*31 December, 2002*
(All 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 6 March, 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 8 March, 1996 and with effect from 6 March, 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 state-owned enterprise established in the PRC, to be the ultimate holding company.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC, which have been prepared in accordance with generally accepted principles and relevant financial regulations in the PRC ("PRC GAAP"). In preparing these financial statements, appropriate restatements have been made to the Group's statutory accounts to conform with IFRS. Differences arising from the restatements are not incorporated in the accounting records of the Company and its subsidiaries.

The principal adjustments made to conform to IFRS include the following:

- Additional depreciation charges on fixed assets;
- Write-down of reclaimed rails to realisable value;
- Difference in the recognition policy on housing benefits to the employees;
- Reversal of dividends declared after end of year;
- Recording of deferred tax impact according to IFRS.
- Write-off of deferred renovation expenses.

The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain fixed assets are stated at valuation less accumulated depreciation and impairment losses.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

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

### (b) Group accounting

The consolidated financial statements include those of the Company and its subsidiaries and also incorporate the Group's interest in associates on the basis as set out in Note 2(c) and 2(d) 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; unrealised losses are also eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

### (c) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

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.

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

### (d) Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not to recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

In the Company's financial statements, interests in associates are carried at cost less provision for impairment in value. An assessment of interests 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.

### (e) Foreign currency transactions

The Group maintains its books and records in RMB.

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement in the period in which they arise. Translation differences on monetary assets measured at fair value are recognised in foreign exchange gains and losses.

The Group did not enter into any hedge contracts during any of the periods presented. No foreign currency exchange gains or losses were capitalised for any periods presented.

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

### (f) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, temporary cash investments, trade receivables and payables, other receivables and payables and available-for-sale investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

The Group had no derivative financial instruments in any of the years presented.

### (g) Fixed assets

Fixed assets are initially recorded at cost less accumulated depreciation and impairment loss. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use.

Subsequent to the initial recognition, fixed assets are stated at cost or valuation less accumulated depreciation and impairment losses. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed at least every five years or sooner if considered necessary by the directors. In the intervening years, the directors review the carrying values of the fixed assets and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation of fixed assets are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged. Upon the disposal of the fixed assets, the relevant portion of the realised revaluations reserve of previous valuations is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

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

### (g) Fixed assets *(Cont'd)*

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 | over the lease terms |
| Track, bridges and service roads | 44 years |
| Locomotives and rolling stock | 16 years |
| Communications and signalling systems | 8 to 20 years |
| Other machinery and equipment | 7 to 25 years |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in fair value and other reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

### (h) Construction-in-progress

Construction-in-progress represents plant and facilities, including railroad stations and maintenance facilities under construction and machinery pending for installation. This includes the costs of construction and acquisition. No depreciation is provided on construction in progress until the asset is completed and put into use.

### (i) 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 land payments represents pre-paid lease payments, which are amortised over the lease terms of 36.5 to 50 years.

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

### (j) Impairment of long lived assets

Fixed assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

### (k) Available-for-sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for sale investments; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. All purchases and sales of available-for-sale investments are recognised on the date that the transaction is effective. Cost of purchase includes transaction costs. Available-for-sale investments are not subsequently fair-valued because they do not have quoted market prices in active markets and whose fair values cannot be reliably measured. These investments are carried at cost, and are subject to review for impairments.

### (l) 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.

### (m) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

### (n) 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.

### (o) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

### (p) Temporary cash investments

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

### (q) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less.

### (r) Income tax expense

The Group provides for income tax expense on the basis of the results for the year as adjusted for items which are not assessable or deductible for income tax purposes. Taxation of the Group is determined in accordance with the relevant tax rules and regulations applicable to enterprises established/incorporated in the PRC.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## 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' 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 accounts for these contributions on an accrual basis and charges the related contributions to income in the year to which the contributions relate.

### (t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

### (u) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenues 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)*

**(u) Revenue recognition** *(Cont'd)*

***(ii) Interest income***

Interest income from deposits in bank and other financial institutions is recognised on a time proportion basis, taking into account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

***(iii) Dividend income***

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

**(v) Dividends**

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

**(w) 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 reports their primary segment information. Financial information on business segments is presented in Note 3.

Intersegment transactions: segment revenues, segment expenses and segment performance include transfers between business segments. Those transfers are eliminated on consolidation.

# 3. SEGMENT INFORMATION

## (a) Business segments

The Group conducts the majority of its business activities in railroad and other business operations (see Note 1). 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. Segment assets consist primarily of fixed assets, materials and supplies, receivables and operating cash, and mainly exclude deferred tax assets and interests in associates. Segment liabilities comprise operating liabilities and exclude taxes payable. Capital expenditure comprises additions to fixed assets (see Note 10) and construction-in-progress (see Note 11). An analysis by business segment is as follows:

