

CHAIRMAN'S STATEMENT



Chairman of the Board
MR. ZHANG ZHENGGING

Dear Shareholders,

I am pleased to present the audited operating results of Guangshen Railway Company Limited (the "Company") and its subsidiaries for the year ended December 31, 2001.

In the year 2001, there was a substantial development in the Company's High-Speed Programme. The Company started to fully roll out its "As-frequent-as-buses" Train Project. Under a new train schedule adopted on October 21, 2001, the "As-frequent-as-buses" Train Project was initially realized: a pair of intercity express trains is dispatched at an average interval of every 15 minutes. The full implementation of the "As-frequent-as buses" Train Project will enhance the capacity, speed, frequency, facilities, operation and services of our passenger trains, and significantly improve the ways we organize our passenger transportation.

To expand the passenger transportation business, the Company initiated the operation of the Shenzhen-Yueyang long-distance train from July 1, 2001 and the Shenzhen-Beijing long-distance train from October 21, 2001. This is the first time we started to operate passenger trains beyond the 147km long Guangshen Railway to seek growth opportunities. The Company accumulated experience and laid a solid foundation for its future participation in the long-distance passenger transportation market competition. The Company also started to run an additional pair of Dongguan-Kowloon through trains from June 28, 2001 during weekends and on Hong Kong public holidays.

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Operating Results

For the year ended December 31, 2001, the total revenues of the Company and its subsidiaries were RMB2,153.6 million, net profit was RMB533.5 million, and earnings per share were RMB0.12. Such results were attributable to the Company's efforts to enhance its marketing strategies, increase the frequency of its passenger train services and implement the new train schedule. The results were achieved under a background of regional economic growth and increasingly keen competition.

The Board of Directors of the Company (the "Board") has recommended a final dividend of RMB433.6 million for the financial year ended December 31, 2001, which is equal to RMB0.10 per share, subject to approval of the shareholders at the annual general meeting of the Company ("AGM") to be convened in due course. The final dividend will be paid to the Company's shareholders after approval of the shareholders at the AGM. The notice of the AGM will be published and despatched to the shareholders of the Company in due course.

Dividend payable to holders of H Shares will be calculated in RMB and paid in Hong Kong dollars at the average of the closing exchange rates quoted by the People's Bank of China for the calendar week preceding the date on which the dividend is to be distributed.

Overview of the Company's Performance

During 2001, due to the regional economic growth in the Company's service territory, the demand for railway transportation increased continuously. The Company took advantage of such opportunities by enhancing its market promotion and planning, implementing its High Speed Programme, strengthening its modern operation and management system, and improving its passenger and freight transportation facilities. All these measures increased the Company's competitiveness as a whole, and an overall growth in the Company's core businesses of passenger and freight transportation was resulted.



Passenger Transportation

Since October 21, 2001, the Company has operated 101 pairs of passenger trains per day in total. These trains include nine pairs of through trains between Guangzhou and Kowloon, 52 pairs of intercity express trains and six pairs of regular-speed passenger trains between Guangzhou and Shenzhen and 34 pairs of long-distance passenger trains.

To reflect market changes, the Company made slight adjustments to its passenger fares during peak seasons. These adjustments include:

