



MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes appearing in its 2003 annual report. The consolidated results of the Company and its subsidiaries for the year ended December 31, 2003 were prepared in accordance with International Financial Reporting Standards, which differ in certain material respects from PRC generally accepted accounting principle and United States generally accepted accounting principle (see "Supplementary Financial Information" for a discussion of these differences.)

### 1. BUSINESS OVERVIEW

During the first half of 2003, each business segment of the Company was affected by the outbreak of SARS in some provinces of Chinese mainland and in Hong Kong area to a relatively large extent. The total revenues of the Company during the first half of 2003 decreased by 14.3% when compared to that of the same period of 2002. With the effective control of the SARS epidemic, the PRC government implemented a series of policies for recovering the economy. The Company also carried out various marketing measures to increase its transportation volume to compensate for decreased business, which helped to reduce the negative influence brought about by SARS. Although the total revenues of the Company and profits attributable to shareholders in 2003 decreased when compared to those of 2002, the management and the staff strived hard to complete the operating target approved by the Board of Directors of the Company.

In 2003, the total revenues of the Company were RMB2,413.4 million, representing a decrease of 4.1% from RMB2,517.5 million in 2002. In 2003, the revenues of the Company from passenger transportation service, freight transportation service and other businesses accounted for 72.7%, 21.3% and 6.0% of the total revenues of the Company in 2003, respectively. In 2003, profit attributable to shareholders of the Company was RMB511.8 million, representing a decrease of 8.1% from RMB557.1 million in 2002.



**Mr. Feng Qifu** *Director and General Manager*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 2. RESULTS ANALYSIS

#### Passenger Transportation

The passenger transportation business was the most important business of the Company. As of December 31, 2003, the Company operated 63 pairs of high-speed passenger trains between Guangzhou and Shenzhen (nine of which are standby), three pairs of regular-speed passenger trains between Guangzhou and Shenzhen, 11 pairs of Hong Kong through-trains\* and 35 pairs of long-distance passenger trains according to its train schedule everyday.

\* 11 pairs of Hong Kong through-trains include nine pairs of Hong Kong through-trains, one pair of through-trains between Zhaoqing and Kowloon, one pair of through-trains between Beijing and Kowloon or between Shanghai and Kowloon. (The Hong Kong through-trains between Beijing and Kowloon and the through-trains between Shanghai and Kowloon are accounted for as one pair of through-trains due to their operations on alternate day.)

In 2003, the Company's total number of passengers was 37.861 million, representing a decrease of 4.8% from 39.776 million in 2002; its revenue from passenger transportation was RMB1,754.2 million, representing a decrease of 5.0% from RMB1,846.6 million in 2002. In particular:

- ***Guangzhou-Shenzhen trains***

The Company's Guangzhou-Shenzhen trains consist of high-speed passenger trains and regular-speed passenger trains between Guangzhou and Shenzhen. The number of passengers travelling on the Company's Guangzhou-Shenzhen trains decreased by 7.6% from 17.345 million in 2002 to 16.027 million in 2003. The number of passengers travelling on the high-speed passenger trains between Guangzhou and Shenzhen decreased by 3.5% from 15.724 million in 2002 to 15.170 million in 2003; while the number of passengers travelling on the regular-speed passenger trains between Guangzhou and Shenzhen decreased by 47.1% from 1.621 million in 2002 to 0.857 million in 2003. The revenues from Guangzhou-Shenzhen trains declined by 8.3% from RMB974.1 million in 2002 to RMB893.3 million in 2003. The decrease in business volume of Guangzhou-Shenzhen trains was mainly due to: (1) the outbreak of SARS epidemic, especially during the period from the issue of travel warning for Guangdong Province by the World Health Organization on April 2, 2003 to the lift of the warning on May 23, 2003. The number of travellers decreased and resulted in the decrease in the passenger volume; (2) the saving of unnecessary consumption during the SARS period. The Company reduced the configuration of part of its trains and suspended the operation of several pairs of Guangzhou-Shenzhen trains. Such measures negatively influenced the Company's passenger volume; (3) no upward adjustment to the ticket prices by the Company on Tomb Sweeping Day, Easter holiday and May 1 long holiday, which occurred during the SARS period. The revenues therefore decreased to a certain extent.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- ***Hong Kong through-trains***

The number of passengers travelling on the Hong Kong through-trains of the Company decreased by 9.2% from 2.219 million in 2002 to 2.015 million in 2003. Revenues from Hong Kong through-trains decreased by 5.4% from RMB333.2 million in 2002 to RMB315.2 million in 2003. The decrease in business volume of through-trains was mainly due to the influence from the SARS epidemic. Secondly, the around-the-clock service of Shenzhen Huanggang checkpoint since January 27, 2003 led to an increase in the number of coaches travelling between Guangzhou and Hong Kong through that checkpoint, which diverted some passengers from the Hong Kong through-trains.