| | Railroad businesses | | Other businesses | | Unallocated | | Consolidation | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenues | | | | | | | | | | |
| — External | 2,360,635 | 1,993,286 | 156,893 | 160,306 | — | — | — | — | 2,517,528 | 2,153,592 |
| — Inter-segment | — | — | 75,188 | 52,159 | — | — | (75,188) | (52,159) | — | — |
| | 2,360,635[(i)] | 1,993,286[(i)] | 232,081 | 212,465 | — | — | (75,188) | (52,159) | 2,517,528 | 2,153,592 |
| Segment result | 625,343 | 532,657 | (2,846) | 21,454 | — | — | — | — | 622,497 | 554,111 |
| Other income | 37,692 | 76,638 | 5,803 | 2,022 | — | — | — | — | 43,495 | 78,660 |
| Including: | | | | | | | | | | |
| Interest income | 36,281 | 64,634 | 639 | 1,074 | — | — | — | — | 36,920 | 65,708 |
| Finance costs | — | — | — | — | (4,208) | (2,087) | — | — | (4,208) | (2,087) |
| Share of (losses) profits of associates before tax | (197) | 678 | — | — | — | — | — | — | (197) | 678 |
| Income tax expense | | | | | | | | | (104,391) | (99,366) |
| Minority interests | | | | | | | | | (113) | 1,499 |
| Profit attributable to shareholders | | | | | | | | | 557,083 | 533,495 |
| Other information | | | | | | | | | | |
| Segment assets | 10,147,098 | 10,123,179 | 962,077 | 727,722 | — | — | — | — | 11,109,175 | 10,850,901 |
| Deferred tax assets | — | — | — | — | 7,577 | 5,193 | — | — | 7,577 | 5,193 |
| Interests in associates | 139,972 | 140,252 | 870 | 870 | — | — | — | — | 140,842 | 141,122 |
| Total assets | | | | | | | | | 11,257,594 | 10,997,216 |
| Segment liabilities | 678,303 | 495,934 | 251,719 | 299,360 | — | — | — | — | 930,022 | 795,294 |
| Taxes payable | — | — | — | — | 71,844 | 65,682 | — | — | 71,844 | 65,682 |
| Total liabilities | | | | | | | | | 1,001,866 | 860,976 |
| Capital expenditure | | | | | | | | | | |
| — accrual basis | 526,700 | 837,117 | 8,330 | 3,392 | — | — | — | — | 535,030 | 840,509 |
| — cash basis | 545,007 | 548,116 | 8,330 | 3,392 | | | | | 553,337 | 551,508 |
| Non-cash expenses | | | | | | | | | | |
| — Depreciation | 335,508 | 342,534 | 2,289 | 3,415 | — | — | — | — | 337,797 | 345,949 |
| — Amortisation of leasehold land payments | 15,131 | 15,453 | — | — | — | — | — | — | 15,131 | 15,453 |
| — Provision for doubtful accounts | 4,257 | 29,038 | 341 | 582 | — | — | — | — | 4,598 | 29,620 |
| — Amortisation of deferred staff costs | 15,092 | 15,721 | — | — | — | — | — | — | 15,092 | 15,721 |

## 3. SEGMENT INFORMATION *(Cont'd)*

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

***(i) Revenues from railroad businesses include:***

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Passenger | **1,846,599** | 1,426,010 |
| Freight | **514,036** | 567,276 |
| Total | **2,360,635** | 1,993,286 |

**(b) Geographic segments**

For the year ended 31 December, 2002, all of the Group's business operations are conducted in the PRC.

## 4. PROFIT BEFORE TAX

The following items have been (credited) charged in arriving at profit before tax:

| | **2002** **RMB'000** | 2001 *RMB'000* |
|---|---|---|
| Interest income (included in other income) | **(36,920)** | (65,708) |
| Finance costs | | |
| — Interest expenses for balances with related parties wholly repayable within five years | **4,064** | 1,994 |
| — Bank charges | **144** | 93 |
| Staff costs | | |
| — Salaries and wages | **231,720** | 193,781 |
| — Provision for staff welfare and bonus | **174,807** | 146,186 |
| — Retirement benefits | **31,858** | 33,212 |
| — Employee benefits | **17,864** | 17,341 |
| — Amortisation of deferred staff costs (included in general and administrative expenses of railroad businesses) | **15,092** | 15,721 |
| Operating lease rentals of machinery and equipment | **211,896** | 174,122 |
| Depreciation of fixed assets | | |
| — Included in railroad businesses | **335,508** | 342,534 |
| — Included in other businesses | **2,289** | 3,315 |
| Loss on disposal of fixed assets | **29,339** | 25,448 |
| Cost of materials and supplies | | |
| — Included in railroad businesses | **192,141** | 144,651 |
| — Included in other businesses | **124,602** | 108,930 |
| Repair costs, excluding materials and supplies | **102,377** | 94,545 |
| Provision for doubtful accounts | **4,598** | 29,620 |
| Auditors' remuneration | **3,300** | 3,800 |
| Amortisation of leasehold land payments | **15,131** | 15,453 |

## 5. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fees for executive directors | **461** | 415 |
| Fees for non-executive directors | **255** | 321 |
| Fees for supervisors | **—** | — |
| Other emoluments for executive directors | | |
| — Basic salaries and allowances | **64** | 45 |
| — Bonus | **—** | — |
| — Retirement benefits | **14** | 13 |
| Other emoluments for non-executive directors | **46** | 36 |
| Other emoluments for supervisors | **397** | 255 |
| Emoluments for senior executives | | |
| — Basic salaries and allowances | **124** | 143 |
| — Bonus | **276** | 100 |
| — Retirement benefits | **12** | 15 |
| | **1,649** | 1,343 |

No directors, supervisors or senior executives waived any emoluments during the year.

