses RMB'000	Total RMB'000
Cash flows from:			
Operating activities	761,800	(32,611)	729,189
Investing activities	(449,140)	(8,947)	(458,087)
Financing activities	(520,453)	—	(520,453)
	(207,793)	(41,558)	(249,351)

27. CONTINGENCIES

As of December 31, 2000, the Company had fixed deposit in the principal amount of approximately RMB 31 million in ZengCheng City Li Cheng Credit Cooperative ("Li Cheng"). The Company had not been able to recover the principal in Li Cheng upon the expiry of the fixed deposit term. In March 1999, the Company instituted legal proceedings against Li Cheng to recover the deposit and the related interest. According to the court verdict dated October 12, 1999, Li Cheng was required to repay the deposit principal and the related interest to the Company. As Li Cheng failed to execute the court ruling, the Company further applied to the court for compulsory enforcement of the court order. In July 2000, Li Cheng filed a petition to the court for winding up. On November 9, 2000, the court ordered the suspension of execution of the court ruling dated October 12, 1999, while Li Cheng was undergoing a winding-up. On November 23, 2000, the Company applied to the Guangdong Provincial Government for allocation of special funds by the government to Li Cheng for repayment of the Company's deposit principal. The provincial government accepted the petition and requested the municipal government to follow up on the case. As of the date of this report, the outcome of the petition is still unknown and the Company does not have sufficient information to determine the amount of provision for doubtful accounts, if any, as of December 31, 2000. The Company will closely monitor the issue and will make provision as necessary when additional information becomes available to assess the final outcome.

28. FINANCIAL INSTRUMENTS

The carrying amounts of the cash and cash equivalents, temporary cash investments and accounts receivable and payables of the Company and its subsidiaries approximate their fair values because of the short maturity of those instruments. Cash and cash equivalents and temporary cash investments denominated in foreign currencies have been translated at the applicable market exchange rates prevailing at the balance sheet date. The Company has not had and does not believe it will have any difficulty in exchanging its foreign currency cash and cash equivalents for RMB.

As of December 31, 2000, cash and cash equivalents and temporary cash investments were mainly maintained with commercial banks in the PRC and the MOR's Railroad Deposit-taking Centre.

As of December 31, 2000, balances denominated in United States dolloars and Hong Kong dollars have been translated into RMB at the applicable market exchange rates as of that date. Details of these balances are as follows:

	2000
	RMB'000
Cash and cash equivalents	**69,467**
Temporary cash investments in banks	**1,087,766**
Temporary cash investments in the MOR's Railroad Deposit-taking Center	**80,215**

29. CONCENTRATION OF RISKS

(a) Credit risk

The carrying amount of cash and cash equivalents, accounts receivable and other receivables, and due from related parties and other current assets except for prepayments and deferred tax assets, represents the Company and its subsidiaries' maximum exposure to credit risk in relation to financial assets.

The majority of the Company and its subsidiaries' accounts receivables relate to the rendering of services or sales of products to third party customers. The Company and its subsidiaries perform ongoing credit evaluations of their customers' financial condition and generally do not require collateral on accounts receivable. The Company and its subsidiaries maintain a provision for doubtful accounts and actual losses have been within management's expectation.

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

(b) Interest rate risk

The directors of the Company and its subsidiaries believe that the exposure to interest rate risk of financial assets and liabilities as of December 31, 2000 was minimum since their deviation from their respective fair values was not significant.

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
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29. CONCENTRATION OF RISKS *(Cont'd)*

(c) Currency risk

Substantially all of the revenue-generating operations of the Company and its subsidiaries are transacted in Renminbi, which is not freely convertible into foreign currencies. On January 1, 1994, the Mainland China government abolished the dual rate system and introduced single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply free convertibility of Renminbi into foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institution requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

30. COMMITMENTS

(a) Capital commitments

As of December 31, 2000, the Company and its subsidiaries had the following capital commitments:

	2000 RMB'000	1999 RMB'000
Authorised and contracted for	**55,340**	196,625
Authorised but not contracted for	**—**	—
	55,340	196,625

An analysis of the above capital commitments by nature was as follows:

(i) Purchase of railroad equipment for the Company's High Speed Train Project amounted to approximately RMB24,834,000; and

(ii) Purchase of staff dormitories for the Company's Housing Reform Scheme amounted to approximately RMB30,506,000.

