



**Guangshen
Railway
Company
Limited**



Interim Report 2003



The Board of Directors of Guangshen Railway Company Limited (the "Company") hereby presents the unaudited operating results of the Company and its subsidiaries for the six months ended June 30, 2003.

REVIEW OF OPERATIONS

In the first half of 2003, the Company's core businesses declined as a result of the outbreak of Severe Acute Respiratory Syndrome ("SARS") in some provinces of China and Hong Kong. In the first half of 2003, total revenues of the Company decreased by 14.3% from that of the same period in 2002. The revenues from passenger transportation, freight transportation and other businesses decreased by 15.9%, 8.2% and 14.5%, respectively, when compared with that of the same period in 2002.

PASSENGER TRANSPORTATION

Passenger transportation is the Company's core business segment. As of June 30, 2003, the Company operated 105 pairs of passenger trains per day according to the train schedule, representing an increase of six pairs of trains over those at the end of 2002. The 105 pairs of passenger trains included 36 pairs of long-distance trains, an increase of two pairs over those at the end of 2002, eight pairs of Hong Kong Through Trains, an increase of one pair over those at the end of 2002, 57 pairs of high-speed trains between Guangzhou and Shenzhen, an increase of three pairs over those at the end of 2002, and four pairs of regular-speed trains between Guangzhou and Shenzhen.

For the six months ended June 30, 2003, the total number of passengers carried by the Company was 17.483 million, representing a decline of 14.1% from 20.352 million in the first half of 2002. Of the total number of passengers carried, (1) the total number of passengers travelling on the Guangzhou-Shenzhen route was 6.939 million, representing a decrease of 8.0% from 7.539 million in the same period of 2002; (2) the total number of passengers travelling on the Hong Kong Through Trains was 0.800 million, representing a decrease of 22.0% from 1.026 million in the first half of 2002; and (3) the total number of passengers travelling on long-distance passenger trains was 9.744 million, representing a decrease of 17.3% when compared with 11.787 million in the same period of last year.

Note: During the first half of 2002, as the Company had not officially used the new data collection methods, the number of passengers of Guangzhou-Shenzhen route did not include the passengers that travelled between Guangzhou Station (which is owned by Yangcheng Railway Company) and stations on the Guangzhou-Shenzhen route. These passengers and those departing from Dongguan Station for northbound through trains of the Zhaoqing-Kowloon route and the Beijing (Shanghai)-Kowloon route were included in the passenger volume of long-distance passenger trains. In the first half of 2003, the Company used the new data collection methods. The passengers travelling between Guangzhou Station and stations on the Guangzhou-Shenzhen route were included in the calculation of passenger volume of the Guangzhou-Shenzhen route while the passengers departing from Dongguan Station for northbound through trains of the Zhaoqing-Kowloon route and the Beijing (Shanghai)-Kowloon route were included in the calculation of passenger volume of the Hong Kong Through Trains. Under the new data collection methods, the passenger volume of the Guangzhou-Shenzhen route, the Hong Kong Through Trains and the long-distance passenger trains was 8.585 million, 1.03 million and 10.737 million, respectively, in the first half of 2002.



FREIGHT TRANSPORTATION

Freight transportation is an important business segment of the Company. In the first half of 2003, the total freight tonnage transported by the Company was 12.797 million tonnes, representing a decrease of 6.4% from 13.674 million tonnes in the same period of last year. Of the total freight transportation volume, (1) the outbound freight tonnage was 3.122 million tonnes, representing a decrease of 17.6% from 3.787 million tonnes in the same period of last year; and (2) the inbound and pass-through freight tonnage was 9.675 million tonnes, representing a decrease of 2.1% from 9.887 million tonnes in the same period of last year.

OTHER BUSINESSES

For the first half of 2003, revenues from other businesses (including sales of food and merchandise on the Company's trains and in its stations) were Renminbi ("RMB") 52.7 million, representing a decrease of 14.5% from RMB61.6 million in the same period of last year.

PROFIT FROM OPERATIONS

The profit from operations of the Company for the first half of 2003 was RMB183.6 million, representing a decline of 46.4% from RMB342.2 million for the same period of last year. Profit attributable to shareholders during this reporting period was approximately RMB170.0 million, representing a decrease of 43.0% from RMB298.0 million in the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Total revenues from operations

In the first half of 2003, the Company's total revenues from operations were RMB1,029.4 million, representing a decline of 14.3% from RMB1,200.6 million in the same period of last year. Revenues from passenger transportation were RMB749.0 million and revenues from freight transportation were RMB227.7 million, representing 72.8% and 22.1% of the Company's total revenues, respectively, and 76.7% and 23.3% of the Company's railroad businesses, respectively. Revenues from other businesses were RMB 52.7 million, representing 5.1% of the Company's total revenues.

Passenger transportation business

Revenues from passenger transportation business in the first half of 2003 were RMB749.0 million, representing a decrease of 15.9% from RMB891.0 million in the same period of last year. The substantial decline was mainly due to the significant decrease in the number of passengers as a result of SARS. The impact is particularly strong on the number of passengers travelling on the more profitable Hong Kong Through Trains and the Company's Shenzhen-Yueyang and Shenzhen-Beijing long-distance passenger trains. The following table sets forth the revenues from passenger transportation and the number of passengers from January 1, 2003 to June 30, 2003 as compared to the same period of 2002:



	Six months ended June 30,		Increase/ (decrease) as compared to 2002
	2003	2002	
Revenues from passenger transportation (<i>RMB thousands</i>)	748,999	891,029	(15.9%)
— Guangshen trains and long-distance trains	626,858	727,442	(13.8%)
— Hong Kong Through Trains	122,141	163,587	(25.3%)
Total number of passengers (<i>thousand persons</i>)	17,483	20,352	(14.1%)
— Guangshen trains and long-distance trains	16,683	19,326	(13.7%)
— Hong Kong Through Trains	800	1,026	(22.0%)
Revenue per passenger (<i>RMB</i>)	42.84	43.78	(2.1%)
— Guangshen trains and long-distance trains	37.57	37.64	(0.2%)
— Hong Kong Through Trains	152.68	159.44	(4.2%)
Total passenger-kilometers (<i>millions</i>)	1,451.3	1,717.7	(15.5%)
Revenue per passenger-kilometer (<i>RMB</i>)	0.52	0.52	—

In the first half of 2003, revenues of the Company from the Guangshen and long-distance passenger trains were RMB626.9 million, representing a decrease of 13.8% when compared to the same period of last year. The main reasons for the substantial decline in revenues generated from the Guangshen and long-distance trains were: (1) Guangdong Province, the Company's major operating area, was the region where SARS initially occurred in China in the first half of this year. The epidemic had lasted for a relatively long time and had significantly affected our business. Since the issue of travel warning for Guangdong Province by the World Health Organization on April 2, 2003, travelling activities in Guangdong Province from April to May declined rapidly. Large-scale trade negotiations and conventions were restricted and tourists and businessmen travelling to and from Guangdong Province declined sharply. This caused a substantial decline in the passenger volume; (2) considering the SARS impact, the Company temporarily suspended or reduced the train configuration of part of its train operations to cut operating cost and minimize the spread of SARS. The Company suspended the operation of five pairs of long-distance passenger trains, five pairs of Guangshen high-speed passenger trains and four pairs of regular-speed passenger trains on the Guangzhou-Shenzhen route. The operation of passenger trains between Shenzhen and Yueyang was suspended between May 2 and June 12 and resumed with



a reduced train configuration between June 13 and July 2. The Shenzhen-Beijing passenger trains were operated with a reduced train configuration from May to July. The suspension and reduction of part of the passenger train operations have contributed to the decrease in the number of passengers; and (3) on festivals during the SARS period (such as the May 1 Golden Week), the Company did not adjust ticket prices upwards as it usually did on these festivals, and allowed for a full refund for tickets within a specified period. This also reduced the passenger revenues to a certain extent.

Revenues from the Hong Kong Through Trains of the Company in the first half of 2003 were RMB122.1 million, representing a decrease of 25.3% from that in the same period of last year. The decrease was mainly caused by: (1) the temporary ban on all tours from China to Hong Kong and Macao because of SARS epidemic in the first half of 2003, which spanned a few very important public holidays such as Hong Kong's Tomb Sweeping Day and Easter holiday and May 1 Labour Day, causing a sharp decline in business and tourist travels in and out of Hong Kong; and (2) the around-the-clock service of the Shenzhen Huanggang checkpoint since January 27, 2003 also affected the Company's passenger volume and revenues from the Hong Kong Through Trains.

Freight transportation business

Revenues generated from the Company's freight transportation in the first half of 2003 were RMB227.7 million, representing a decrease of 8.2% from RMB248.0 million in the first half of 2002. The following table sets forth the revenues and volume of freight transportation from January 1, 2003 to June 30, 2003 as compared to the same period in 2002:

	Six months ended June 30,		Increase/ (decrease) as compared to 2002
	2003	2002	
Revenues from freight transportation (<i>RMB thousands</i>)	227,694	248,008	(8.2%)
Revenues from outbound freight	40,864	48,403	(15.6%)
Revenues from inbound and pass-through freight	150,439	144,856	3.9%
Revenues from storage, loading and miscellaneous items	36,391	54,749	(33.5%)
Total tonnage (<i>thousand tonnes</i>)	12,797	13,674	(6.4%)
Revenue per tonne (<i>RMB</i>)	17.79	18.14	(1.9%)
Total tonne-kilometers (<i>millions</i>)	914.2	939.7	(2.7%)
Revenue per tonne-kilometer (<i>RMB</i>)	0.249	0.264	(5.7%)

In the first half of 2003, the Company's outbound freight revenue was RMB40.9 million, representing a decline of 15.6% when compared with that of the same period in 2002; the inbound and pass-through freight revenues were RMB150.4 million, representing an increase of 3.9% when compared



with that of the same period in 2002; and revenues from storage, loading and miscellaneous items were RMB36.4 million, representing a decline of 33.5% when compared with that of the same period in 2002. The decrease in the revenues from freight transportation as compared with that of the same period in 2002 was mainly due to: (1) the impact of SARS. The volume of some categories of freight, such as aero-fuel, food and articles of daily use, decreased sharply; (2) the decrease in import freight. Part of the freight formerly imported through Hong Kong is imported through other ports as a result of the opening of more ports to the outside world by the Chinese government. This reduced the outbound freight of the Company; and (3) intense competition. Since the expressway between Beijing and Zhuhai started operation, a large quantity of northbound freight had been transported via the expressway, causing a decrease in outbound railway freight. As a result of this decrease in freight volume, revenues from related businesses of storage and miscellaneous items also declined. Revenues from inbound and pass-through freight increased from the same period of last year. The increase was mainly due to the operation of the second track of the Beijing-Jiujiang line, resulting in the growth of pass-through freight from other railway companies.

Other businesses

Revenues from other businesses of the Company in the first half of 2003 decreased by 14.5% from RMB61.6 million in the same period of 2002 to RMB52.7 million. This was mainly due to the decrease in the passenger volume and reduction in passengers' onboard consumption as a result of the SARS epidemic. Furthermore, in order to offer more comfortable and convenient waiting areas, the Company dismantled some shops and advertisement boards at Guangzhou East Station, Shenzhen Station and Dongguan Station, which also reduced part of the revenues.