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

| | **2002** | 2001 |
|---|---|---|
| Executive directors | | |
| — Nil to HK$1,000,000 (equivalent to RMB1,060,000) | **5** | 5 |
| Non-executive directors | | |
| — Nil to HK$1,000,000 (equivalent to RMB1,060,000) | **4** | 4 |

## 5. 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:

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fees for directors | **618** | 645 |
| Basic salaries and allowances | **62** | 47 |
| Bonus | **—** | — |
| Retirement benefits | **11** | 10 |
| | **691** | 702 |

| | **2002** | 2001 |
|---|---|---|
| Number of directors | **5** | 5 |
| Number of employees | **—** | — |
| | **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:

| | **2002** | 2001 |
|---|---|---|
| Nil to HK$1,000,000 (equivalent to RMB1,060,000) | **5** | 5 |

During the year, no emolument (2001: 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.

## 6. INCOME TAX EXPENSE

Enterprises established in Shenzhen Special Economic Zone are subject to income tax at a reduced rate of 15% as compared with the standard rate for PRC companies of 33%. The Shenzhen Municipal Tax Bureau confirmed in 1996 that the Company is subject to a reduced income tax rate of 15% starting from the same year. The income tax rate of the Company for the year ended 31 December, 2002 is 15%.

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/establishment. 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.

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

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Provision for PRC income tax | **106,649** | 106,823 |
| Deferred tax income resulting from provision for doubtful accounts | **(1,173)** | (4,175) |
| Deferred tax income resulting from loss on the disposals of fixed assets | **(1,211)** | (3,351) |
| Share of tax of associates | **126** | 69 |
| | **104,391** | 99,366 |

## 6. INCOME TAX EXPENSE *(Cont'd)*

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

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | ***RMB'000*** | ***Percentage*** | *RMB'000* | *Percentage* |
| Accounting profit | **661,587** | **100.0%** | 631,362 | 100.0% |
| Income tax at the statutory tax rate of 15% | **99,238** | **15.0%** | 94,704 | 15.0% |
| Tax effect of expenses that are not deductible in determining taxable profit | | | | |
| — Amortisation of deferred staff costs | **2,264** | **0.3%** | 2,358 | 0.4% |
| Effect of different tax rates for certain subsidiaries and others | **2,889** | **0.4%** | 2,304 | 0.4% |
| Income tax expense | **104,391** | **15.7%** | 99,366 | 15.8% |

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

In the consolidated profit attributable to shareholders for the year, approximately RMB565,795,000 (2001: approximately RMB529,581,000) was dealt with in the financial statements of the Company.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year attributable to ordinary shareholders of RMB557,083,000 (2001: RMB533,495,000), divided by the weighted average number of ordinary shares outstanding during the year of 4,335,550,000 shares (2001: 4,335,550,000 shares). No diluted earnings per share was presented as there were no dilutive potential ordinary shares as of year end.

## 9. DIVIDENDS

In 2002, the directors have recommended and declared a final dividend of RMB0.10 (2001: RMB0.10) per share in respect of the financial year ended 31 December, 2001, totalling RMB433,555,000 (2001: RMB433,555,000).

## 10. FIXED ASSETS

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | | | | | | | 2001 |
| | 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* |
| **Cost or valuation** | | | | | | | | |
| At beginning of year | 2,066,545 | 38,500 | 4,070,016 | 1,004,211 | 490,724 | 1,522,774 | 9,192,770 | 8,997,931 |
| Additions | 25,985 | — | 22,871 | 23,620 | 1,475 | 78,161 | 152,112 | 211,402 |
| Transfer from construction-in-progress | 40,852 | — | 43,791 | 870 | 46,372 | 14,401 | 146,286 | 424,567 |
| Reclassification | (124,057) | — | 122,752 | — | (42,484) | 43,789 | — | — |
| Disposals | (68,169) | — | (13,884) | (2,496) | (198,981) | (73,413) | (356,943) | (441,130) |
| At end of year | 1,941,156 | 38,500 | 4,245,546 | 1,026,205 | 297,106 | 1,585,712 | 9,134,225 | 9,192,770 |
| Representing: | | | | | | | | |
| At cost | 27,694 | 38,500 | 40,255 | 870 | 46,456 | 55,586 | 209,361 | 3,874,568 |
| At 1996 professional valuation | — | — | — | — | — | — | — | 5,318,202 |
| At 2002 professional valuation | 1,913,462 | — | 4,205,291 | 1,025,335 | 250,650 | 1,530,126 | 8,924,864 | — |
| | 1,941,156 | 38,500 | 4,245,546 | 1,026,205 | 297,106 | 1,585,712 | 9,134,225 | 9,192,770 |
| **Accumulated depreciation** | | | | | | | | |
| Beginning of year | 345,429 | 5,775 | 932,060 | 212,925 | 266,582 | 398,959 | 2,161,730 | 1,923,024 |
| Charges for the year | 58,739 | 7,700 | 92,400 | 60,723 | 23,962 | 94,273 | 337,797 | 345,949 |
| Reclassification | (22,652) | — | 18,404 | — | (4,256) | 8,504 | — | — |
| Disposals | (5,324) | — | (5,311) | (2,496) | (107,891) | (42,560) | (163,582) | (107,243) |
| At end of year | 376,192 | 13,475 | 1,037,553 | 271,152 | 178,397 | 459,176 | 2,335,945 | 2,161,730 |
| **Net book value** | | | | | | | | |
| At end of year | 1,564,964 | 25,025 | 3,207,993 | 755,053 | 118,709 | 1,126,536 | 6,798,280 | 7,031,040 |
| At beginning of year | 1,721,116 | 32,725 | 3,137,956 | 791,286 | 224,142 | 1,123,815 | 7,031,040 | 7,074,907 |

