NOTES TO THE FINANCIAL STATEMENTS

December 31, 2001

(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 "Group").

The principal activities of the Group are railroad passenger and freight transportation. The Group 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.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Group are as follows:

(a) Basis of presentation

The accompanying financial statements are prepared under the historical cost convention, and in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. This basis of accounting differs from that used in the management accounts of the Group 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 IFRS 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 IFRS adjustments on consolidated net profit and consolidated net assets are set forth in Note 33.

As supplemental information for North American shareholders, the differences between IFRS and generally accepted accounting principles in the United States of America ("US GAAP") are set forth in Note 34.

(b) Principles of consolidation

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

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 expenses 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 estimated useful life. The estimated useful lives are as follows:

Buildings	25 to 40 years
Leasehold improvements	lease terms
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.

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

(c) Fixed assets and depreciation *(cont'd)*

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 earnings.

(d) Construction-in-progress

Construction-in-progress represents plant and facilities, including railroad stations and maintenance facilities, under construction and machinery pending for 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 relevant assets are completed and ready for use.

(e) Leasehold land payments

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land for its rail line, stations and other businesses. The premium paid for such leasehold lands represents pre-paid lease payments, which are amortised over the lease term of 36.5 to 50 years.

(f) Subsidiaries

A subsidiary is a company which the Company controls. This control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

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

(f) Subsidiaries *(cont'd)*

In the Company's financial statements, interests 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 interests 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.

(g) 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.

Interests in associates are accounted for in the consolidated financial statements using the equity method. When the Group's share of losses exceeds the carrying amounts of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment.

In the Company's financial statements, interests 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.

(h) Long-term investment

Long-term investments represent available-for-sale investments and are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Long-term investments are subsequently carried at cost subject to impairment review.

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

(i) Deferred staff costs

The Group have finalised a scheme for selling staff quarters to its staff in 2000. Under the scheme, the Group 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 Group over 15 years, which is the estimated remaining average service lives of the employees participating 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 participating in the scheme.

(j) 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.

(k) 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.

(l) Receivables

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

(m) 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.

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

(n) 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.

(o) Provision

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) 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.

(p) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group 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 buyers.

Revenues are net of turnover tax.

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

(p) Revenue recognition *(cont'd)*

(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.

(q) Taxation

The Group 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 Group 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.

(r) Foreign currency transactions

The Group 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. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognised in the income statements in the period on which they arise. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences are recognised in the consolidated income statement in the period in which they arise.

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

(s) Employee benefits

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's 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 Group account for these contributions on an accrual basis and charge the related contributions to income in the year to which the contributions relate.

(t) 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.

(u) Impairment of assets

(i) Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans, receivables, an impairment or bad debt loss is recognised in the consolidated income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

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

(u) Impairment of assets *(cont'd)*

(ii) Other assets

Other assets 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 the income statement or 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 reserve for the 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 less the costs of disposal 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 individual asset or, if it is not possible, for the cash-generating unit to which the asset belongs.

(iii) Reversal of impairment losses

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 have decreased. The reversal is recorded in the income statement or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for that asset in prior years.

(v) Segments

Business segments: for management purposes the Group are organised into railroad transportation and other business operations. The divisions are the basis upon which the Group report their primary segment information. Financial information on business segments is presented in Note 27.

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.

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

(w) 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.

(x) Subsequent events

Post-year-end events that provide additional information about the Group and the 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.

(y) New accounting development

In 2001, the Group adopted IFRS 39 "Financial Instruments: Recognition and Measurement" which are effective for financial statements covering periods beginning on or after January 1, 2001. The adoption of this accounting policy did not have a material impact on the reported financial position or results of the Group and the Company.

3. FIXED ASSETS

Movements in fixed assets of the Group were:

	2001							2000
	Buildings	Leasehold improvements	Tracks, bridges and service roads	Locomotives and rolling stock	Communications and signaling systems	Other machinery and equipment	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note 36)
Cost/valuation								
Beginning of year	2,108,498	—	4,102,845	849,462	510,683	1,426,443	8,997,931	8,421,813
Additions	1,631	38,500	7,591	56,048	8,492	99,140	211,402	286,934
Transfer from construction-in-progress	152,761	—	52,068	200,475	10,106	9,157	424,567	501,998
Disposals	(196,345)	—	(92,488)	(101,774)	(38,557)	(11,966)	(441,130)	(212,814)
End of year	2,066,545	38,500	4,070,016	1,004,211	490,724	1,522,774	9,192,770	8,997,931
Representing:								
At cost	539,905	38,500	1,210,664	802,612	125,692	1,157,195	3,874,568	3,323,584
At professional valuation	1,526,640	—	2,859,352	201,599	365,032	365,579	5,318,202	5,674,347
	2,066,545	38,500	4,070,016	1,004,211	490,724	1,522,774	9,192,770	8,997,931
Accumulated depreciation								
Beginning of year	285,600	—	852,322	215,657	250,614	318,831	1,923,024	1,664,477
Charges for the year	61,043	5,775	91,185	53,905	50,304	83,737	345,949	308,795
Disposals	(1,214)	—	(11,447)	(56,637)	(34,336)	(3,609)	(107,243)	(50,248)
End of year	345,429	5,775	932,060	212,925	266,582	398,959	2,161,730	1,923,024
Net book value								
End of year	1,721,116	32,725	3,137,956	791,286	224,142	1,123,815	7,031,040	7,074,907
Beginning of year	1,822,898	—	3,250,523	633,805	260,069	1,107,612	7,074,907	6,757,336