OPERATING EXPENSES OF THE RAILROAD BUSINESSES

Operating expenses of the Company's railroad businesses in the first half of 2003 were RMB795.1 million, representing a decrease of 1.2% from RMB804.5 million in the first half of 2002. This was mainly because the Company adjusted the depreciation rate for certain fixed assets, which led to a decrease in fixed asset depreciation expenses in the first half of 2003 as compared to the first half of 2002. Secondly, the Company temporarily suspended the operation of some of the trains due to the SARS epidemic, which reduced the expenses on use of railway tracks, hauling and in-station passenger service. At the same time, the Company took various measures in the first half of 2003 to control the impact of the SARS epidemic. Such activities increased the workload of employees. As a result, the Company's salary and general administrative expenses increased. Furthermore, the rise in diesel price caused by changes in the international market increased the Company's fuel expenses. To prevent the spread of the SARS epidemic, the Company had to maintain continuous operation of air-conditioners in the trains. The consumption of diesel and electricity was therefore increased. Although the consumption of materials and supplies was reduced as a result of the decreased train operation, the overall consumption of materials and supplies did not reduce accordingly as the two factors offset each other.



LIQUIDITY AND FINANCIAL RESOURCES

During the first half of 2003, the main source of the Company's capital was revenues from operations. Such capital was used primarily for capital and operational expenditures and tax payments.

As at June 30, 2003, the Company's liabilities to assets ratio was 11.7%.

The Company believes that it has sufficient working capital to support its operation and development.

PROSPECTS

As the Chinese government has succeeded in containing the SARS epidemic at this stage, the Company believes that the adverse impact of the SARS epidemic on its transportation businesses is temporary and will gradually fade away.

The Company will take advantage of the opportunities arising from the development of a Great Pearl River Delta economic circle among Guangdong Province, Hong Kong and Macau within its service areas and the establishment of closer economic partnership between the Mainland and Hong Kong, capture the historical opportunity in the breakthrough of the railway industry in China and continue with the implementation and improvement of the "as-frequent-as-buses" Train Project. It will continue to expand its transportation capacity, continue with upgrading equipment and maximize resources allocation of transportation management by focusing on computerized central control systems of railway traffic. It will also further strengthen its modern corporate management mechanism, establish corporate culture and improve its quality of service so as to establish the Guangzhou-Shenzhen railway as a profitable modernized railway which provides high speed and frequent services and which is equipped with most advanced science and technology, and turn the Guangzhou-Shenzhen railway into a safe, comfortable, premium, fast and convenient means of transport between Guangzhou, Shenzhen and Hong Kong and a convenient passage for people and freight linking the Mainland and Hong Kong.

During the second half of 2003, the Company will take active and effective measures to prevent the recurrence of SARS in its service areas and to provide comfortable, safe, hygienic and convenient train service and environment for its passengers. It will take advantage of the gradual relaxation of restrictions imposed by the Chinese government on Chinese residents' travelling to Hong Kong and Macau, enhance its marketing efforts on passenger and freight transportation and boost revenues and reduce costs. The Company believes that its passenger and freight transportation businesses will gradually recover during the second half of this year.

In relation to its passenger transportation business, the Company will continue to focus on the improvement and implementation of the "as-frequent-as-buses" Train Project, optimize the train schedule, and increase the number of trains stopping at Guangzhou Station and main intermediary stations to attract passengers from Guangzhou Station into the Guangzhou-Shenzhen route and the intermediary stations. The Company will further improve services of the two long-distance passenger



trains that are operated by the Company between Shenzhen and Yueyang and between Shenzhen and Beijing. While accumulating experience of operations to compete in the long-distance passenger transportation market, the Company plans to extend the route of one pair of its regular-speed passenger trains, which currently run between Shenzhen and Guangzhou, to run further to Shaoguan, a city in the northern part of Guangdong Province, and compete in intra-province short-distance transportation market outside the Guangzhou-Shenzhen route. With respect to Hong Kong Through Trains, the Company added one pair of Hong Kong Through Trains on June 28, 2003 and began to offer discount to group travelers of Dongguan-Kowloon Through Trains on July 1, 2003. In order to attract more passengers, the Company will cooperate with Kowloon-Canton Railway Corporation actively in the "Hong Kong Welcomes You!" promotion for Hong Kong Through Trains. With respect to improvement in passenger service, the Company plans to add more ticket agents in major cities and towns along the Guangzhou-Shenzhen route and extend the presale period of tickets for the convenience of passengers. It will refurbish Shenzhen Station, Guangzhou East Station and Dongguan Station to offer a more comfortable environment for passengers.

In relation to its freight transportation business, the Company will focus on business potentials at Guangzhou port and Yantian port and continue to develop freight transportation in relation to ports. Emphasizing on the importance of container transportation, the Company also plans to operate a container train between Dongguan and Yantian port to increase the volume of container transportation. Furthermore, the Company plans to adjust freight transportation tariffs in its service territory, develop freight transportation market in different geographies, conduct freight transportation market research and marketing activities and open up new freight sources.

In relation to its other businesses, the Company will endeavour to develop new businesses. While providing passengers with more comfortable and convenient waiting areas, the Company will also create a more pleasant shopping environment for its passengers by opening a shopping mall after the refurbishment of the stations. It also plans to further develop the tourism business by taking advantage of the huge demand for travel after SARS and travel ban is lifted nationwide.