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cost | 1,102,617 | 38,500 | 3,466,945 | 1,002,484 | 266,179 | 1,470,261 | 7,346,986 | 7,405,531 |
| Accumulated depreciation | (192,666) | (13,475) | (677,572) | (229,672) | (160,458) | (407,152) | (1,680,995) | (1,570,091) |
| | 909,951 | 25,025 | 2,789,373 | 772,812 | 105,721 | 1,063,109 | 5,665,991 | 5,835,440 |

## 10. FIXED ASSETS *(Cont'd)*

| | Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | | | | | | | 2001 |
| | 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 |
| **Cost or valuation** | | | | | | | | |
| At beginning of year | **1,958,476** | **38,500** | **3,995,471** | **1,004,211** | **486,964** | **1,473,338** | **8,956,960** | 8,761,737 |
| Additions | **24,785** | **—** | **22,871** | **23,620** | **1,475** | **68,212** | **148,886** | 202,822 |
| Transfer from construction-in-progress | **40,624** | **—** | **43,791** | **870** | **46,372** | **14,069** | **145,726** | **424,138** |
| Reclassification | **(124,193)** | **—** | **122,752** | **—** | **(42,484)** | **51,848** | **—** | — |
| Disposals | **(68,169)** | **—** | **(13,884)** | **(2,496)** | **(195,306)** | **(66,399)** | **(346,254)** | (431,737) |
| At end of year | **1,831,523** | **38,500** | **4,171,001** | **1,026,205** | **297,021** | **1,541,068** | **8,905,318** | 8,956,960 |
| Representing: | | | | | | | | |
| At cost | **25,388** | **38,500** | **40,255** | **870** | **46,459** | **54,418** | **205,890** | 3,800,681 |
| At 1996 professional valuation | **—** | **—** | **—** | **—** | **—** | **—** | **—** | 5,156,279 |
| At 2002 professional valuation | **1,806,135** | **—** | **4,130,746** | **1,025,335** | **250,562** | **1,486,650** | **8,699,428** | — |
| | **1,831,523** | **38,500** | **4,171,001** | **1,026,205** | **297,021** | **1,541,068** | **8,905,318** | 8,956,960 |
| **Accumulated depreciation** | | | | | | | | |
| At beginning of year | **299,196** | **5,775** | **898,401** | **212,925** | **264,734** | **366,261** | **2,047,292** | 1,818,491 |
| Charges for the year | **55,766** | **7,700** | **90,688** | **60,723** | **23,955** | **91,322** | **330,154** | 335,314 |
| Reclassification | **(22,652)** | **—** | **18,404** | **—** | **(4,256)** | **8,504** | **—** | — |
| Disposals | **(5,324)** | **—** | **(5,311)** | **(2,496)** | **(106,062)** | **(37,622)** | **(156,815)** | (106,513) |
| At end of year | **326,986** | **13,475** | **1,002,182** | **271,152** | **178,371** | **428,465** | **2,220,631** | 2,047,292 |
| Net book value | | | | | | | | |
| At end of year | **1,504,537** | **25,025** | **3,168,819** | **755,053** | **118,650** | **1,112,603** | **6,684,687** | 6,909,668 |
| At beginning of year | **1,659,280** | **32,725** | **3,097,070** | **791,286** | **222,230** | **1,107,077** | **6,909,668** | 6,943,246 |

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cost | **1,002,005** | **38,500** | **3,392,400** | **1,002,484** | **266,094** | **1,435,191** | **7,136,674** | 7,188,316 |
| Accumulated depreciation | **(146,347)** | **(13,475)** | **(642,201)** | **(229,672)** | **(160,438)** | **(392,588)** | **(1,584,721)** | (1,473,556) |
| | **855,658** | **25,025** | **2,750,199** | **772,812** | **105,656** | **1,042,603** | **5,551,953** | 5,714,760 |

## 10. FIXED ASSETS *(Cont'd)*

On 6 March, 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 6 March, 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.

On 30 September, 2002, the fixed assets were revalued by Pan-China (Schinda) Certified Public Accountants, a qualified independent valuer registered in the PRC, on a replacement cost approach and open market value approach, where applicable. These fixed assets were stated at their revalued amounts in the financial statements as of 30 September, 2002.

The directors of the Company are of the opinion that the carrying values of fixed assets as of 31 December, 2002 approximated to their fair values.

## 11. CONSTRUCTION-IN-PROGRESS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| At beginning of year | **446,399** | 369,285 | **438,732** | 345,898 |
| Additions | **382,918** | 629,107 | **376,775** | 626,536 |
| Disposals | **(10,204)** | (127,426) | **(5,102)** | (109,563) |
| Transfer to fixed assets | **(146,286)** | (424,567) | **(145,726)** | (424,138) |
| At end of year | **672,827** | 446,399 | **664,679** | 438,733 |

As of 31 December, 2002, there was no interest capitalised in the construction-in-progress as the Group had no bank borrowings.

Disposals in 2002 mainly represented injection in available-for-sale investments (see Note 15). Disposals in 2001 mainly represented disposals of staff quarters.