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

	Buildings	Leasehold improvements	Tracks, bridges and service roads	Locomotives and rolling stock	Communications and signaling systems	Other machinery and equipment	Total (2001)	Total (2000)
Cost	1,228,006	38,500	3,291,415	980,490	459,797	1,407,323	7,405,531	7,210,123
Accumulated depreciation	(193,242)	(5,775)	(589,598)	(172,868)	(250,128)	(358,480)	(1,570,091)	(1,393,360)
	1,034,764	32,725	2,701,817	807,622	209,669	1,048,843	5,835,440	5,816,763

3. FIXED ASSETS *(cont'd)*

Movements in fixed assets of the Company were:

	2001							2000
	Buildings RMB'000	Leasehold improvements RMB'000	Tracks, 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 (Note 36)
Cost/valuation								
Beginning of year	2,000,910	—	4,028,300	848,949	506,937	1,376,641	8,761,737	8,189,407
Additions	1,565	38,500	7,591	56,049	8,492	90,625	202,822	280,307
Transfer from construction-in-progress	152,346	—	52,068	200,475	10,092	9,157	424,138	499,460
Disposals	(196,345)	—	(92,488)	(101,262)	(38,557)	(3,085)	(431,737)	(207,437)
End of year	1,958,476	38,500	3,995,471	1,004,211	486,964	1,473,338	8,956,960	8,761,737
Representing:								
At cost	514,711	38,500	1,207,638	801,811	121,653	1,116,368	3,800,681	3,258,196
At professional valuation	1,443,765	—	2,787,833	202,400	365,311	356,970	5,156,279	5,503,541
	1,958,476	38,500	3,995,471	1,004,211	486,964	1,473,338	8,956,960	8,761,737
Accumulated depreciation								
Beginning of year	244,810	—	822,051	215,335	249,188	287,107	1,818,491	1,570,792
Charges for the year	55,600	5,775	89,753	53,905	49,882	80,399	335,314	292,849
Disposals	(1,214)	—	(13,403)	(56,315)	(34,336)	(1,245)	(106,513)	(45,150)
End of year	299,196	5,775	898,401	212,925	264,734	366,261	2,047,292	1,818,491
Net book value								
End of year	1,659,280	32,725	3,097,070	791,286	222,230	1,107,077	6,909,668	6,943,246
Beginning of year	1,756,100	—	3,206,249	633,614	257,749	1,089,534	6,943,246	6,618,615

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

	Buildings	Leasehold improvements	Tracks, bridges and service roads	Locomotives and rolling stock	Communications and signaling systems	Other machinery and equipment	Total 2001	Total 2000
Cost	1,128,958	38,500	3,216,870	980,490	456,037	1,367,461	7,188,316	6,993,094
Accumulated depreciation	(149,716)	(5,775)	(555,939)	(172,868)	(248,285)	(340,973)	(1,473,556)	(1,305,852)
	979,242	32,725	2,660,931	807,622	207,752	1,026,488	5,714,760	5,687,242

3. FIXED ASSETS *(cont'd)*

On March 6, 1996, the fixed assets of the Group 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 Group 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.

The directors of the Company are of the opinion that the carrying values of fixed assets as of December 31, 2001 approximated to their fair values.

4. CONSTRUCTION-IN-PROGRESS

	Consolidated		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of year	**369,285**	653,958	**345,898**	622,011
Additions	**629,107**	217,325	**626,536**	223,347
Disposals	**(127,426)**	—	**(109,563)**	—
Transfer to fixed assets	**(424,567)**	(501,998)	**(424,138)**	(499,460)
End of year	**446,399**	369,285	**438,733**	345,898

As of December 31, 2001, there was no interest capitalised in the construction-in-progress as the Group had no bank borrowings.