- ***Long-distance trains***

The number of passengers travelling on long-distance trains of the Company decreased by 1.9% from 20.212 million in 2002 to 19.819 million in 2003. The revenues from long-distance trains slightly increased by 1.2% from RMB539.4 million in 2002 to RMB545.7 million in 2003. The decrease in passenger volume was mainly due to the influence from the SARS epidemic. However, the operation of one pair of additional Huaihua-Shenzhen long-distance trains between Huaihua and Shenzhen, one pair of additional long-distance trains between Hankou and Shenzhen and one pair of additional long-distance trains between Zhangjiajie and Shenzhen West in May 2003 by other railway companies (administrations) offset the decrease of passenger volume caused by SARS to a certain extent, which caused the decrease of passengers travelling on Long-distance trains lower than the decrease of passengers travelling on Guangzhou-Shenzhen trains and the Hong Kong through-trains. Moreover, the revenues from Long-distance trains in 2003 increased slightly when compared with that of the last year. This was due to the increased revenues from the network facilities caused by the operations of 3 pairs of additional Long-distance trains in 2003.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below illustrates the revenues from passenger transportation business and the volume of passengers for the year ended December 31, 2003 as compared to those of the same period last year:

	For the year ended December 31,		Change in 2003 compared to 2002 Increase/ (Decrease)
	2003	2002	
Revenues from passenger transportation <i>(RMB thousands)</i>	<b>1,754,223</b>	1,846,599	(5.0)%
—Guangzhou-Shenzhen trains	<b>893,291</b>	974,061	(8.3)%
—Hong Kong through-trains	<b>315,205</b>	333,151	(5.4)%
—Long-distance trains	<b>545,727</b>	539,387	1.2%
Total number of passengers <i>(thousand persons)</i>	<b>37,861</b>	39,776	(4.8)%
—Guangzhou-Shenzhen trains	<b>16,027</b>	17,345	(7.6)%
—Hong Kong through-trains	<b>2,015</b>	2,219	(9.2)%
—Long-distance trains	<b>19,819</b>	20,212	(1.9)%
Revenue per passenger <i>(RMB)</i>	<b>46.33</b>	46.42	(0.2)%
—Guangzhou-Shenzhen trains	<b>55.74</b>	56.16	(0.7)%
—Hong Kong through-trains	<b>156.43</b>	150.14	4.2%
—Long-distance trains	<b>27.54</b>	26.69	3.2%
Total passenger-kilometers <i>(millions)</i>	<b>3,295.5</b>	3,453.2	(4.6)%
Revenue per passenger-kilometer <i>(RMB)</i>	<b>0.53</b>	0.53	—

### Freight Transportation

Freight transportation is the core business of the Company. The total tonnage of freight transported by the Company in 2003 was 27.584 million tonnes, representing an increase of 1 thousand tonnes from 27.583 million tonnes in 2002. Revenues from freight



## MANAGEMENT'S DISCUSSION AND ANALYSIS

transportation business were RMB514.8 million, representing a slight increase of 0.1% from RMB514.0 million in 2002. In particular:

- ***Outbound freight***

In 2003, the Company's outbound freight tonnage was 6.466 million tonnes, representing a decrease of 11% from 7.266 million tonnes in 2002. Outbound freight revenues were RMB85.40 million, representing a decrease of 9.4% from RMB94.26 million in 2002. The main reasons that caused the outbound freight tonnages decline in 2003 were: (1) the influence of SARS, the supply of some categories of goods (such as aero-fuel etc.) that accounts for large proportions of the Company's outbound freight declined; (2) the improving road and water transportation network and the increasing ports opening to outside world also reduced the freight formerly transported by railways; (3) the changes in freight transportation marketing measures, some high-charged freight chose road transportation just for saving time, which decreased the freight sources of railways. However, to offset the losses caused by SARS, the Company enhanced marketing efforts on its freight transportation business and offered discounts to certain major customers and some categories of freight to maintain and attract freight business. After the SARS epidemic, the economy of Chinese backland grew rapidly and the demands for energy and raw material increased in large quantity. Furthermore, the freight transported by the railway grew due to the increased charges for water transportation and road transportation. All of these factors offset the overall decrease of the Company's outbound freight business in 2003.