(b) Operating lease commitments

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

	2000 RMB'000	1999 RMB'000
Machinery and equipment		
— not more than one year	**91,125**	14,460
— later than one year and not later than five years	**455,625**	542,250
	546,750	556,710

31. SUBSEQUENT EVENTS

Pursuant to a board resolution dated March 13, 2001, the directors recommended the payment of a final dividend of RMB0.10 per share, totaling RMB433,555,000, and recommended that the retained profit of RMB615,185,000 as of December 31, 2000 be carried forward.

32. IMPACT OF IAS ADJUSTMENTS ON CONSOLIDATED PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND CONSOLIDATED NET ASSETS

	Consolidated profit attributable to shareholders for the year ended December 31,		Consolidated net assets as of December 31,	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 35)		*(Note 35)*
As reported in statutory accounts (audited by certified public accountants in the PRC)	**526,252**	549,501	**9,763,204**	9,647,517
Impact of IAS adjustments:				
Additional depreciation charges on fixed assets	**(3,100)**	—	**(150,651)**	(122,051)
Write-down of reclaimed rails to realisible value	**—**	—	**(44,123)**	(44,123)
Additional provision for doubtful accounts	**(8,614)**	(23,145)	**36,078**	44,692
Amortisation of deferred staff costs	**(14,461)**	—	**(14,461)**	—
Housing benefits for retired employees	**(3,602)**	—	**(3,602)**	—
Dividends in respect of the year but declared after the end of the year (see Note 23)	**—**	—	**433,555**	520,266
Deferred tax (realised) created	**(5,033)**	2,700	**(2,333)**	2,700
Others	**647**	618	**3,016**	(141)
As restated for the Company and its subsidiaries	**492,089**	529,674	**10,020,683**	10,048,860

Notes to the Financial Statements *(Cont'd)*

December 31, 2000
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

33. DIFFERENCE BETWEEN IAS AND US GAAP

The accompanying financial statements conform to IAS which differ in certain respects from US GAAP. A major difference which has a significant effect on consolidated profit attributable to shareholders and consolidated net assets is set out below:

Revaluation of fixed assets

As stated in Note 3, the Company and its subsidiaries revalued their fixed assets as part of the Restructuring on March 6, 1996. The revaluation surplus of fixed assets amounting to approximately RMB1,492,185,000 was recorded by the Company and its subsidiaries on that date.

Under IAS, revaluation of fixed assets is permitted and depreciation is based on the revalued amount. Additional depreciation arising from the revaluation surplus was approximately RMB48,422,000 for the year ended December 31, 2000 (1999: approximately RMB48,422,000).

Under US GAAP, fixed assets are required to be stated at original cost. Hence, no additional depreciation from revaluation will be recognised under US GAAP. However, a deferred tax asset related to the revaluation surplus amounting to approximately RMB223,828,000 was created under US GAAP with a corresponding increase in equity since the revaluation resulted in a higher tax base which will be realised through additional depreciation for PRC tax purposes.

Effects on the consolidated profit attributable to shareholders and consolidated net assets of significant differences between IAS and US GAAP are summarised below:

	Consolidated profit attributable to shareholders for the year ended December 31,		Consolidated net assets as of December 31,	
	2000 RMB'000	1999 RMB'000	**2000 RMB'000**	1999 RMB'000 *(Note 35)*
Under IAS	**492,089**	529,674	**10,020,683**	10,048,860
Impact of US GAAP adjustments:				
Reversal of the revaluation surplus on fixed assets	**—**	—	**(1,492,185)**	(1,492,185)
Reversal of additional depreciation charges arising from the revaluation surplus on fixed assets	**48,422**	48,422	**234,040**	185,618
Deferred tax assets created	**—**	—	**223,828**	223,828
Realisation of deferred tax assets created	**(7,263)**	(7,263)	**(35,107)**	(27,842)
Under US GAAP	**533,248**	570,833	**8,951,259**	8,938,279

34. FOREIGN CURRENCY EXCHANGE

The books and records of the Company and its subsidiaries are maintained in RMB, their functional currency. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the banks and other institutions authorised by the People's Bank of China ("PBOC") to buy and sell foreign exchange. The applicable market exchange rates used for the transactions are administered by the PBOC. Enterprises can deal with an approved bank for foreign exchange on recurring items and approved capital items.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation in accordance with the presentation and disclosure requirements of the revised IAS 10 "Events After the Balance Sheet Date", IAS 28 "Accounting for Investment in Associates", IAS 32 "Financial Instruments: Disclosure and Presentation", and the adoption of new Appendix 16 of *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited*.