5. LEASEHOLD LAND PAYMENTS

Movements in leasehold land payments of the Group and the Company were as follows:

	Consolidated		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 36)		(Note 36)
Cost				
Beginning of year	**769,724**	769,724	**769,724**	769,724
Additions	**6,327**	—	**—**	—
Disposals	**(13,964)**	—	**(13,964)**	—
End of year	**762,087**	769,724	**755,760**	769,724
Accumulated amortisation				
Beginning of year	**74,493**	59,099	**74,493**	59,099
Charges for the year	**15,453**	15,394	**15,349**	15,394
Disposals	**(1,605)**	—	**(1,605)**	—
End of year	**88,341**	74,493	**88,237**	74,493
Net book value				
End of year	**673,746**	695,231	**667,523**	695,231
Beginning of year	**695,231**	710,625	**695,231**	710,625

6. INTERESTS IN SUBSIDIARIES

In the balance sheet of the Company, interests in subsidiaries as of December 31, 2001 comprised the following:

	Company	
	2001	2000
	RMB'000	RMB'000
Unlisted shares	**104,748**	110,780
Due from subsidiaries	**67,621**	49,102
	172,369	159,882

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.

As of December 31, 2001, the Company had direct or indirect interests in the following principal subsidiaries which were incorporated/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
Directly held by the Company				
Shenzhen Fu Yuan Enterprise Development Company	November 1, 1991	100%	RMB18,500,000	Hotel management
Shenzhen Guangshen Railway Civil Engineering Company ("Guangshen Civil Engineering")	March 1, 1984	100%	RMB15,000,000	Construction of railroad properties

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

6. INTERESTS IN SUBSIDIARIES *(cont'd)*

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Directly held by the Company *(Cont'd)*				
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 Xiang Qun Enterprise Company	June 30, 1994	100%	RMB2,000,000	Sales of merchandise
Shenzhen Jing Ming Industrial & Commercial Company Limited	January 18, 1994	100%	RMB2,110,000	Maintenance of water and electrical equipment
Shenzhen Railway Station Travel Service Company *(i)*	January 1, 1990	70%	RMB6,720,000	Food services and sales of merchandise
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 *(i)*	December 4, 1991	53%	RMB20,000,000	Warehousing
Dongguan Changsheng Enterprise Company	May 22, 1992	51%	RMB5,686,000	Warehousing

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

6. INTERESTS IN SUBSIDIARIES *(cont'd)*

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Indirectly held by the Company				
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 Yuezheng Enterprise Company Limited	June 24, 1996	91%	RMB1,000,000	Freight transport agency, cargo loading and unloading, warehousing
Guangzhou Donglian Travel Service Company Limited *(i)*	April 6, 1991	70%	RMB6,393,965	Food services
Shenzhen Hongdali Auto Repair Company Limited	January 3, 1995	60%	RMB1,300,000	Repair and maintenance of vehicles
Shenzhen Road Multi-modal Transportation Company Limited	March 17, 1994	60%	RMB1,000,000	Freight transportation

(i) Sino-foreign contractual joint ventures

7. INTERESTS IN ASSOCIATES

Interests in associates as of December 31, 2001 comprised the followings:

	Consolidated		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares	**117,477**	118,133	**115,664**	116,580
Due from associates	**88,787**	67,718	**88,331**	64,467
Due to associates	**(2,742)**	(578)	**(1,851)**	(378)
	203,522	185,273	**202,144**	180,669
Less: Provision for impairment in value	**(29,689)**	(29,689)	**(29,689)**	(29,689)
Provision for doubtful accounts	**(32,711)**	(33,362)	**(32,711)**	(33,110)
	141,122	122,222	**139,744**	117,870

The amounts due from/to associates are unsecured, interest free and had no fixed repayment terms.

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

7. INTERESTS IN ASSOCIATES *(cont'd)*

As of December 31, 2001, 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
Directly held by the Company				
Guangzhou Tiecheng Enterprise Company Limted	May 2, 1995	49%	RMB10,000,000	Properties management and trading of merchandise
Guangzhou Tielian Economy Development Company Limited	December 27, 1994	34%	RMB1,000,000	Warehousing and freight transport agency
Zengcheng Lihua Stock Company Limited (i)	July 30, 1992	27%	RMB100,000,000	Real estate, warehousing, cargo loading and unloading
Indirectly held by the Company				
Guangzhou Dongqun Advertising Company Limited	March 6, 1996	40%	RMB500,000	Design and production of advertisements
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

(i) Joint stock company with limited liability

8. LONG-TERM INVESTMENTS

Long-term investments mainly represented the Company's investments in:

(i) Shenzhen Innovation Technology Investment Co., Ltd., representing its 4.29% equity interest in the company, and;

(ii) Shenzhen Huatie Enterprise Company Limited, representing 10% equity interest in the company.

No quoted market prices are available for the above unlisted companies as of December 31, 2001. The directors of the Company are of the opinion that the carrying value of the long-term investment approximated the recoverable amount of the long-term investment as of December 31, 2001.

