REPORT OF DIRECTORS

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 December 31, 2001.

PRINCIPAL ACTIVITIES AND RESULTS

The Company and its subsidiaries mainly engage in railway passenger and freight transportation, provision of railway facilities and technical services, and sales of food, beverages and merchandise in train stations and on board.

The consolidated operating results of the Company and its subsidiaries for the year ended December 31, 2001 and the financial positions of the Company and its subsidiaries as of December 31, 2001 are set out in the consolidated income statement and balance sheets prepared in accordance with International Financial Reporting Standards ("IFRS") published on page 45 and page 44 of this annual report, respectively.

PROPOSED PROFIT APPROPRIATION

For the year ended December 31, 2001, the appropriations of profit as dividends and reserves as proposed by the Board are set out in Note 32 and Note 17 to the financial statements, respectively.

DIVIDENDS

The Company did not declare any interim dividend for the six months ended June 30, 2001.

On April 23, 2002, the Board proposed a distribution of a final dividend of RMB0.10 per share to the shareholders of the Company for the year ended December 31, 2001. Details of the dividend distribution will be subject to the approval of the shareholders at the AGM.

The specific date and procedure concerning the payment of final dividend to holders of H Shares will be announced after the approval of the shareholders at the AGM.

In accordance with the articles of association of the Company (the "Articles of Association"), the dividend for domestic shares will be paid in RMB while the dividend for H Shares will be calculated in RMB 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.

OVERDUE TIME DEPOSITS

As of December 31, 2001 the Company and its subsidiaries deposited approximately RMB1,742 million with financial institutions, of which RMB31.37 million was overdue and was not paid back to the Company and its subsidiaries upon maturity. The Company has obtained a judgement in its favour regarding the unpaid overdue overdue time deposits. However, as the debtor was under restructuring, the court ordered a stay of execution of the judgement obtained by the Company. The said overdue time deposit accounts 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. The Company is closely monitoring the development of this matter.

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 Railway Deposit-taking Centre.

ENTRUSTED DEPOSITS

As of December 31, 2001, the Company did not have any entrusted deposits placed with any financial institutions in the PRC.

BANK BORROWINGS

As of December 31, 2001, the Company had no bank loans or borrowings.

CONTINGENT LIABILITY

The Company did not have any contingent liability as of December 31, 2001.

CHARGE ON ASSETS AND GUARANTEE

As of December 31, 2001, the Company had not charged any of its assets and had not provided any guarantee.

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 a reduced rate of 15%. The reduced rate is 18% lower than that of the standard rate for PRC companies of 33%. Details regarding taxation of the Company and its subsidiaries are set out in Notes 9 and 21 to the financial statements.

RESERVES

Changes in the reserves of the Company and its subsidiaries during the year are set out in Note 17 to the financial statements.

STATUTORY COMMON WELFARE FUND

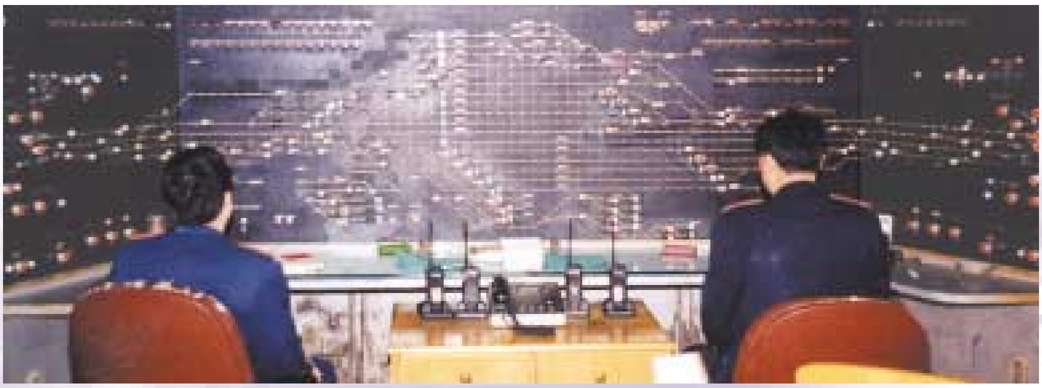
Details of the Company's statutory common welfare fund are set out in Note 17 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of December 21, 2001 are set out in Note 6 to the financial statements.