## 12. LEASEHOLD LAND PAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Cost** | | | | |
| At beginning of year | **762,087** | 769,724 | **755,760** | 769,724 |
| Additions | **—** | 6,327 | **—** | — |
| Disposals | **(2,000)** | (13,964) | **—** | (13,964) |
| At end of year | **760,087** | 762,087 | **755,760** | 755,760 |
| **Accumulated amortisation** | | | | |
| At beginning of year | **88,341** | 74,493 | **88,237** | 74,493 |
| Amortisation charge | **15,131** | 15,453 | **15,027** | 15,349 |
| Disposals | **(383)** | (1,605) | **—** | (1,605) |
| At end of year | **103,089** | 88,341 | **103,264** | 88,237 |
| **Net book value** | | | | |
| At end of year | **656,998** | 673,746 | **652,496** | 667,523 |
| At beginning of year | **673,746** | 695,231 | **667,523** | 695,231 |

## 13. INTERESTS IN SUBSIDIARIES

In the balance sheet of the Company, interests in subsidiaries as of 31 December, 2002 comprised the following:

| | Company | |
|---|---|---|
| | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted shares, at cost | **118,892** | 104,748 |
| Due from subsidiaries | **61,344** | 67,621 |
| | **180,236** | 172,369 |

## 13. INTERESTS IN SUBSIDIARIES *(Cont'd)*

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

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

As of 31 December, 2002, 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 | 1 November , 1991 | 100% | RMB18,500,000 | Hotel management |
| Shenzhen Guangshen Railway Civil Engineering Company | 1 March, 1984 | 100% | RMB35,000,000 | Construction of railroad properties |
| Shenzhen Guangshen Railway Travel Service Ltd. | 16 August, 1995 | 100% | RMB2,400,000 | Travel agency |
| Shenzhen Jian Kai Trade Company | 6 December, 1993 | 100% | RMB2,000,000 | Construction materials trading |
| Shenzhen Xiang Qun Enterprise Company | 30 June, 1994 | 100% | RMB2,000,000 | Sales of merchandise |
| Shenzhen Jing Ming Industrial & Commercial Company Limited | 18 January, 1994 | 100% | RMB2,110,000 | Maintenance of water and electrical equipment |
| Shenzhen Railway Station Travel Service Company | 1 January, 1990 | 70% | RMB6,720,000 | Food services and sales of merchandise |
| Shenzhen Guangshen Railway Electric Section Service Limited | 31 August, 1999 | 100% | RMB1,040,000 | Repair and maintenance of railroad communications systems |

## 13. 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)*** | | | | |
| Guangzhou East Station Dongqun Trade and Commerce Service Company | 23 November, 1992 | 100% | RMB5,686,000 | Sale of merchandise |
| Shenzhen Railway Station Passenger Services Company | 18 December, 1986 | 100% | RMB1,500,000 | Food services and sale of merchandise |
| Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company | 11 September, 1993 | 55% | RMB10,000,000 | Cargo loading and unloading, warehousing, freight transportation |
| Dongguan Changsheng Enterprise Company | 22 May, 1992 | 51% | RMB3,800,000 | Warehousing |
| **Indirectly held by the Company** | | | | |
| Shenzhen Nantie Construction Supervision Company | 8 May, 1995 | 100% | RMB2,000,000 | Supervision of construction projects |
| Guangshen Railway Economic and Trade Enterprise Company | 7 March, 2002 | 100% | RMB2,000,000 | Culinary management |
| Shenzhen Railway Property Management Company Limited | 13 November, 2001 | 100% | RMB3,000,000 | Property management |
| Shenzhen North Station Auto Repair Plant | 19 April, 1993 | 100% | RMB3,500,000 | Repair and maintenance of vehicles |
| Shenzhen North Station Loading and Unloading Transportation Company | 20 September, 1993 | 100% | RMB3,750,000 | Cargo loading and unloading, freight transportation |

## 13. 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 *(Cont'd)*** | | | | |
| Shenzhen North Station Railway Industry Technology Development Company | 10 March, 1993 | 100% | RMB1,640,000 | Maintenance of equipment |
| Shenzhen Yuezheng Enterprise Company Limited | 24 June, 1996 | 100% | RMB1,000,000 | Freight transport agency, cargo loading and unloading, warehousing |
| Guangzhou Donglian Travel Service Company Limited | 16 April, 1991 | 70% | RMB6,398,965 | Food services |
| Shenzhen Road Multi-modal Transportation Company Limited | 17 March, 1994 | 60% | RMB1,000,000 | Freight transportation |

All the above subsidiaries are limited liability companies.

## 14. INTERESTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Unlisted shares, at cost | **—** | — | **135,306** | 115,664 |
| Share of net assets | **136,574** | 117,477 | **—** | — |
| Due from associates | **48,095** | 88,787 | **48,095** | 88,331 |
| Due to associates | **(40)** | (2,742) | **(40)** | (1,851) |
| | **184,629** | 203,522 | **183,361** | 202,144 |
| Less: Provision for impairment in value | **(29,689)** | (29,689) | **(29,689)** | (29,689) |
| Provision for doubtful accounts | **(14,098)** | (32,711) | **(14,098)** | (32,711) |
| | **140,842** | 141,122 | **139,574** | 139,744 |

Analysis of share of net assets of the associates is as follows:

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At beginning of year | **117,477** | 116,868 |
| Addition | **19,420** | — |
| Share of (losses) profits before tax | **(197)** | 678 |
| Share of taxation | **(126)** | (69) |
| At end of year | **136,574** | 117,477 |