- ***Inbound and pass-through freight***

In 2003, the Company's inbound and pass-through freight tonnages were 21.118 million tonnes, representing an increase of 3.9% from 20.317 million tonnes in 2002; its inbound and pass-through freight revenues were RMB259.8 million, representing an increase of 4.7% from RMB248.1 million in 2002. Although the inbound and pass-through freight business of the Company was affected by SARS in 2003, the demands for railway transportation grew. This was mainly because the completion of the construction of the second railway track between Beijing and Jiujiang, which led to a recovery in the resumption of inbound and pass-through freight formerly affected by the construction, the increase in demand for energy and material resulted from the growth of the PRC economy, and decreased competition due to the increased charges for road and water transportation and a general increase in demand for railway transportation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- *Storage, loading and unloading and other miscellaneous items*

In 2003, the Company's revenues from storage, loading and unloading and other miscellaneous items were RMB169.6 million, representing a decrease of 1.2% from RMB171.7 million in 2002. This was mainly due to the decrease of outbound freight, the discounts offered to certain customers and some categories of freight to enhance the competitiveness of the Company freight transportation business, and the reduced charges on storage, loading and unloading.

Set out below are the Company's revenues from its freight transportation business and the freight volume for the year ended December 31, 2003 as compared with that of the same period in the previous year:

	<b>For the year ended December 31,</b>		Change in 2003 compared to 2002 Increase/ (Decrease)
	<b>2003</b>	2002	
<b>REVENUES FROM FREIGHT</b>			
<b>TRANSPORTATION</b>			
<i>(RMB thousands)</i>	<b>514,794</b>	514,036	0.1%
— Revenues from outbound freight transportation	<b>85,401</b>	94,263	(9.4)%
— Revenues from inbound and pass-through freight transportation	<b>259,809</b>	248,104	4.7%
— Revenues from storage, loading and unloading and other miscellaneous items	<b>169,584</b>	171,669	(1.2)%
<b>TOTAL TONNAGE</b> <i>(thousand tonnes)</i>	<b>27,584</b>	27,583	0%
— Outbound freight tonnage	<b>6,466</b>	7,266	(11.0)%
— Inbound and pass-through freight tonnage	<b>21,118</b>	20,317	3.9%
<b>Revenue per tonne</b> <i>(RMB)</i>	<b>18.66</b>	18.64	0.1%
<b>Total tonne-kilometres</b> <i>(millions)</i>	<b>1,978.9</b>	1,926.0	2.7%
<b>Revenue per tonne-kilometre</b> <i>(RMB)</i>	<b>0.26</b>	0.27	(3.7)%

## MANAGEMENT'S DISCUSSION AND ANALYSIS



### Other Businesses

The Company's other businesses mainly consist of sales of goods and food, advertising and tourism services on board and in stations. Revenues from other businesses of the Company in 2003 were RMB144.4 million, representing a decrease of 8.0% from RMB156.9 million in 2002. The main reasons for such decrease were: (1) the decrease of passenger volume and the decline of consumptions of passengers on board and in stations caused by the SARS epidemic; (2) the decrease of revenues from leases and advertising resulted from the refurbishment of its passenger stations such as Guangzhou East Station, Shenzhen Station and Dongguan Station and the dismantlement of some shops and advertisements to improve the passenger's boarding conditions.

The table below sets forth the revenues of other businesses of the Company for the year ended December 31, 2003 compared with that of the same period in the previous year:

Category of Businesses	For the year ended December 31,		Change in 2003 compared to 2002 Increase/ (Decrease)
	2003 <i>(RMB' thousands)</i>	2002 <i>(RMB' thousands)</i>	
On-board and station goods sales	38,156	40,977	(6.9)%
Station services	40,003	43,913	(8.9)%
Tourism, advertising and others	66,211	72,003	(8.0)%
<b>Total</b>	<b>144,370</b>	156,893	(8.0)%



## MANAGEMENT'S DISCUSSION AND ANALYSIS



### 3. COST ANALYSIS

In 2003, the total operating expenses of the Company were RMB1,850.7 million, representing a decrease of 2.3% from RMB1,895.0 million in 2002.