To ease the pressure of insufficient transportation capacity and to enhance the Company's overall competitive strength, the Company plans to invest in certain material projects (purchases) (major items as listed in the table below) to improve the facilities and equipment of the Company's transportation service with internally generated funds this year:

PROJECTS	AMOUNT (RMB'000)	NOTES
1 Purchase of locomotives and passenger coaches	219,200	To upgrade the equipment and improve the quality of services
2 North plaza of Guangzhou East Railway Station	50,000	Together with Guangzhou Subway that is under construction to provide passengers with convenience in transfer and dispersion



PROJECTS	AMOUNT (RMB'000)	NOTES
3 Technical support and maintenance depot for passenger vehicles at Northern Shenzhen Station	40,000	For the technical preparation, examination and parking of long-distance passenger trains
4 Capacity upgrade between Guangzhou and Shenzhen (the Fourth Line)	10,000	To upgrade the transportation capacity of the Company and to enhance its competitive strength. This project has not yet been approved by the relevant government authorities
5 The pedestrian passage between Shenzhen Railway Station and Luohu Subway Station	10,000	To improve the service facilities at Shenzhen Station and connect the railway station with the subway station
6 An elevated carpark at Nan Huan Lang and the construction at Xi Huan Lang of Shenzhen Station	10,000	To improve the auxiliary service facilities at Shenzhen Station
7 Revamping of old station buildings at Dongguan Station and the related projects	10,000	To improve the service facilities at Dongguan Station
8 Construction of a connecting track for passenger trains from Pinghu to northern Shenzhen	10,000	An auxiliary project of the technical support and maintenance depot for passenger vehicles at Northern Shenzhen Station. This line is constructed for solving the problems created by the intersection of the train stocks and locomotives moving in and out of the depot for maintenance and examination between Pinghu and Shenzhen and the high-speed trains running on the main tracks
9 Construction of other transportation facilities and small-scale purchases and construction projects	101,700	To improve railway transportation facilities and upgrade quality of service

Note: The projects listed above are the Company's proposals which will be subject to change in the actual implementation.



FINAL DIVIDEND OF 2002

Resolution approving the distribution of a dividend of RMB0.10 (inclusive of tax) per share to the shareholders of the Company was passed at the annual general meeting of the Company for the year 2002 held on June 10, 2003. The dividend was distributed to the shareholders on or before July 10, 2003.

INTERIM DIVIDEND

The Board of Directors has decided not to declare any interim dividend for the six months ended June 30, 2003.

APPOINTMENT OF DIRECTORS, CHAIRMAN OF THE BOARD AND GENERAL MANAGER

Mr. Feng Qifu was appointed as the general manager of the Company by a resolution passed in a Board meeting held on May 8, 2003.

The annual general meeting for the year 2002 and a meeting of the Board of Directors were held on June 10, 2003. In the annual general meeting, resolutions to appoint Mr. Wu Juguang, Mr. Feng Qifu, Mr. Hu Lingling and Mr. Wen Weiming as directors of the Company were passed. Mr. Wu Juguang was elected the Chairman of the Board in the Board meeting.

EMPLOYEES, SALARY DISTRIBUTION POLICY AND TRAINING PLANS

As of June 30, 2003, the Company had a total of 9,255 employees, which is three less than the total number of employees at the end of year 2002.

The Company implemented a salary distribution policy which links remuneration closely with operating results, labour efficiency and individual contribution. Employees' salary distribution is subject to macro-control and is based on their post scores and performance reviews. As of June 30, 2003, the Company paid salaries of RMB139.6 million in total.

Pursuant to relevant state policies and regulations, the Company's employees enjoy the following benefits: (1) retirement pension - the Company is required to set aside a sum equivalent to 18% of the aggregate amount of salaries of all of its employees for the year and 5% of the aggregate amount of salaries of all of its employees for the year as employees' retirement pension and supplemental retirement pension, respectively; (2) welfare fund - the Company is required to set aside 14% of the aggregate amount of salaries of all of its employees as employees' welfare fund contributions and medical service fees; and (3) housing fund - both the Company and its employees are required to deposit 7% (for residents in Guangzhou area or along the Guangzhou-Shenzhen route), or 13% (for Shenzhen residents) of the employee's monthly salary into the employee's personal housing fund account. Save as disclosed, the Company has not participated in any other employees' basic medical insurance scheme.



In the first half of 2003, the Company had trained 30 managers and 173 workers on standardized operations required by their posts, and 286 managers and 2,576 workers on adaptability. The training included: computerized central control system of railway traffic, knowledge about new types of locomotives, operation for disconnectors, safety regulation, handling of emergency and knowledge about prevention of SARS. The Company also held 12 skill contests and 69 special lectures. The Company organized most of these training courses but also employed certain external experts for these purposes. Due to SARS epidemic, the Company has only completed 35% of its full-year training plans and the direct cost for these training programs was about RMB1.1 million.

EMPLOYEES' RESIDENTIAL PROPERTIES AND ACCOUNTING TREATMENT FOR DIFFERENCES BETWEEN THE SELLING PRICES AND COSTS

The Company constructed and purchased new residential properties for its employees to improve their living conditions. Under a housing benefit scheme, the Company sold these residential properties to its employees at a price approved by the government. The losses arising from the difference between the book value of the staff quarters and the proceeds collected from the sale of such quarters to the employees was less than RMB226.4 million as of June 30, 2003. Pursuant to the prevailing policies of the Ministry of Finance, the aforesaid losses should be credited to retained earnings in the statutory accounts as of January 1, 2001, or in case of a debit balance, to offset the statutory public welfare fund, statutory surplus reserve, discretionary surplus reserve and capital surplus reserve upon the approval by the Board. Such treatment conforms with the accounting rules and regulations applicable to the Company and its subsidiaries in China.