1. During the 33-day period from January 13, 2001 to January 22, 2001 and from January 26, 2001 to February 17, 2001, fares on the additional pairs of long distance passenger trains running in the operating areas of Guangzhou Railway (Group) Company (the "Parent Company") during the Chinese New Year holidays were on average approximately 20% higher than that of the national pricing standard. These ticket prices were determined in accordance with different standards implemented by different local railways along the route.
2. During the 10-day period from January 13, 2001 to January 22, 2001, for the three pairs of long-distance passenger trains added before the Chinese New Year holidays, fares were increased by 20% and 30% on premium-class passenger trains and regular-speed passenger trains, respectively.
3. During the 47-day period from January 13, 2001 to February 12, 2001, from April 30 to May 7, 2001, and from September 30, 2001 to October 7, 2001, fares were increased by RMB5 per single trip on all the high-speed passenger trains operating between Guangzhou and Shenzhen. Fares on "Xin Shi Su" high-speed electric trains between Guangzhou and Shenzhen were adjusted from RMB80 to RMB85 per single trip. Fares on other non-stop high-speed passenger trains between Guangzhou and Shenzhen were adjusted from RMB75 to RMB80 per single trip and fares on the high-speed passenger trains between Guangzhou and Shenzhen making stops at intermediary stations were adjusted from RMB70 to RMB75 per single trip.
4. During the 31-day period from January 13, 2001 to February 12, 2001, fares were increased by RMB5 per single trip on all the regular-speed trains operating on the Guangzhou (East)-Shenzhen, Guangzhou (East)/Shenzhen-Dongguan, Guangzhou (East)/Shenzhen-Zhangmutou, Guangzhou (East)-Pinghu, Guangzhou (East)/Shenzhen-Shilong routes.
5. Discounts to group tourists taking the Hong Kong through trains remained unchanged.

During 2001, there was a continued overall growth in the Company's passenger transportation business. The total number of passengers carried by the Company for the year was 38.842 million, representing an increase of 11.1% as compared to that of last year. A total of 15.333 million passengers were travelling on the Guangzhou-Shenzhen route,



representing an increase of 2.9% over that of 2000; 2.047 million passengers were taking the Hong Kong through trains, representing an increase of 7.4% over that of 2000; 21.462 million passengers were taking the domestic long-distance trains, representing an increase of 18.3% over that of 2000. Passenger transport revenues for 2001 were RMB1,426.0 million, representing an increase of 15.3% over that of 2000.

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Freight Transportation

In 2001, the Company, after a thorough study of the freight transportation market, took a series of measures to improve its freight transportation business. These measures include: (1) strengthening its marketing efforts and continuing with the practice of freight agency system for the entire journey; (2) joining the marketing efforts of its freight stations with local ports to promote and organize multi-model freight transportation services; (3) organizing and operating container trains and improving the management of container transportation; (4) strengthening its cooperation with different



industries to establish a steady source of freight; (5) improving freight transportation services by using high technology and upgraded facilities; and (6) offering price discount to freight in large quantities from new customers with the approval of the Parent Company or the Ministry of Railways ("MOR").

The Company transported in total 29.012 million tonnes of freight for the year 2001. It represented an increase of 1.0% over that of 2000. Among the total tonnage of freight, 6.775 million tonnes were outbound freight representing an increase of 4.1% over that of 2000; inbound freight was in total 12.766 million tonnes, representing a decrease of 4.5% from 2000; pass-through freight was 9.471 million tonnes, representing an increase of 6.9% over that of 2000.

In 2001, the Company's outbound freight transportation business continued to increase due to: (1) the increase in demand for ore, oil and coal arising from the government's scheme to accelerate the development of western China and China's accession to the WTO; and (2) the adoption of a lower pricing measure.

In 2001, there was a decline in the Company's inbound freight transportation business. This resulted from: (1) the slowdown of the global economy led to the reduction in the amount of freight export to other countries; (2) adjustments of the industrial structure in the Pearl River Delta; and (3) competition from highway and water transportation. As a result of the developments in highways and ports, part of the inbound freight was handled by trucks and water transportation vehicles.

In 2001, the Company's freight transportation revenues were RMB567.3 million, representing an increase of 3.2% over 2000. Revenues generated from outbound freight transportation services were RMB92.1 million, representing a decrease of 3.2% when compared with that of 2000. Revenues generated from inbound and pass-through freight services were RMB271.2 million, representing an increase of 4.7% when compared with that of 2000. Revenues from the storage, loading and unloading services and other incomes were RMB204.0 million, representing an increase of 4.3% when compared with that of 2000.