9. DEFERRED TAX ASSETS (LIABILITIES)

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

	2001	2000
	RMB'000	RMB'000
Deferred tax assets (liabilities):		
— Provision for doubtful accounts	**1,842**	(2,333)
— Losses on disposals of fixed assets	**3,351**	—
	5,193	(2,333)

10. DEFERRED STAFF COSTS

	2001	2000
	RMB'000	RMB'000
Deferred staff costs, at cost	**226,369**	216,910
Less: Accumulated amortisation	**(30,182)**	(14,461)
	196,187	202,449

11. ACCOUNTS RECEIVABLE, NET

	Consolidated		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts receivable	**91,480**	96,077	**67,938**	67,474
Less: Provision for doubtful accounts	**(24,040)**	(8,633)	**(22,850)**	(6,609)
	67,440	87,444	**45,088**	60,865

11. ACCOUNTS RECEIVABLE, NET *(cont'd)*

The aging analysis of accounts receivable was as follows:

	Consolidated		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**54,314**	41,956	**50,725**	38,167
Over 1 year but within 2 years	**9,017**	16,545	**2,070**	5,269
Over 2 years but within 3 years	**3,740**	14,112	**3,740**	14,112
Over 3 years	**24,409**	23,464	**11,403**	9,926
	91,480	96,077	**67,938**	67,474

12. PREPAYMENTS AND OTHER RECEIVABLES, NET

	Consolidated		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments and other receivables	**356,284**	215,217	**304,220**	179,889
Less: Provision for doubtful accounts	**(34,008)**	(19,144)	**(30,598)**	(12,931)
	322,276	196,073	**273,622**	166,958

13. TEMPORARY CASH INVESTMENTS

		Consolidated		**Company**	
		2001	2000	**2001**	2000
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Temporary cash investments in banks *(see Note 29)*	*(a)*	**1,126,450**	1,147,301	**1,126,450**	1,147,301
Temporary cash investments in the MOR's Railway Deposit-taking Centre	*(b)*	**250,152**	304,029	**250,152**	304,029
		1,376,602	1,451,330	**1,376,602**	1,451,330

(a) Temporary cash investments in banks consist of short-term deposits denominated in RMB, Hong Kong dollars ("HK$") and United States dollars ("USD") with original maturities ranging from six months to one year, placed with banks in the PRC. The annual interest rate of RMB deposits was 2.16% in 2001 (2000: from 2.16% to 2.88%), the annual interest rates of HK$ deposits ranged from 1.25% to 3.91% in 2001 (2000: from 5.13% to 6.45%) and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0.1% (2000: from -0.2% to 0.1%). Total interest earned from such deposits amounted to approximately RMB46,875,000 for the year (2000: approximately RMB44,382,000).

(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 2.25% to 5.00% in 2001 (2000: 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% (2000: from -0.2% to 0.1%). Total interest earned from such deposits amounted to approximately RMB11,887,000 (2000: approximately RMB28,792,000) for the year (see Note 26).

14. ACCOUNTS PAYABLE

The aging analysis of accounts payable was as follows:

	Consolidated		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**63,134**	52,766	**49,324**	52,665
Over 1 year but within 2 years	**2,857**	8,104	**2,618**	6,255
Over 2 years but within 3 years	**3,057**	—	**3,179**	—
Over 3 years	**—**	277	**—**	82
	69,048	61,147	**55,121**	59,002

15. ACCRUED EXPENSES AND OTHER PAYABLES

	Consolidated		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**211,929**	81,356	**196,500**	44,020
Accrued expenses	**98,349**	118,981	**93,163**	117,222
Salary and welfare payables	**42,657**	43,170	**39,032**	40,575
Other payables	**101,283**	108,382	**82,424**	100,244
	454,218	351,889	**411,119**	302,061

16. SHARE CAPITAL

As of December 31, 2001, the authorised capital of the Company consisted of ordinary shares of par value RMB1.00 per share:

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

17. 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.

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.

17. RESERVES *(cont'd)*

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.

The directors proposed the following appropriations to reserves:

	2001		2000	
	Percentage	**RMB'000**	Percentage	RMB'000
The Company				
Statutory surplus reserve	**10%**	**55,064**	10%	52,625
Statutory public welfare fund	**10%**	**55,064**	10%	52,625
Discretionary surplus reserve	**—**	**—**	10%	54,950
	20%	**110,128**	30%	160,200
Subsidiaries				
Statutory surplus reserve		**1,596**		1,177
Statutory public welfare fund		**798**		982
		2,394		2,159
		112,522		162,359

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) IFRS 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.

17. RESERVES *(cont'd)*

As of December 31, 2001, the reserve of the Company available for distribution determined in accordance with PRC GAAP, IFRS and US GAAP were approximately RMB38,879,000 (2000: approximately RMB206,619,000), RMB621,595,000 (2000: approximately RMB635,697,000) and RMB861,687,000 (2000: approximately RMB834,632,000), respectively.