In the financial statements of the Company as of June 30, 2003, prepared in accordance with International Financial Reporting Standards, the Company accounted for the housing losses as follows: losses arising from the sales of completed staff quarters to the employees, or from the sales of premises under construction which could be reasonably estimated for future services was approximately RMB226.4 million. Such losses were amortized on a straight-line basis over the estimated remaining average service period of 15 years from the time of such sales. During the first half ended June 30, 2003, the housing losses charged to the deferred staff costs in the consolidated income statement was approximately RMB7.55 million and the accumulated amortized amount was RMB52.82 million.

As of June 30, 2003, the unamortized deferred expenses, which were recorded as deferred staff costs in the balance sheet of the Company and its subsidiaries, were RMB173.5 million.



CAPITAL STRUCTURE

No change has occurred to the Company's share capital structure during the reporting period. The Company's capital structure as at June 30, 2003 was as follows:

Class of shares	Number of shares	As at June 30, 2003	
		Percentage of total share capital (%)	
State-owned legal person shares	2,904,250,000	66.99	
H Shares	1,431,300,000	33.01	
Total	4,335,550,000	100.00	

SHAREHOLDERS

As at June 30, 2003, the interests and short positions of the persons, other than directors or supervisors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) were as follows:

Name of shareholder	Class of shares	Number of shares held	As at June 30, 2003	
			Percentage of class of shares (%)	Percentage of total share capital (%)
Guangzhou Railway (Group) Company	State-owned legal person shares	2,904,250,000	100	66.99

DIRECTORS' AND SUPERVISORS' INTERESTS

As at June 30, 2003, there was no record of interests and short positions (including the interests and short positions which were taken or deemed to have under the provisions of the Securities and Futures Ordinance) of the directors or supervisors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance) in the register required to be kept under section 352 of the Securities and Futures Ordinance. The Company had not received notification of such interests and short positions from each director or supervisor of the Company as required to be made to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.



PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during this reporting period.

IMPACT OF ECONOMIC POLICIES ON THE COMPANY

The policies on adjustment of national economic structure and policies relating to import and export activities have affected the composition of the Company's railway freight and freight pricing policies. Save as disclosed, the Company is not aware of any other governmental policies that are likely to have effects on the Company's business and financial position.

TAXATION POLICY

As the Company is located in the Shenzhen Special Economic Zone, it enjoys a preferential income tax rate of 15%. The Company believes that such rate will continue to apply in the future.

On May 16, 2003, according to the document Shendishuifa [2003] 406 — 《關於促進我市非典防治若干稅收措施的通知》 (Notice Concerning Certain Taxation Measures for Promoting the Prevention and Cure of Atypical Pneumonia of Our Municipality) issued by 深圳市財政局 (Shenzhen Bureau of Finance), 深圳市國家稅務局 (Shenzhen Municipality Office of the State Administration of Taxation) and 深圳市地方稅務局 (Shenzhen Local Taxation Bureau), the Company enjoys the following preferential taxation policies: (1) during the period from May 1, 2003 to September 30, 2003, the business tax levied on the Company's revenues generated from its passenger transportation business, city construction tax and education sub-charge will be reduced by half; and (2) upon the application of the Company, the real estate tax for the Company's real estate at Shenzhen Station used in its passenger transportation business will be reduced by half during the period from April 1, 2003 to September 30, 2003.

MATERIAL ACQUISITIONS OR DISPOSALS

During the six months ended June 30, 2003, the Company had made no material acquisitions or disposals.

OVERDUE TIME DEPOSITS

As of June 30, 2003, the Company had approximately RMB31.365 million overdue time deposits placed with Zengcheng Urban Credit Cooperative. The Company had initiated legal proceedings in respect of such overdue deposits and had obtained judgment in its favour. However, as the judgment debtor was under restructuring, the Court ordered a stay of execution of the judgment. The said overdue time deposits account for approximately 0.3% of the Company's net assets and 1.2% of the Company's total current assets, and have no material impact on the capital usage and operations of the Company. For prudence, the Company has reclassified such amount to other receivables and made certain provision for such overdue deposits.



Other than the overdue time deposits as disclosed, the Company has no other overdue time deposits that have not been repaid. The Company has not encountered any difficulty in withdrawing deposits. The Company has placed its deposits with other commercial banks in China and the Railway Deposit-taking Centre of the Ministry of Railway.

ENTRUSTED DEPOSITS

As of June 30, 2003, the Company did not have any entrusted deposits with any financial institutions in China.

BANK BORROWINGS

As of June 30, 2003, the Company had no bank loans or borrowings.

CONTINGENCY

As of June 30, 2003, the Company's investment in an associated company, Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng"), amounted to approximately RMB140 million. In 1996, Tiecheng and a Hong Kong incorporated company jointly established Guangzhou Guantian Real Estate Company Limited ("Guangzhou Guantian"), a sino-foreign cooperative joint venture to carry on real estate business near a railway station operated by the Company.

On October 27, 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") on certain payables owed by Guangdong Guangcheng Real Estate Company Limited ("Guangdong Guancheng") to an independent third party. Guangzhou Guanhua, Guangzhou Guanyi and Guangdong Guancheng and Guangzhou Guantian were related companies with a common chairman. As Guangdong Guancheng failed to repay the debt, the independent third party sued Guangzhou Guantian, Guangzhou Guanhua and Guangzhou Guanyi for the debt owed to it by Guangdong Guancheng. According to a court verdict on November 4, 2001, Guangzhou Guanhua, Guangzhou Guanyi and Guangzhou Guantian had to pay an amount of approximately RMB257 million plus interest.