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

## 14. INTERESTS IN ASSOCIATES *(Cont'd)*

As of 31 December, 2002, the Company had direct or indirect interests in the following companies 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** | | | | |
| Guangzhou Tiecheng Enterprise Company Limted | 2 May, 1995 | 49% | RMB245,000,000 | Properties management and trading of merchandise |
| Guangzhou Tielian Economy Development Company Limited | 27 December, 1994 | 34% | RMB1,000,000 | Warehousing and freight transport agency |
| Zengcheng Lihua Stock Company Limited | 30 July, 1992 | 27% | RMB100,000,000 | Real estate, warehousing, cargo loading and unloading |
| **Indirectly held by the Company** | | | | |
| Guangzhou Dongqun Advertising Company Limited | 6 March, 1996 | 40% | RMB500,000 | Design and production of advertisements |
| Guangzhou Huangpu Yuehua Freight Transportation Joint Venture Company Limited | 20 July, 1990 | 33.3% | RMB6,610,000 | Cargo loading and unloading, warehousing, freight transport agency |

## 15. AVAILABLE-FOR-SALE INVESTMENTS

| Name of the investee company | Group and Company 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| China Railcom Company Limited ("China Railcom")* | **120,587** | — |
| Shenzhen Innovation Technology Investment Company Limited | **30,000** | 30,000 |
| Zhongtie Express Company Limited | **13,608** | — |
| Shenzhen Huatie Enterprise Company Limited | **2,000** | 2,000 |
| Zhongtie Information Company Limited | **500** | — |
| | **166,695** | 32,000 |

All the above investees are unlisted companies and stated at cost. The Company's share of equity interests in each of the respective companies is not more than 10%. No quoted market prices are available for the above unlisted companies as of year end.

* In 2002, the Company invested in China Railcom by injecting certain communication and signalling systems and related constructions-in-progress with their respective carrying value of approximately RMB120,587,000. China Railcom has confirmed in writing that the Group is entitled to the 0.85% equity interest in China Railcom as of 31 December, 2002. The relevant legal registration procedures of such investment are in progress.

## 16. DEFERRED TAX ASSETS

| | Group and Company 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Deferred tax assets related to: | | |
| — Provision for doubtful accounts | **3,015** | 1,842 |
| — Losses on disposals of fixed assets | **4,562** | 3,351 |
| | **7,577** | 5,193 |

## 17. DEFERRED STAFF COSTS

| | Group and Company | |
|---|---|---|
| | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* |
| **Cost, at beginning and end of year** | **226,369** | 226,369 |
| **Accumulated amortisation** | | |
| At beginning of year | **(30,182)** | (14,461) |
| Charges for the year | **(15,092)** | (15,721) |
| At end of year | **(45,274)** | (30,182) |
| **Net book amount** | | |
| At end of year | **181,095** | 196,187 |
| At beginning of year | **196,187** | 211,908 |

## 18. TRADE RECEIVABLES, NET

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade receivables | **67,416** | 91,480 | **36,588** | 67,938 |
| Less: Provision for doubtful accounts | **(15,959)** | (24,040) | **(14,678)** | (22,850) |
| | **51,457** | 67,440 | **21,910** | 45,088 |

The credit terms of trade receivables are within one year. The aging analysis of accounts receivable was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 1 year | **44,985** | 54,314 | **26,628** | 50,725 |
| Over 1 year but within 2 years | **3,491** | 9,017 | **3,490** | 2,070 |
| Over 2 years but within 3 years | **1,652** | 3,740 | **41** | 3,740 |
| Over 3 years | **17,288** | 24,409 | **6,429** | 11,403 |
| | **67,416** | 91,480 | **36,588** | 67,938 |

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are widely dispersed. Due to this factor, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

## 19. PREPAYMENTS AND OTHER RECEIVABLES, NET

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Other receivables | **168,236** | 140,559 | **149,167** | 139,880 |
| Less: Provision for doubtful accounts | **(39,898)** | (34,008) | **(39,898)** | (30,598) |
| Other receivables, net | **128,338** | 106,551 | **109,269** | 109,282 |
| Prepayments | **131,737** | 215,725 | **105,462** | 164,340 |
| | **260,075** | 322,276 | **214,731** | 273,622 |

As of 31 December, 2002, the Company had fixed deposit with the principal amount of approximately RMB31 million in Zeng Cheng City Li Cheng Credit Cooperative ("Li Cheng"). The Company had not been able to recover the principal from 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 12 October, 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 9 November, 2000, the court ordered the suspension of execution of the court ruling dated 12 October, 1999, while Li Cheng was undergoing a winding-up. On 23 November, 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 fixed deposit has not yet been collected. Accordingly, in current year, the Company reclassified such amount from temporary cash investments to other receivables and accounted for provision for doubtful accounts pursuant to management's estimates.

## 20. TEMPORARY CASH INVESTMENTS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2002** | 2001 | **2002** | 2001 |
| | *Notes* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Time deposits with maturities over three months in banks | *(a)* | **399,339** | 1,126,450 | **394,033** | 1,126,450 |
| Time deposits with maturities over three months in the MOR's Railway Deposit-taking Centre | *(b)* | **168,000** | 250,152 | **168,000** | 250,152 |
| | | **567,339** | 1,376,602 | **562,033** | 1,376,602 |

(a) Time deposits with maturities over three months in banks consist of short-term deposits denominated in RMB, Hong Kong dollars ("HK$") and United States dollars ("USD") with original maturities ranging from six months to one year, placed with banks in the PRC. The annual interest rates of RMB deposits was 1.98% in 2002 (2001: 2.16%), the annual interest rate of HK$ deposit was 1.13% in 2002 (2001: from 1.25% to 3.91%) and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0.1% (2001: from -0.2% to 0.1%). Total interest earned from such deposits amounted to approximately RMB15,121,000 for the year (2001: approximately RMB46,875,000).