Infrastructural Development

During 2001, the Company further upgraded its infrastructural facilities. These projects included (1) the construction of Huang Cun, Tang Mei, Nan She and Lin Cun crossing stations; (2) the replacement of 21 sets of wood ties and movable switch frogs; (3) the investment in the construction of the Immigration and Customs Inspection Building in Dongguan Station; and (4) the construction of ancillary projects in relation to the initial implementation of the "As-frequent-as-buses" Train Project.

Corporate Governance

In 2001, the Company fully implemented the ISO 9000 standards. It managed to optimise its transportation system, to further improve its passenger and freight transportation and the utilisation of its locomotives and passenger coaches, and to improve its operation and management. The Company carried out a reform on its transportation management mechanism and, following the principle of professional system management, reorganised its 16 transport stations and sections into five departments. The departments are directly responsible for the marketing of transportation services and operation and management of its own transportation business. Such reorganisation has helped to improve the marketing strategies, reduce management costs, increase transportation efficiency and maximise financial results of the Company.

Future Prospects

The Company will continue to maximise its operating results by further expanding its market share and capitalizing on its advanced technology and government policies. It will adopt strategies to further upgrade its transportation facilities and vehicles, to enhance marketing efforts, to expand its capital base, to introduce an advanced management mechanism, and to step up its staff training efforts. Our goal is to develop the Guangshen Railway into a highly profitable modern railway equipped with high technology and offering high-speed and frequent transportation services. We also plan to make the Guangshen Railway a safe, comfortable, fast and convenient passenger passage linking up the three major cities of Guangzhou, Shenzhen and Hong Kong. The Company intends to accelerate the growth of its passenger and freight transportation businesses and become a transportation enterprise with outstanding overall operating results. To achieve this goal, the Company plans to implement the following development projects in 2002:

1. To prepare for the future growth in passenger and freight transportation, to cope with the market competition, and to accelerate the growth in its core businesses of passenger and freight transportation, the Company has decided to commence the construction of a suburb passenger railway track between Guangzhou and Xintang (the fourth track between Guangzhou and Xintang), the construction of a technical support and maintenance depot for passenger vehicles and its ancillary construction works in northern Shenzhen, and purchase of electric train-sets. Upon completion, such efforts can: (1) effectively attract passengers and cargo from Guangzhou, Shenzhen and the Pearl River Delta and further promote the "As-frequent-as-buses" Train Project, and thus, increase the Company's revenues; (2) enable the Company to operate more long-distance passenger trains and freight trains to create new sources of income for the Company; and (3) increase the Company's transportation capacity and volumes. The total costs of these projects are estimated to be approximately RMB2,800 million. The fund for the projects will be made up of funds from the Company's internal resources, borrowings from banks and proceeds from the proposed issue of the Company's A Shares.
2. In relation to its passenger transportation business, the Company plans (1) to further improve its "As-frequent-as-buses" Train Project on the Guangzhou-Shenzhen route by increasing the frequency of its intercity express trains and making additional stops for passengers' convenience and to achieve better financial results; (2) to further improve the operation of domestically made high-speed passenger trains to offer safe, punctual, fast and comfortable express passenger services on the Guangzhou-Shenzhen route; (3) to make more rational arrangement of the Company's long-distance passenger services so as to make the best use of the Guangzhou-Shenzhen railway route. The Company also plans to add long-distance passenger train services as and if appropriate, to capitalize on the experience gained from the operation of the existing two pairs of long-distance passenger trains; (4) to take full advantage of the opportunities offered by the existing Line 1 of the Guangzhou subway system and Line 2, which is estimated to be operational in November 2002, to further integrate its railway system with the urban public transportation systems so as to expand its service coverage areas and to attract passengers; (5) to establish and improve its ticketing system of the Hong Kong through trains and to carry out research for efficient ticketing practices to suit the needs of the Guangzhou-Shenzhen intercity express train services, to provide online ticket reservation and sales services, to increase the efficiency of its ticketing service and to offer more convenient ticketing service; and (6) to improve the qualifications of its employees, put new equipment into use and establish a customer service centre.