As stated above, if Guangzhou Guantian is held responsible for the guarantee, the Company may need to make provision for the decrease in value of its investment in Tiecheng. Having consulted an independent lawyer, the directors of the Company believe that the guarantee is invalid according to the relevant rules and regulations of China. Tiecheng is now in the process of appealing for discharge of the obligation of Guangzhou Guantian under the guarantee. Accordingly, the directors consider that as of the date of this report, the chance of Guangzhou Guantian having to settle the above claim is remote and no provision for the decrease in value of the Company's investment in Tiecheng was made in the accounts.



EXCHANGE RISK

The Company currently holds a certain amount of deposits denominated in United States dollars and Hong Kong dollars. It also receives revenues in Hong Kong dollars from the provision of transportation service. When there are major fluctuations in the exchange rates of these currencies to RMB, the Company's operating results will be affected.

CHARGE ON ASSETS AND GUARANTEE

As at June 30, 2003, the Company had not charged any of its assets and had not provided any guarantee.

MATERIAL LITIGATION

As at June 30, 2003, the Company was not involved in any major litigation or dispute.

CONNECTED TRANSACTION

As at June 30, 2003, the Company's connected transactions of railway transport have been carried out on normal terms according to the conditions and contents of the waiver granted by the Stock Exchange and the contracts entered into by the contracting parties. There has been no new connected transaction.

AUDIT COMMITTEE

The Audit Committee is composed of two independent non-executive directors of the Company. Its principal duties include the review and supervision of the Company's financial reporting procedures and internal controls. The unaudited interim financial statement for the six months ended June 30, 2003 has been reviewed by the Audit Committee.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules of the Stock Exchange.

DOCUMENTS AVAILABLE FOR INSPECTION

The full text of the Interim Report and Financial Statements signed by the Chairman are available for inspection at No. 1052 Heping Road, Shenzhen, the People's Republic of China.

On behalf of the Board of Directors

Wu Junguang

Chairman of the Board of Directors

Shenzhen, the People's Republic of China, August 12, 2003



INTERIM RESULTS

The Board of Directors of Guangshen Railway Company Limited (the "Company") hereby presents the unaudited interim operating results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2003 prepared in conformity with International Financial Reporting Standards ("IFRS").

CONDENSED CONSOLIDATED INCOME STATEMENT

(Unaudited)

	Note	For the six months ended June 30,		
		2003 RMB'000	2002 RMB'000	2003 US\$'000 (Note 14)
Revenues from railroad businesses				
Passenger		748,999	891,029	90,241
Freight		227,694	248,008	27,433
Sub-total		976,693	1,139,037	117,674
Revenues from other businesses		52,691	61,611	6,348
Total revenues		1,029,384	1,200,648	124,022
Operating expenses				
Railroad businesses		(795,148)	(804,486)	(95,801)
Other businesses		(50,672)	(54,007)	(6,105)
Total operating expenses		(845,820)	(858,493)	(101,906)
Profit from operations		183,564	342,155	22,116
Other income		17,621	11,387	2,123
Finance costs		(920)	(302)	(111)
Share of profit (losses) of associates before tax		209	(2)	25
Profit before tax	3	200,474	353,238	24,153
Income tax expense	4	(31,011)	(55,150)	(3,736)
Profit from ordinary activities after tax		169,463	298,088	20,417
Minority interests		542	(74)	65
Profit attributable to shareholders		170,005	298,014	20,482
Earnings per share				
— Basic	6	RMB0.039	RMB0.069	USD0.005
— Diluted	6	N/A	N/A	N/A



CONDENSED CONSOLIDATED BALANCE SHEET

		As of June 30, 2003 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2002 <i>RMB'000</i> <i>(Audited)</i>	As of June 30, 2003 <i>US\$'000</i> <i>(Note 14)</i>
	<i>Note</i>			
Non-current assets				
Fixed assets	7	6,776,012	6,798,280	816,387
Construction-in-progress	7	716,535	672,827	86,330
Leasehold land payments		649,388	656,998	78,240
Interests in associates		141,539	140,842	17,053
Available-for-sale investments		166,695	166,695	20,084
Deferred tax assets		7,918	7,577	954
Deferred staff costs		173,549	181,095	20,910
		8,631,636	8,624,314	1,039,958
Current assets				
Materials and supplies		37,789	34,105	4,553
Trade receivables, net	8	57,346	51,457	6,909
Due from Parent Company		—	39,374	—
Due from related parties		240,617	267,885	28,990
Prepayments and other receivables, net		316,915	260,075	38,182
Temporary cash investments		614,756	567,339	74,067
Cash and cash equivalents		1,406,379	1,413,045	169,443
		2,673,802	2,633,280	322,144
Current liabilities				
Trade payables	9	51,718	41,734	6,231
Payables for construction of fixed assets		152,558	181,473	18,380
Due to Parent Company		34,581	—	4,166
Due to related parties		112,501	158,199	13,554
Dividends payable		413,787	90,663	49,854
Taxes payable		19,058	71,844	2,296
Accrued expenses and other payables		533,510	457,953	64,278
		1,317,713	1,001,866	158,759
Net current assets		1,356,089	1,631,414	163,385
Total assets less current liabilities		9,987,725	10,255,728	1,203,343
Minority interests		7,124	11,577	858
Net assets		9,980,601	10,244,151	1,202,485
Representing:				
Share capital	10	4,335,550	4,335,550	522,355
Reserves		5,645,051	5,908,601	680,130
Total capital and reserves		9,980,601	10,244,151	1,202,485