(b) Time deposits with maturities over three months 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 1.98% in 2002 (2001: from 2.25% to 5.00%) and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0.1% (2001: from -0.2% to 0.1%). Total interest earned from such deposits amounted to approximately RMB3,239,000 (2001: approximately RMB28,792,000) for the year (see Note 27).

## 21. TRADE PAYABLES

The aging analysis of trade payables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 1 year | **40,677** | 63,134 | **30,638** | 49,324 |
| Over 1 year but within 2 years | **850** | 2,857 | **369** | 2,618 |
| Over 2 years but within 3 years | **207** | 3,057 | **73** | 3,179 |
| | **41,734** | 69,048 | **31,080** | 55,121 |

## 22. ACCRUED EXPENSES AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Advances from customers | **143,388** | 173,533 | **78,659** | 158,104 |
| Accrued expenses | **79,790** | 98,349 | **79,790** | 93,163 |
| Salary and welfare payables | **21,260** | 42,657 | **20,767** | 39,032 |
| Other payables | **213,515** | 139,679 | **210,548** | 120,820 |
| | **457,953** | 454,218 | **389,764** | 411,119 |

Other payables mainly represented various payables and deposits for daily operation of business.

## 23. SHARE CAPITAL

As of 31 December, 2002, 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: | | | |
| 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% |

## 24. RESERVES

According to the articles of association of the Company, when distributing profit attributable to shareholders of each year, the Company shall set aside 10% of its profit attributable to shareholders 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 profit attributable to shareholders to the discretionary surplus reserve provided it is approved by a resolution of the 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 profit attributable to shareholders 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.

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:

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | ***Percentage*** | ***RMB'000*** | *Percentage* | *RMB'000* |
| The Company | | | | |
| Statutory surplus reserve | **10%** | **57,613** | 10% | 55,064 |
| Statutory public welfare fund | **5%** | **28,806** | 10% | 55,064 |
| Discretionary surplus reserve | **—** | **—** | — | — |
| | **15%** | **86,419** | 20% | 110,128 |
| Subsidiaries | | | | |
| Statutory surplus reserve | | **1,688** | | 1,596 |
| Statutory public welfare fund | | **928** | | 798 |
| | | **2,616** | | 2,394 |
| | | **89,035** | | 112,522 |

## 24. RESERVES *(Cont'd)*

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.

As of 31 December, 2002, the reserve of the Company available for distribution was approximately RMB667,416,000 (2001: approximately RMB621,595,000).

## 25. RETIREMENT BENEFITS

All the full-time staff of the Group are covered by a defined-contribution pension scheme. Pursuant to a circular dated 24 October, 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 21 December, 2000 issued by the Parent Company.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Payable for pension obligations | — | 9,002 | — | 8,943 |

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation from profit attributable to shareholders to cash generated from operations:

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to shareholders | **557,083** | 533,495 |
| Adjustments for: | | |
| Minority interests | **113** | (1,499) |
| Income tax expense | **104,391** | 99,366 |
| Depreciation | **337,797** | 345,949 |
| Amortisation of leasehold land payments | **15,131** | 15,453 |
| Losses on disposal of fixed assets | **29,339** | 25,448 |
| Amortisation of deferred staff costs | **15,092** | 15,721 |
| Share of losses (profits) of associates | **197** | (678) |
| Provision for doubtful accounts | **4,598** | 29,620 |
| Interest expense | **4,064** | 2,087 |
| Interest income | **(36,920)** | (65,708) |
| Operating profit before working capital changes | **1,030,885** | 999,254 |
| Decrease in trade receivables | **24,064** | 4,597 |
| Decrease (increase) in materials and supplies | **86** | (4,158) |
| Decrease (increase) in prepayments and other current assets | **87,676** | (141,067) |
| (Increase) decrease in due from Parent Company | **(9,875)** | 51,105 |
| Decrease (increase) in due from related parties | **8,128** | (28,081) |
| (Decrease) increase in trade payables | **(27,314)** | 7,901 |
| Increase (decrease) in due to related parties | **99,549** | (5,084) |
| Increase in accrued expenses and other payables | **48,529** | 102,329 |
| Cash generated from operations | **1,261,728** | 986,796 |

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

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

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cash at bank and in hand | **842,549** | 365,508 |
| Short term time deposits | **570,496** | — |
| Cash and deposits | **1,413,045** | 365,508 |

Short term time deposits with maturities no more than three months consist of deposits denominated in USD and HK$. The effective interest rates of USD deposits ranged from 1.22% to 1.64%, the effective interest rates of HK$ deposits ranged from 1.34% to 1.70%. These deposits have an average maturity of 90 days.

Cash and bank deposits include a deposit of approximately RMB206,452,000 (2001: RMB38,767,000) with the MOR's Railway Deposit-taking Centre at an annual interest rate normally granted by banks.

(c) Non-cash transactions

| | **2002** | 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Investment in China Railcom *(see Note 15)* | **120,587** | — |
| Exchange of trains* | **—** | 51,080 |

* Pursuant to agreements with Guangzhou Zhongche Railway Locomotive Vehicle Tenang Co., Ltd. ("Zhongche") dated 6 June, 2001, the Company purchased 77 sets of Model 25K passenger trains from Zhongche at a cash consideration of approximately RMB198,093,000; 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 approximately RMB65,364,000 at the date of the transaction, plus a cash consideration of approximately RMB1,053,000. A loss on disposal of fixed asset of approximately RMB14,284,000 was charged to income statement in connection with the above transaction.