18. RETIREMENT BENEFITS

All the full-time staff of the Group 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. Starting from December 2000, the percentage borne by the Company changed to 18% pursuant to another circular dated December 21, 2000 issued by the Parent Company. The Company is also required to set aside an amount equivalent to 5% of its total labour costs for the previous year as supplemental retirement provision.

Pension expenses for the year were as follows:

	2001	2000
	RMB'000	RMB'000
Pension expenses	**33,212**	27,396

Pension obligations as of December 31, 2001 were as follows:

	Consolidated		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pension obligations	**9,002**	12,773	**8,943**	12,675

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

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

	2001	2000
	RMB'000	RMB'000
Fees for executive directors	**415**	288
Fees for non-executive directors	**321**	334
Fees for supervisors	**—**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**45**	24
— Bonus	**—**	—
— Retirement benefits	**13**	9
Other emoluments for non-executive directors	**36**	30
Other emoluments for supervisors	**255**	170
Emoluments for senior executives		
— Basic salaries and allowances	**143**	186
— Bonus	**100**	320
— Retirement benefits	**15**	19
	1,343	1,380

No director waived any emoluments during the year.

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

	2001	2000
Executive directors		
— Nil to HK$1,000,000 (equivalent to RMB1,060,000)	**5**	4
Non-executive directors		
— Nil to HK$1,000,000 (equivalent to RMB1,060,000)	**4**	5

19. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(cont'd)*

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

	2001	2000
	RMB'000	RMB'000
Fees for directors	**645**	466
Basic salaries and allowances	**47**	51
Bonus	**—**	63
Retirement benefits	**10**	10
	702	590

	2001	2000
Number of directors	**5**	4
Number of employees	**—**	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:

	2001	2000
Nil to HK$1,000,000 (equivalent to RMB1,060,000)	**5**	5

During the year, no emolument (2000: Nil) were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Group or as compensation for loss of office.

20. PROFIT BEFORE TAX

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

	2001	2000
	RMB'000	RMB'000
		(Note 36)
Staff costs		
— Salaries and wages	**193,781**	177,176
— Provision for staff welfare and bonus	**146,186**	134,583
— Retirement benefits	**33,212**	27,396
— Employee benefits	**17,341**	19,839
Operating lease rentals of equipment	**174,122**	199,872
Depreciation of fixed assets	**345,949**	308,795
Provision for doubtful accounts	**29,620**	17,030
Directors, supervisors and senior executives' emoluments	**1,421**	1,380
Auditors' remuneration	**3,800**	3,800
Amortisation of deferred staff costs	**15,721**	14,461
Amortisation of leasehold land payments	**15,453**	15,394
Exchange losses	**815**	1,528
Interest expense	**2,087**	3,887
Interest income	**(65,708)**	(80,452)

21. TAXATION

Enterprises established in Shenzhen Special Economic Zone are subject to income tax at a reduced rate of 15% as cmpared 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. The income tax rate of the Company for the year ended December 31, 2001 is 15%.

21. TAXATION *(cont'd)*

According to the relevant income tax laws, other businesses of the Group 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 Group. 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.

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

	2001	2000
	RMB'000	RMB'000
Provision for PRC income tax	**106,823**	94,347
Deferred tax (income) loss resulting from provision for doubtful accounts	**(4,175)**	5,033
Deferred tax income resulting from loss on the disposals of fixed assets	**(3,351)**	—
	99,297	99,380

21. TAXATION *(cont'd)*

Reconciliation of the statutory tax rate to effective tax rate is as follows:

	2001		2000	
	RMB'000	**Percentage**	RMB'000	Percentage
Accounting profit	**631,293**	**100.0%**	590,687	100.0%
Income tax at the statutory tax rates of 15%	**94,694**	**15.0%**	88,603	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	**2,358**	**0.4%**	2,709	0.5%
Effect of different tax rates for certain subsidiaries and others	**2,245**	**0.4%**	852	0.1%
Income tax expense	**99,297**	**15.8%**	99,380	16.8%

Pursuant to various tax rules and regulations, the Group 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.

22. DIVIDENDS

In 2001, the directors have recommended and declared a final dividend of RMB0.10 (2000: RMB0.12) per share in respect of the financial year ended December 31, 2000, totaling RMB433,555,000 (2000: RMB520,266,000).

23. NET PROFIT

In the consolidated net profit for the year, approximately RMB529,581,000 (2000: approximately RMB501,708,000) was dealt with in the financial statements of the Company.

24. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period attributable to ordinary shareholders of RMB533,495,000 (2000: RMB492,089,000), divided by the weighted average number of ordinary shares outstanding during the year of 4,335,550,000 shares (2000: 4,335,550,000 shares). No diluted earnings per share were presented as there were no dilutive potential ordinary shares as of year end.