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Note	Reserves					Total RMB'000
		Share capital RMB'000	Share premium RMB'000	Revenue reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	
Balances at							
December 31, 2002		4,335,550	3,984,135	1,287,370	637,096	5,908,601	10,244,151
Profit attributable							
to shareholders		—	—	—	170,005	170,005	170,005
Dividends relating to 2002	5	—	—	—	(433,555)	(433,555)	(433,555)
<hr/>							
Balances at June 30, 2003		4,335,550	3,984,135	1,287,370	373,546	5,645,051	9,980,601
<hr/>							
Balances at							
December 31, 2001		4,335,550	3,984,135	1,198,335	602,603	5,785,073	10,120,623
Profit attributable							
to shareholders		—	—	—	298,014	298,014	298,014
Dividends relating to 2001	5	—	—	—	(433,555)	(433,555)	(433,555)
<hr/>							
Balances at June 30, 2002		4,335,550	3,984,135	1,198,335	467,062	5,649,532	9,985,082
<hr/>							

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***(Unaudited)*

	For the six months ended June 30,		
	2003	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Net cash from operating activities	242,152	557,534	29,175
Net cash used in investing activities	(229,050)	(133,305)	(27,596)
Net cash used in financing activities	(19,768)	(3,198)	(2,382)
Net (decrease) increase in cash and cash equivalents	(6,666)	421,031	(803)
Cash and cash equivalents at beginning of period	1,413,045	365,508	170,246
Cash and cash equivalents at end of period	1,406,379	786,539	169,443



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The accompanying condensed consolidated financial statements are prepared in accordance with IFRS 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The accounting policies adopted by the Group in preparing the interim condensed consolidated financial statements are the same as those adopted in the preparation of the annual consolidated financial statements as of and for the year ended December 31, 2002.

2. Segment information

(i) 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 adopted in preparing the consolidated financial statements of the Group. The Group evaluates performance based on profit from operations. An analysis of the Group's revenues and results for the period by business segment is as follows:

	For the six months ended June 30,									
	Railroad businesses		Other businesses		Unallocated		Consolidation		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenues										
— External	976,693	1,139,037	52,691	61,611	—	—	—	—	1,029,384	1,200,648
— Inter-segment	—	—	27,483	33,537	—	—	(27,483)	(33,537)	—	—
	976,693	1,139,037	80,174	95,148	—	—	(27,483)	(33,537)	1,029,384	1,200,648
Segment result	181,545	334,551	2,019	7,604	—	—	—	—	183,564	342,155
Other income	14,885	9,185	2,736	2,202	—	—	—	—	17,621	11,387
Including:										
Interest income	13,754	9,561	220	240	—	—	—	—	13,974	9,801
Finance costs	—	—	—	—	(920)	(302)	—	—	(920)	(302)
Share of profit (losses) of associates before tax	209	(2)	—	—	—	—	—	—	209	(2)
Income tax expense									(31,011)	(55,150)
Minority interests									542	(74)
Profit attributable to shareholders									170,005	298,014



(ii) **Geographic Segments**

For the six months ended June 30, 2003, all of the Group's business operations were conducted in the People's Republic of China (the "PRC").

3. Profit before tax

Profit before tax is stated after charging (crediting) the following:

	For the six months ended	
	June 30,	
	2003	2002
	RMB'000	RMB'000
Depreciation of fixed assets	159,818	176,121
Amortisation of leasehold land payments	7,714	7,521
Amortisation of deferred staff costs	7,546	7,666
Interest expenses	920	302
Interest income	(13,974)	(9,801)

4. Income tax expense

The amount of taxation charged to the condensed consolidated income statement represents:

	For the six months ended	
	June 30,	
	2003	2002
	RMB'000	RMB'000
PRC enterprise income tax	30,987	55,090
Share of taxation attributable to associates	24	60
	31,011	55,150

Income tax was provided in accordance with the income tax law of the PRC. As the Company was incorporated in the Shenzhen Special Economic Zone, it is subject to income tax rate of 15%. Other businesses of the Group are subject to income tax rates of 15% or 33%, depending mainly on their places of incorporation.

5. Dividends

No appropriation from retained earnings has been made to the statutory reserves for the six months ended June 30, 2003. Such appropriation will be made at year end in accordance with the Company Law of the PRC and the Articles of Association of the Company.

On April 23, 2003, the Company declared a dividend of RMB0.10 per share in respect of the year ended December 31, 2002, totaling RMB433,555,000. The Board of Directors has decided not to declare any interim dividend for the six months ended June 30, 2003.



6. Earnings per share

Basic earnings per share for the six months ended June 30, 2003 were computed by dividing, consolidated profit attributable to shareholders by 4,335,550,000 shares (2002: 4,335,550,000 shares) outstanding throughout the period. No diluted earnings per share was presented as there was no dilutive potential ordinary shares as of period end.

7. Fixed assets and construction-in-progress

During the six months ended June 30, 2003, the addition of the Group's fixed assets and construction-in-progress amounted to approximately RMB147,729,000; the disposal of the Group's fixed assets and construction-in-progress amounted to approximately RMB13,255,000.