## 27. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence.

(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 its related parties during the year:

| | **2002** ***RMB'000*** | 2001 *RMB'000* |
|---|---|---|
| Lease of locomotives and related services from Yang Cheng Railway Company, a subsidiary of the Parent Company *(i)* | **42,047** | 70,345 |
| Provision of trains and related services from Guangmeishan Railway Company Limited, a subsidiary of the Parent Company | **4,864** | 5,205 |
| Purchases of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of the Parent Company | **33,074** | 36,544 |
| Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the Parent Company and related parties (including Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company) | **66,744** | 56,800 |
| Operating lease rentals paid to the MOR *(i)* | **57,298** | 52,296 |
| Provision of trains and related services through MOR | **211,667** | 66,475 |
| Provision of trains usage and related services from Guangzhou Railway (Group) Passenger Transportation Company, a subsidiary of the Parent Company | **6,681** | 7,844 |
| Interest expenses paid to the Parent Company *(ii)* | **2,443** | 1,178 |
| Interest received from the MOR's Railroad Deposit-taking Centre** *(see Note 20 (b) and 26 (b))* | **3,239** | 11,887 |
| Interest received from Pingnan Railway Company Limited, an associate of the Parent Company *(ii)* | **806** | 1,866 |
| Interest received from Guangmeishan Railway Company Limited *(ii)* | **1,884** | 1,291 |

## 27. RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) **Recurring transactions** *(cont'd)*

(i) The lease agreement with Yang Cheng Railway Company was revised on 6 March, 1996 and provides for a 10-year lease period starting from 1996. The lease with MOR is based on the uniform rate set by the MOR and 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.

(b) As of 31 December, 2002, the Group and the Company had the following material balances with related parties:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Temporary cash investments in the MOR's Railroad Deposit-taking Centre *(see Note 20 (b))* | **168,000** | 250,152 | **168,000** | 250,152 |
| Bank deposits in the MOR's railroad Deposit-taking Centre *(see Note 26 (b))* | **206,452** | 38,767 | **206,452** | 38,767 |
| Due from Parent Company | **39,374** | 29,499 | **37,575** | 28,492 |
| Due from related parties | **267,885** | 276,013 | **263,873** | 275,940 |
| Due to related parties | **(158,199)** | (58,650) | **(156,909)** | (58,823) |

As of 31 December, 2002, the balances with the MOR, the Parent Company and related parties are unsecured, non-interest bearing and repayable on demand, except for those disclosed in Note 20(b), 26(b) and 27(a). These balances resulted from transactions carried out by the Group with related parties in the ordinary course of business.

## 28. CONTINGENCY

As of 31 December, 2002, the Company's investment in an associated company, Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng"), amounted to approximately RMB140,000,000. In 1996, Tiecheng entered into an agreement with a Hong Kong incorporated company to establish Guangzhou Guantian Real Estate Company ("Guangzhou Guantian"), a sino-foreign contractual joint venture to develop certain properties near a railway station operated by the Group.

On 27 October, 2000, Guangzhou Guantian together with Guangzhou Guanhua Real Estate Company Limited ("Guangzhou Guanhua") and Guangzhou Guanyi Real Estate Company Limited ("Guangzhou Guanyi") agreed to act as joint guarantors (the "Guarantors") of certain payables of Guangdong Guancheng Real Estate Company Limited ("Guangdong Guancheng") to an independent third party. Guangzhou Guantian, Guangzhou Guanhua, Guangzhou Guanyi and Guangdong Guancheng were related companies with a common chairman. As Guangdong Guancheng failed to repay the payables, according to a court verdict on 4 November, 2001, Guangzhou Guantian, Guangzhou Guanhua and Guangzhou Guanyi were liable to the independent third party to recover an amount of approximately RMB257,000,000 plus interest from Guangdong Guancheng.

As stated above, if Guangzhou Guantian is held responsible for the guarantee, the Group may need to provide for impairment on its interests in Tiecheng. Having consulted an independent lawyer, the directors are of the opinion that the guarantee arrangement should be invalid according to the relevant PRC rules and regulations. Tiecheng is now in the process to apply to the court for discharging the obligation of Guangzhou Guantian in relation to the guarantee. Accordingly, the directors consider that as of the date of this report, the chance of Guangzhou Guantian to settle the above claim is remote and no provision for impairment on the interests in Tiecheng was made in the accounts.

## 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 31 December, 2002, 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 31 December, 2002, 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' 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 31 December, 2002 was minimum since their deviation from their respective fair values was not significant.

## 30. CONCENTRATION OF RISKS *(Cont'd)*

### (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 1 January, 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 31 December, 2002, the Group had the following capital commitments of which all are authorized and contracted for:

| | **2002**<br>***RMB'000*** | 2001<br>*RMB'000* |
|---|---|---|
| Authorised and contracted for | **10,158** | 15,640 |

### (b) Operating lease commitments

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

| | **2002**<br>***RMB'000*** | 2001<br>*RMB'000* |
|---|---|---|
| Machinery and equipment | | |
| — not more than one year | **108,000** | — |
| — more than one year but not more than five years | **291,375** | 399,375 |
| | **399,375** | 399,375 |

## 32. POST BALANCE SHEET EVENTS

Pursuant to a board resolution dated 23 April, 2003, the directors recommended the payment of a final dividend of RMB0.10 per share, totaling RMB433,555,000.

## 33. 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.

## 34. APPROVAL OF ACCOUNTS

The financial statements were approved by the Board of Directors on 23 April, 2003.