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3. In relation to its freight transportation business, the Company will: (1) continue to make efforts in organising and maintaining the sources of cargo in large quantities; (2) develop container freight transportation and further develop the logistics industry by capitalizing on the opportunities arising from the PRC's accession to the WTO, fully making use of the Company's favourable geographical location in the vicinity of the harbours; (3) develop the logistics business operation in Shenzhen and Dongguan; (4) conduct freight transport market research and marketing, and develop new freight transportation services to satisfy market needs; (5) enhance cooperation with ports, mines and factories, to capture new sources of freight transportation business; and (6) prepare for new development of freight transportation by strengthening the sales and marketing team, establishing a sound system for sales analysis to provide high-quality services to customers with new service facilities.
4. In respect of the use of capital, the Company has the following plans: (1) to issue not more than 700 million A shares of the Company by way of a public offering ("A Share Issue") to raise RMB1,560 million to finance the construction of a suburb passenger railway track between Guangzhou and Xintang (the fourth track between Guangzhou and Xintang), the construction of a technical support and maintenance depot for passenger vehicles and its ancillary construction works in northern Shenzhen, and the purchase of electric train-sets. The A Share Issue has been approved by the shareholders of the Company at the extraordinary general meeting held on April 23, 2002. The implementation of the A Share Issue requires approval of the China Securities Regulatory Commission. (2) Investment in the telecommunication business: to take advantage of the PRC's accession to the WTO and to explore new investment channels to maximize the return on its communication asset, the Company plans to make use of its existing communication asset to invest in Railway Communication and Information Company Limited by way of subscription. Such arrangement is subject to further negotiations. (3) Capital participation in Sino Rail Express Company Limited ("Sino Rail") to explore new investment channels and to maximize its financial performance. Sino Rail is engaged in an emerging industry and is a company of good reputation and profit. The Company plans to invest RMB13.61 million in Sino Rail for 7.56 million shares. Such plan is subject to further negotiations. (4) The Company plans to advance its strategies of expanding its capital base by ways of acquisitions and mergers. In order to expand new financial growth channels, the Company also plans to subscribe for shares in Zhuzhou Electric Locomotives Manufacturing Plant ("Zhuzhou Locomotives") and become one of the principal promoters in the joint stock limited company to be established by Zhuzhou Locomotives. Zhuzhou Locomotives is engaged in research and manufacture of electric locomotives and plays a leading role in the locomotive manufacturing industry in the PRC. The Company's investment in Zhuzhou Locomotives can help to raise the operation skills of the Company's locomotives and increase the Company's income. In addition, the Company also plans to invest in or acquire state-owned railway passenger transportation companies in the future when the circumstances allow in order to expand its passenger transportation market.



The Company is operating its passenger and freight transportation businesses in a favourable economic environment. The economy of the service territory of the Company has enjoyed a continuous, steady and rapid growth with the PRC's entry into the WTO, the continued implementation of active financial and stable monetary policies and the further adjustments of the economic structure by the PRC government, the gradual opening of domestic markets and relaxation of control in foreign investment, the development of the western region of the PRC and the expansion of the scope of and accelerated pace of the economic cooperation between Guangdong and Hong Kong. The Company anticipates that there will be an overall growth in the Company's passenger and freight businesses in 2002.

In 2001, the Company achieved relatively good results despite keen competition. The achievements were attributable to our marketing efforts to enhance the competitiveness and improvement of our services. I would like to express my sincere gratitude to the management and employees of the Company for their diligence and hard work, as well as to our shareholders for their kind support and confidence in the Company. I believe that the Company will work harder to achieve better results for our shareholders in 2002.

Zhang Zhengqing

Chairman of the Board

Shenzhen, the PRC

April 23, 2002