25. NET CASH INFLOWS FROM OPERATING ACTIVITIES

(a) Reconciliation from profit before tax but after minority interests to net cash inflows from operating activities:

	2001	2000
	RMB'000	RMB'000
		(Note 36)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax but after minority interests	**632,792**	591,469
Adjustments for:		
Depreciation	**345,949**	308,795
Amortisation of leasehold land payments	**15,453**	15,394
Disposals of fixed assets	**25,448**	4,579
Amortisation of deferred staff costs	**15,721**	14,461
Housing benefits charged for retired employees	**—**	3,602
Share of profit of associates	**(609)**	(253)
Provision for doubtful accounts	**29,620**	17,030
Minority interests	**(1,499)**	(782)
Interest expense	**2,087**	3,887
Interest income	**(65,708)**	(80,452)
Operating profit before working capital changes	**999,254**	877,730
Decrease in accounts receivable	**4,597**	12,986
Increase in materials and supplies	**(4,158)**	(5,526)
Increase in prepayments and other current assets	**(141,067)**	(47,702)
Decrease (increase) in due from Parent Company	**51,105**	(32,119)
(Increase) decrease in due from affiliates	**(28,081)**	48,482
Increase in accounts payable	**7,901**	11,561
Decrease in due to affiliates	**(5,084)**	(90,594)
Increase in accrued expenses and other payables	**102,329**	22,382
Net cash inflows from operating activities	**986,796**	797,200

25. NET CASH INFLOWS FROM OPERATING ACTIVITIES *(cont'd)*

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

	2001	2000
	RMB'000	RMB'000
Cash and bank deposits	**365,508**	330,054

(c) Non-cash transactions

	2001	2000
	RMB'000	RMB'000
Exchange of trains	**51,080**	—

Pursuant to agreements with Guangzhou Zhongche Railway Locomotive Vehicle Tenancy Co., Ltd. ("Zhongche") dated June 6, 2001, the Company purchased 77 sets of Model 25K passenger trains from Zhongche at a cash consideration of RMB198,092,800; and acquired 21 sets of Model 25K passenger trains from Zhongche in exchange for 43 sets of the Company's old normal-speed passenger trains and semi-express passenger trains with net book value of RMB65,363,770 at the date of the transaction, plus a cash consideration of RMB1,052,500. A loss on disposal of fixed asset of RMB14,283,770 was charged to income statement in connection with the above transaction.

26. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following material transactions with related parties:

Recurring transactions

A significant portion of transactions undertaken by the Group 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 Group with affiliates during the year:

	2001	2000
	RMB'000	RMB'000
Lease of locomotives and related services from Yang Cheng Railway Company, a subsidiary of the Parent Company*(i) (iii)**	**70,345**	132,576
Provision of trains and related services from Guangmeishan Railway Company Limited, a subsidiary of the Parent Company *(iii)**	**5,205**	23,839
Provision of trains and related services by Sanmao Railway Company Limited, an associate of the Parent Company *(iii)**	—	3,546
Provision of trains and related services by Changsha Railway Company, a subsidiary of the Parent Company *(iii)**	—	5,336
Provision of trains and related services by Huaihua Railway Company, a subsidiary of the Parent Company *(iii)**	—	3,317

26. RELATED PARTY TRANSACTIONS *(cont'd)*

Recurring transactions *(cont'd)*

	2001	2000
	RMB'000	RMB'000
Purchases of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of the Parent Company*	**36,544**	22,846
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"))*	**56,800**	58,300
Operating lease rentals paid to the MOR**	**52,296**	50,435
Provision of trains and related services by MOR *(iii)***	**66,475**	—
Operating lease rentals paid to Guangzhou Railway (Group) Passenger Transportation Company, a subsidiary of the Parent Company*	**7,844**	—
Interest received from the Parent Company *(ii)**	**—**	447
Interest expenses paid to the Parent Company *(ii)**	**1,178**	3,886
Interest received from the MOR's Railroad Deposit-taking Centre** *(see Note 13(b))*	**11,887**	25,792

26. RELATED PARTY TRANSACTIONS *(cont'd)*

Recurring transactions *(cont'd)*

	2001	2000
	RMB'000	RMB'000
Interest received from Pingnan Railway Company Limited, an associate of the Parent Company *(ii)**	**1,866**	1,712
Interest received from Guangmeishan Railway Company Limited *(ii)**	**1,291**	833

* 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.

(iii) Pursuant to the Notice "Tiezhengfa 2000 No. 116" issued by the MOR, starting from January 1, 2001, settlement method regarding provision of trains and related services for long-distance passenger transportation was changed. Settlements previously made with certain subsidiaries of the Parent Company are now performed through MOR's Settlement Centre. The Company's directors are of the opinion that the change in settlement method does not have material impact on the Group's results.