8. Trade receivables, net

	As of June 30, 2003 <i>RMB'000</i>	As of December 31, 2002 <i>RMB'000</i>
Trade receivables	73,104	67,416
Less: Provision for doubtful accounts	(15,758)	(15,959)
	57,346	51,457

Trade receivables was mainly the charges from cargo transportation and the credit terms granted to the customers were normally 90 to 180 days. The aging analysis of trade receivables was as follows:

	As of June 30, 2003 <i>RMB'000</i>	As of December 31, 2002 <i>RMB'000</i>
Within 1 year	49,655	44,985
Over 1 year but within 2 years	7,691	3,491
Over 2 years but within 3 years	—	1,652
Over 3 years	15,758	17,288
	73,104	67,416



9. Trade payables

The aging analysis of trade payables was as follows:

	As of June 30, 2003 RMB'000	As of December 31, 2002 RMB'000
Within 1 year	50,766	40,677
Over 1 year but within 2 years	952	850
Over 2 years but within 3 years	—	207
	51,718	41,734

10. Share capital

As of June 30, 2003, the authorised capital of the Company consisted of ordinary shares of par value RMB1.00 per share:

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

11. Commitments

(i) Capital commitments

	As of June 30, 2003 RMB'000	As of December 31, 2002 RMB'000
Authorised and contracted for	—	10,158
Authorised but not contracted for	—	—
	—	10,158

(ii) *Operating lease commitments*

	As of June 30, 2003 RMB'000	As of December 31, 2002 RMB'000
Machinery and equipment		
— not more than one year	108,000	108,000
— more than one year but not more than five years	237,375	291,375
	345,375	399,375

12. **Related party transactions**

A portion of transactions undertaken by the Group for the six months ended June 30, 2003 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 related parties during the six months ended June 30, 2003:

	For the six months ended June 30,	
	2003 RMB'000	2002 RMB'000
Lease of locomotives and related services from Yang Cheng Railway Company, a subsidiary of Guangzhou Railway (Group) Company (the "Parent Company")	17,160	17,528
Provision of train and related services from Guangmeishan Railway Company Limited, a subsidiary of the Parent Company	2,510	2,196
Purchase of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of the Parent Company	5,492	4,088
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, a subsidiary of the Parent Company	34,388	28,400
Operating lease rentals paid to the PRC Ministry of Railway (the "MOR")	26,990	26,889
Provision of trains and related services through MOR	90,950	116,927
Provision of trains and usage and related services from Guangzhou Railway (Group) Passenger Transportation Company, a subsidiary of the Parent Company	2,362	1,893
Interest expenses paid to the Parent Company	814	757
Interest received from the MOR's Railroad Deposit-taking Centre	1,619	1,641
Interest received from Pingnan Railway Company Limited, an associate of the Parent Company	—	287
Interest received from Guangmeishan Railway Company Limited	—	300



13. Contingency

As of June 30, 2003, 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 Limited ("Guangzhou Guantian"), a sino-foreign contractual joint venture to develop certain properties near a railway station operated by the Group.

On October 27, 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 November 4, 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 the chance of Guangzhou Guantian to settle the above claim is remote and no provision for impairment on the interests in Tiecheng was made.

14. Translation of amounts from Chinese Renminbi ("RMB") into United States dollars ("US\$") for the convenience of the reader has been made at the exchange rate quoted by the People's Bank of China on June 30, 2003 of US\$1=RMB8.3. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on June 30, 2003 or on any other date.

15. Principal Financial Ratios

	2003	2002
a. Basic earnings per share (Consolidated profit attributable to shareholders for the six months ended June 30/weighted average number of shares outstanding)	RMB0.039	RMB0.069
b. Return on net assets (Consolidated profit attributable to shareholders for the six months ended June 30/consolidated net assets as of June 30)	1.7%	3.0%
c. Net assets per share (Consolidated net assets as of June 30/number of shares outstanding as of June 30)	RMB2.30	RMB2.30



ADDITIONAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

(Unaudited)

Effects on the consolidated profit attributable to shareholders and consolidated net assets of significant differences between IFRS and generally accepted accounting principles in the United States of America ("US GAAP") are summarised below. The estimated US GAAP adjustments shown below have been prepared by the management of the Company and have not been subject to independent audit.

	For the six months ended June 30,		
	2003	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
			<i>(Note 2)</i>
Consolidated profit attributable			
to shareholders under IFRS	170,005	298,014	20,482
Impact of estimated US GAAP adjustments:			
Reversal of additional depreciation			
charges arising from the revaluation			
surplus of fixed assets	24,211	24,211	2,917
Effect of US GAAP adjustment on taxation	(3,632)	(3,632)	(438)
Estimated consolidated profit attributable			
to shareholders under US GAAP	190,584	318,593	22,961
Estimated basic earnings per share			
under US GAAP	RMB0.044	RMB0.073	USD0.005
Estimated basic earnings per equivalent			
American Depositary Share (ADS)			
under US GAAP	RMB2.198	RMB3.67	USD0.265



	As of June 30, 2003 <i>RMB'000</i>	As of December 31, 2002 <i>RMB'000</i>	As of June 30, 2003 <i>US\$'000</i> <i>(Note 2)</i>
Consolidated net assets under IFRS	9,980,601	10,244,151	1,202,485
Impact of estimated US GAAP adjustments:			
Reversal of the revaluation surplus on fixed assets	(1,492,185)	(1,492,185)	(179,781)
Reversal of additional depreciation charges arising from the revaluation surplus on fixed assets	330,884	330,884	39,866
Deferred tax assets created	223,828	223,828	26,967
Effect of US GAAP adjustment on taxation	(49,634)	(49,633)	(5,980)
Estimated consolidated net assets under US GAAP	8,993,494	9,257,045	1,083,557

Notes:

1. Estimated basic earnings per share and equivalent ADS for the six months ended June 30, 2003 were computed by dividing estimated consolidated profit attributable to shareholders under US GAAP by 4,335,550,000 shares (2002: 4,335,550,000) and 86,711,000 equivalent ADSs (2002: 86,711,000) outstanding throughout the period respectively. No diluted earnings per share and per equivalent ADS was presented as there was no dilutive potential ordinary shares as of period end.
2. Translation of amounts from RMB into US\$ for the convenience of the reader has been made at the exchange rate quoted by the People's Bank of China on June 30, 2003 of US\$1=RMB8.3. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on June 30, 2003 or on any other date.