EQUIPMENT AND MAINTENANCE

The Company owns 12 diesel high-speed locomotives, five high-speed electric locomotives, 18 shunting locomotives, one high-speed electric passenger train, 84 semi-high-speed passenger coaches, 41 regular-speed passenger coaches and 98 long-distance express passenger train coaches. The lease of 21 passenger coaches from Yangcheng Railway Company by the Company (such coaches were subsequently transferred to Guangzhou Railway Group Company Passenger Transportation Company¨) were terminated on October 21, 2001. The freight cars used by the Company are all leased from the MOR, to which the Company paid uniform rental fees and depreciation fees based on the national standards set by the MOR.



The Company has actively made use of its advanced and new technology to renovate its passenger service facilities and to upgrade its passenger transport services. In 2001, the Company leased eight "Blue Arrow" electric train-sets from Guangzhou China Railway Rolling Stock Sales and Service Company Limited to facilitate the development of the Company's "As-frequent-as-buses" Train Project. The Company also purchased new coaches from Guangzhou China Railway Rolling Stock Sales and Service Company Limited for its long-distance passenger transportation services operating between Shenzhen and Yueyang and between Shenzhen and Beijing.

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

	H Shares listed in Hong Kong (HK$/share)	**ADSs listed in New York** (US$/share)
Issue price	2.91	19.00
Highest traded price during 2001	1.75	10.53
Lowest traded price during 2001	0.90	6.06
Opening price on the first trading day of 2001	0.97	6.19
Closing price on the last trading day of 2001	1.28	8.4
Total transaction volume for 2001	3,702,923,252	2,658,200

A SHARE ISSUE

The A Share Issue was approved by the shareholders of the Company at the extraordinary general meeting held on April 23, 2002. Details are as follows:

(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 700 million A shares of nominal value of RMB1.00 each.
(3)	Proposed place of listing:	the Shanghai Stock Exchange.

(4)	Target subscribers and markets:	Target subscribers: Natural person and institutional investors (except those prohibited by the PRC laws or regulations) who have opened A share shareholders account in the Shanghai Stock Exchange within the PRC. Target Markets: All securities trading centres in the PRC that are within the system network of the 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 following projects: (i) the construction of the suburb passenger railway track between Guangzhou and Xintang; (ii) the construction of the technical support and maintenance depot for passenger vehicles and its ancillary construction works in the northern part of Shenzhen; (iii) the purchase of the electric train-sets. The total construction costs of the three projects are estimated to be approximately RMB2,800 million. The details of the A Share Issue will be disclosed in the prospectus to be issued.
(7)	Conditions for implementation:	The A Share Issue was approved at the extraordinary general meeting. Upon the approval of the relevant authorities of the PRC government in respect of the establishment of the three projects, 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 its implementation accordingly.

Upon implementation of the A Share Issue, the total share capital of the Company will be increased to not more than 5,036 million shares.

SHARE CAPITAL STRUCTURE

As of December 31, 2001, the Company's share capital consisted of:

Type of share capital	Number of shares	Percentage of share
	('000)	(%)
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 December 31, 2001, holders of over 10% of the Company's shares were as follows:

Name of shareholder	Number of shares	Percentage of share
	('000)	(%)
Guangzhou Railway (Group) Company	2,904,250	66.99
HKSCC Nominees Limited	1,379,462	31.82

As of December 31, 2001, holders of H Shares representing over 10% 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	Percentage of H Shares
	('000)	(%)
Hong Kong and Shanghai Banking Corporation (Nominees) Limited	705,513	49.29

Other than the information stated above, the Company is not aware of any interests required to be disclosed 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 December 31, 2001.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ending December 31, 2001, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

USE OF PROCEEDS

The total net proceeds from the Company's initial public offering in May 1996 were equivalent to RMB4,214 million, and have been fully utilized by the Company as of December 31, 1998. The net proceeds were mainly used in the Guangzhou-Shenzhen High Speed Programme and its ancillary projects (including the electrification project), the purchase of high-speed rolling stock, repayment of debt to the Parent Company and as working capital, which were essentially in accordance with the "use of proceeds" section in the Company's prospectus issued in 1996.