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

26. RELATED PARTY TRANSACTIONS *(cont'd)*

(b) As of December 31, 2001, the Group had the following material balances with related parties:

	Consolidated		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Temporary cash investments in the MOR's Railroad Deposit-taking Centre	**250,152**	304,029	**250,152**	304,029
Due from Parent Company	**29,499**	80,604	**28,492**	83,183
Due from affiliates, net*	**276,013**	247,932	**275,940**	246,728
Due to affiliates	**(58,650)**	(63,734)	**(58,823)**	(63,662)

* Affiliates mainly include GEDC and Guangmeishan Railway Company Limited.

As of December 31, 2001, 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 13 and 26(a). These balances resulted from transactions carried out by the Group with related parties in the ordinary course of business.

27. SEGMENT INFORMATION

(a) Business segments

The Group conducts the majority of its business activities in railroad and other business operations. These segments are determined primarily because the senior management makes key operating decisions and assesses performance of the segments separately. The accounting policies of the Group's segments are the same as those described in the principal accounting policies in Note 2. The Group evaluates performance based on profit from operations. An analysis by business segment is as follows:

	Railroad businesses		Other businesses		Unallocated		Consolidation		Total	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenues	**1,993,286**(i)	1,786,983(i)	**212,465**	193,415	**—**	—	**(52,159)**	—	**2,153,592**	1,980,398
Results										
Profit from operations	**532,657**	489,519	**21,454**	29,886	**—**	—	**—**	—	**554,111**	519,405
Other income, net	**76,638**	73,530	**2,022**	1,386	**—**	—	**—**	—	**78,660**	74,916
Including:										
Interest income	**64,634**	79,083	**1,074**	1,369	**—**	—	**—**	—	**65,708**	80,452
Financial expenses	**(2,069)**	(3,822)	**(18)**	(65)	**—**	—	**—**	—	**(2,087)**	(3,887)
Share of profit of associates	**—**	—	**—**	—	**609**	253	**—**	—	**609**	253
Provision for taxation	**—**	—	**—**	—	**(106,823)**	(94,347)	**—**	—	**(106,823)**	(94,347)
Deferred tax income (loss)	**—**	—	**—**	—	**7,526**	(5,033)	**—**	—	**7,526**	(5,033)
Minority interests	**—**	—	**—**	—	**1,499**	782	**—**	—	**1,499**	782
Net profit	**607,226**	559,227	**23,458**	31,207	**(97,189)**	(98,345)	**—**	—	**533,495**	492,089
Other information										
Segment assets	**10,128,372**	10,029,499	**727,722**	765,843	**—**	—	**—**	—	**10,856,094**	10,795,342
Interests in associates	**140,252**	121,352	**870**	870	**—**	—	**—**	—	**141,122**	122,222
Total assets	**10,268,624**	10,150,851	**728,592**	766,713	**—**	—	**—**	—	**10,997,216**	10,917,564
Total liabilities	**561,616**	796,587	**299,360**	85,539	**—**	—	**—**	—	**860,976**	882,126
Capital expenditures	**548,116**	420,356	**3,392**	83,903	**—**	—	**—**	—	**551,508**	504,259
Non-cash expenses										
— Depreciation	**342,534**	305,300	**3,415**	3,495	**—**	—	**—**	—	**345,949**	308,795
— Amortisation of leasehold land	**15,453**	15,394	**—**	—	**—**	—	**—**	—	**15,453**	15,394
— Provision for doubtful accounts	**29,038**	16,261	**582**	769	**—**	—	**—**	—	**29,620**	17,030
— Amortisation of deferred staff cost	**15,721**	14,461	**—**	—	**—**	—	**—**	—	**15,721**	14,461

27. SEGMENT INFORMATION *(cont'd)*

(a) Business segments *(cont'd)*

(i) Revenues from railroad businesses include:

	2001	2000
	RMB'000	RMB'000
Passenger	**1,426,010**	1,237,289
Freight	**567,276**	549,694
Total	**1,993,286**	1,786,983

(b) Geographic segments

For the year ended December 31, 2001, all of the Group's business operations are conducted in the PRC.

(c) Cash flows by segment are as follows:

	Railroad businesses	**Other businesses**	**Total**
	RMB'000	RMB'000	RMB'000
Cash flows from:			
Operating activities	857,526	28,490	886,016
Investing activities	(431,954)	1,529	(430,425)
Financing activities	(420,137)	—	(420,137)
	5,435	30,019	35,454

28. CONTINGENCIES

As of December 31, 2001, the Company had fixed deposit with the principal amount of approximately RMB31 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, 2001. The Company will closely monitor the issue and will make provision as necessary when additional information becomes available to assess the final outcome.