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 2001 were entered into in the ordinary and usual course of its business 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 favourable than those offered to independent third parties.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Information relating to the Company's directors, supervisors and senior management as of April 23, 2002 is as follows:

Name	Age	Position	Nationality
Directors:			
Zhang Zhengqing	60	Chairman of the Board	Chinese
Li Daihua	59	Director	Chinese
Wu Yiquan	58	Director and General Manager	Chinese
Li Qingyun	38	Director and Deputy General Manager	Chinese
Wu Houhui	53	Director	Chinese
Shen Jun	52	Director	Chinese
Li Peng	56	Director and Chairman of the Trade Union	Chinese
*Chang Loong Cheong	56	Director	Hong Kong, the PRC
*Deborah Kong	42	Director	Australian
Supervisors:			
Gu Hongxi	55	Chairman of the Supervisory Committee	Chinese
Zhao Genrong	57	Supervisor	Chinese
Chen Yunzhong	50	Supervisor	Chinese
Yao Muming	49	Supervisor	Chinese
Zeng Xiangqiu	60	Supervisor	Chinese
Zhu Delin	40	Supervisor	Chinese
Other Senior Management:			
Yan Ping	42	Deputy General Manager	Chinese
Chen Jianfu	57	Deputy General Manager	Chinese
Luo Qingming	45	Deputy General Manager & Chief Engineer	Chinese
Ye Yongming	46	Deputy General Manager	Chinese
Yao Xiaocong	49	Chief Accountant and Company Secretary	Chinese

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

On February 8, 2001, resolutions were passed at the extraordinary general meeting to discharge Mr. Sun Renkun as Supervisor and to appoint Mr. Chen Yunzhong as Supervisor of the Company.

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

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 December 31, 2001, 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 to be entered in the register under Section 29 of the SDI Ordinance, 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 (for the purpose of this paragraph, the aforesaid rules and regulations are also applicable to the Supervisors of the Company)

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the directors of the second session of the Board had entered into a service agreement with the Company for an initial term of three years commencing on March 6, 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. Apart from the above, the Company has not entered into any service contract with any director or supervisor 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 and supervisors and senior management staff of the Company are set out in Note 9 to the financial statements of this annual report.

IMPACT OF THE RECENT ECONOMIC DEVELOPMENTS

The Company believes that there are no material factors that will have an negative effect on the Company's businesses and financial position in 2001.

"AS-FREQUENT-AS-BUSES" TRAIN PROJECT

The Company started to implement its "As-frequent-as-buses" Train Project on the Guangzhou-Shenzhen route on October 21, 2001. The number of intercity express trains operated by the Company between Guangzhou and Shenzhen has since increased from 31 pairs to 52 pairs, and the number of regular-speed trains between Guangzhou and Shenzhen decreased from 16 pairs to 6 pairs. With increased frequency, convenient stops and enhanced speed, the new train service has contributed to the increase in passenger revenues and profits.

NEWLY ADDED LONG-DISTANCE PASSENGER TRAINS

The Company started to operate a pair of long-distance passenger trains between Shenzhen and Yueyang in July 2001 and another pair of long-distance passenger trains between Shenzhen and Beijing in October 2001. Before the operation of these two trains, all the long-distance trains departing from the Company's railway were operated and arranged by other railway transportation companies. The two newly added long-distance trains helped the Company to establish a new image and a new brand name of the Company's service and also developed a new source of revenue for the Company.

NEWLY ADDED HOLIDAY THROUGH TRAINS BETWEEN DONGGUAN AND KOWLOON

The Company started to operate a pair of holiday through trains between Dongguan and Kowloon on June 28, 2001 during weekends and on Hong Kong public holidays. The operation of such trains has helped to meet the needs of passengers from Hong Kong and Macau who travel to the Pearl River Delta on holidays or for shopping in this region.

PRICING FORMULA

In 2001, the Company has made the following adjustments to its passenger and freight transportation pricing formula:

1. With the approval of the Parent Company or the MOR, the Company continued to offer a 10% to 30% price reduction on freight in large quantities solicited from competitors.

2. During the Chinese New Year holidays, the Company made different upward adjustments to passenger fares based on different classes of fares of long-distance domestic trains.

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

4. During the Chinese New Year holdings, the Company increased the fare on the Guangzhou-Shenzhen regular-speed passenger trains by RMB5 per single trip.

5. According to the new regulations on the range of cargo charges promulgated by the MOR on April 1, 2001, a basic inbound and outbound fee was added to the outbound freight transported through the Beijing-Jiujiang Line.

EXCHANGE RISK

The Company has certain amount of deposits denominated in Hong Kong dollar and US dollar income derived from the provision of transportation services was also received in Hong Kong dollars. If there are significant fluctuations in the exchange rates of Hong Kong dollar or US dollar to RMB, the operation of the Company will be affected.

MATERIAL LITIGATION

The Company and its subsidiaries were not involved in any material litigation or dispute in 2001.

PASSENGER TRAIN SETTLEMENT METHOD

From January 1, 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 settlement 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 belonged to the railway administration (or company) which operated that train. This railway administration (or company) in turn pays relevant railway administrations (or companies) fees for the use of their railway track, hauling fees, in-station passenger service fees, water supply fees, power supply fees, 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 Guangzhou 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 departing 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 in accordance with relevant standard of special pricing formula implemented by the Company. With the implementation of the new settlement method, those railway administrations (or companies) operating these long-distance train services on the Company's line shall pay to the Company the following fees: (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, haulage service fees, power supply fees consumed by electric locomotives, usage fees of contact wires, and water supply fees. The implementation of this new settlement method has caused no negative impact on the revenues generated by the Company.

EMPLOYEES, EMPLOYEE PAYMENT POLICY AND TRAINING PLANS

As of December 31, 2001, the Company had in total 9,132 employees.

The Company's employees are paid on the basis of their positions and performance. The employees' salaries are determined in accordance with the operating income, workload, costs, safety and quality. The Company paid RMB320.6 million in total as labour and benefits of railway business operation expenses for the year.

Pursuant to the 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 — both the Company and its employees are required to deposit 7% (for Guangzhou residents), or 13% (for Shenzhen residents) of the employee's monthly salary into the employee's personal housing fund account.

The Company carried out training programmes for approximately 2,005 employees during 2001. 644 of them were trained for the implementation of ISO 9000 standards or management of the team leaders, whereas the others were trained for office automation, human resources management, operation and management of high-speed electric trains, management of equipments and materials, modern financial and accounting management, and etiquette. The training courses were mainly organized by the Company's Employee Training Centre. The Company also employed certain outside experts for these purposes. The total direct cost for the training programme in 2001 was approximately RMB1.564 million.

ACCOUNTING TREATMENT REGARDING THE DIFFERENCES BETWEEN THE SELLING PRICES AND COSTS OF EMPLOYEES' HOUSING

In 2000, the Company constructed and purchased new residential properties for its employees to improve the living conditions of its employees. Under a housing benefit scheme, the Company sold these residential properties to its employees at a price approved by the government. The losses arising from the sale of these staff quarters represents the difference between the net book value of the staff quarters sold and the proceeds collected from the employees. As of December 31, 2001, the estimated loss resulted from the selling of residential properties was not more than RMB226.4 million in total. Pursuant to the prevailing policies issued by the Ministry of Finance, the aforesaid losses should be credited to retained earnings in the statutory accounts as of January 1, 2001, or in case of a debit balance, to offset against statutory public welfare fund, statutory surplus reserve, discretionary surplus reserve and capital surplus reserve upon the approval by the Board. Such treatment conforms with the accounting rules and regulations applicable to the Company and its subsidiaries in the PRC.

In the financial statements as of December 31, 2001 of the Company prepared in accordance with IFRS, the Company accounted for the housing losses as follows: losses of approximately RMB226.4 million from the sale of completed staff quarters to employees, or from premises under construction of which the losses could be reasonably estimated and for the future services (which were amortised on a straight line basis over the estimated remaining average service lives of 15 years). During the year ended December 31, 2001, the housing losses charged to the consolidated income statement was RMB15.72 million (2000: RMB14.48 million).

As of December 31, 2001, the unamortized deferred losses, which were accorded as deferred staff costs in the balance sheet of the Company and its subsidiaries, were RMB196.2 million. In the opinion of the directors of the Company, had the housing losses been written off in 2001, the consolidated net assets of the Company and its subsidiaries as of December 31, 2001, would have been reduced by approximately RMB196.2 million.

Other than employees' housing and welfare mentioned above, the Company had not implemented any other plans in relation to the employees' housing in 2001.

MAJOR SUPPLIERS AND CUSTOMERS

Most of the locomotives, passenger coaches and major railway supplies and equipment of the Company are supplied directly or indirectly by the MOR. The Company also purchases some of these equipments from foreign vendors and other domestic suppliers. In 2001, the Company purchased 98 long-distance express passenger coaches from Guangzhou China Railway Rolling Stock Sales and Service Company Limited. The Company's five largest customers accounted for less than 30% of the Company's turnover and the Company's five largest suppliers 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 December 31, 2001, 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, April 23, 2002