29. FINANCIAL INSTRUMENTS

The carrying amounts of the cash and cash equivalents, temporary cash investments and accounts receivable and payables of the Group 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, 2001, 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, 2001, balances denominated in USD and HK$ have been translated into RMB at the applicable market exchange rates as of that date.

30. 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, represent the Group' maximum exposure to credit risk in relation to financial assets.

The majority of the Group's accounts receivable relate to the rendering of services or sales of products to third party customers. The Group perform ongoing credit evaluations of their customers' financial condition and generally do not require collateral on accounts receivable. The Group 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 Group believe that the exposure to interest rate risk of financial assets and liabilities as of December 31, 2001 was minimum since their deviation from their respective fair values was not significant.

(c) Currency risk

Substantially all of the revenue-generating operations of the Group 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.

31. COMMITMENTS

(a) Capital commitments

As of December 31, 2001, the Group had the following capital commitments:

	2001	2000
	RMB'000	RMB'000
Authorised and contracted for	**15,640**	55,340
Authorised but not contracted for	**—**	—
	15,640	55,340

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 RMB15,640,000 (2000: RMB24,834,000); and

(ii) Purchase of staff dormitories for the Company's Housing Reform Scheme amounted to RMB Nil (2000: RMB30,506,000).

(b) Operating lease commitments

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

	2001	2000
	RMB'000	RMB'000
Machinery and equipment		
— not more than one year	**—**	91,125
— more than one year but not more than five years	**399,375**	455,625
	399,375	546,750

32. SUBSEQUENT EVENTS

(a) Pursuant to a board resolution dated March 7, 2002, the directors approved the Company's plans to acquire 2.52% equity interest in Zhongtie Express Company Limited at a consideration of RMB13,608,000, and to further invest RMB18,000,000 in Guangshen Civil Engineering. The directors also resolved that the Company intends to apply to the China Securities Regulatory Commission for the allotment and issue of not more than 700 million new domestic ordinary shares ("A Shares"). 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 Guangzhou to Xintang passenger railway and Shenzhen north maintenance center for rolling stocks, and the purchase of certain rolling stocks.

(b) Pursuant to a board resolution dated April 23, 2002, the directors recommended the payment of a final dividend of RMB0.10 per share, totaling RMB433,555,000, and recommended that the retained earnings of RMB602,603,000 as of December 31, 2001 be carried forward.

33. IMPACT OF IFRS ADJUSTMENTS ON CONSOLIDATED NET PROFIT AND CONSOLIDATED NET ASSETS

	Consolidated net profit for the year ended December 31,		Consolidated net assets as of December 31,	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
As reported in statutory accounts (audited by certified public accountants in the PRC)	**550,497**	526,252	**9,742,955**	9,763,204
Impact of IFRS adjustments:				
Additional depreciation charges on fixed assets	**—**	(3,100)	**(150,651)**	(150,651)
Write-down of reclaimed rails to realisable value	**—**	—	**(44,123)**	(44,123)
Additional provision for doubtful accounts	**(10,080)**	(8,614)	**—**	10,080
Amortisation of deferred staff costs	**(15,721)**	(14,461)	**(30,182)**	(14,461)
Write-off of staff costs to retained earnings	—	—	**165,746**	—
Housing benefits for retired employees	—	(3,602)	**(3,602)**	(3,602)
Dividends in respect of the year but declared after the end of the year	—	—	**433,555**	433,555
Deferred tax created (realised)	**7,526**	(5,033)	**5,193**	(2,333)
Others	**1,273**	647	**1,732**	29,014
As restated for the Group	**533,495**	492,089	**10,120,623**	10,020,683

34. DIFFERENCE BETWEEN IFRS AND US GAAP

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

Revaluation of fixed assets

As stated in Note 3, the Group 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 Group on that date.

Under IFRS, 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, 2001 (2000: 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.

34. DIFFERENCE BETWEEN IFRS AND US GAAP *(cont'd)*

Effects on the consolidated net profit and consolidated net assets of significant differences between IFRS and US GAAP are summarised below:

	Consolidated net profit for the year ended December 31,		Consolidated net assets as of December 31,	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Under IFRS	**533,495**	492,089	**10,120,623**	10,020,683
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	**282,462**	234,040
Deferred tax assets created	**—**	—	**223,828**	223,828
Effect of US GAAP adjustment on taxation	**(7,263)**	(7,263)	**(42,370)**	(35,107)
Under US GAAP	**574,654**	533,248	**9,092,358**	8,951,259

35. FOREIGN CURRENCY EXCHANGE

The books and records of the Group 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.

36. COMPARATIVE FIGURES

Comparative figures for leasehold land payments have been reclassified from fixed assets and separately stated to conform to the current year's presentation.