#### **Railway Operating Expenses**

In 2003, the railway operating expenses of the Company were RMB1,708.3 million, representing a decrease of 1.6% from RMB1,735.3 million in 2002. In particular:

- ***Labor and benefits***

In 2003, labor and benefits expenses amounted to RMB347.6 million, representing a decrease of 7.0% from RMB373.8 million in 2002. This was mainly due to the decline of all types of operating results-based bonuses due to the reduction in railway transportation revenues of the Company caused by the SARS epidemic. The decrease such bonuses also led to a reduction in the overall level of welfare benefits.

- ***Material and supplies***

Material and supplies included materials, fuel, water and electricity consumption. In 2003, the Company's material and supplies expenses amounted to RMB217.0 million, representing an increase of 13.0% from RMB192.1 million in 2002. This was mainly due to: (1) the increase in the prices of diesel oil and other fuels used by locomotives, which was caused by the rise in average price of petroleum products; (2) the significant increase in consumption of water and electricity caused by the Company's installations of additional ventilation systems and disinfection equipments in its stations and on board and an increase in the frequency of cleaning and disinfecting of public areas every day during the SARS period; (3) the increased consumption of materials, water and electricity resulted from the additional operation of the Hong Kong through-trains and the high-speed passenger trains between Guangzhou and Shenzhen.

## MANAGEMENT'S DISCUSSION AND ANALYSIS



- ***Depreciation***

Depreciation expenses of fixed assets decreased by 13.6% from RMB335.5 million in 2002 to RMB290.0 million in 2003, which was mainly due to the prolonged useful life of part of its fixed assets as a result of the improvement in its construction and maintenance technology. According to the research on the usage of the Company's fixed assets in past years and the popular way adopted by its international colleagues, the management and engineers of the Company re-estimated the useful life and the depreciation rate of part of its fixed assets, which decreased the depreciation of fixed assets in 2003.

- ***Repair expenses (excluding materials and supplies)***

Repair expenses decreased by 12.5% from RMB102.4 million in 2002 to RMB89.64 million in 2003. The main reasons were: (1) repair expenses for buildings declined in 2003; (2) with improved repair work capability — repair work of some locomotives and vehicles formerly outsourced to other factories was undertaken by the Company itself in 2003; (3) since most of the improvement work of passenger stations along the Guangzhou Shenzhen route had been completed in 2002, the related expenses declined in 2003.

- ***Equipment leases and services***

The expenses on equipment leases and services mainly consist of the railway line usage fees, train hauling fees and train leasing fees paid to other railway administrations. In 2003, expenses on equipment leases and services of the Company amounted to RMB437.7 million, representing an increase of 0.9% from RMB433.9 million in 2002. This was mainly due to: (1) the additional operations of the Hong Kong through-trains and the high-special passenger trains between Guangzhou and Shenzhen in 2003, which resulted in an increase in the train healing fees directly; (2) the Company's use of more trucks owned by the MOR in 2003, which resulted in an increase in the leasing fees paid to the MOR.

- ***General and administration expenses***

General and administration expenses on the Company's railway businesses increased by 8.8% from RMB123.8 million in 2002 to RMB134.7 million in 2003. This was mainly due to the increase in pensions. The pensions were calculated based on the aggregate amount of salaries of employees for the previous year. As the aggregate amount of salaries of employees of the Company in 2002 was higher than those of 2001, the pensions of the Company in 2003 increased.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 4. TAXATION

As the Company is a corporation incorporated in Shenzhen Special Economic Zone, it is subject to income tax at a rate of 15%. According to relevant tax regulations, other businesses of the Company and its subsidiaries are subject to income tax at the rate of 15% or 33%, depending on the location of incorporation. Income tax expense of the Company and its subsidiaries were RMB93.44 million in 2003, implying an actual tax rate of 15.4%. Income tax expense in 2003 decreased by RMB10.96 million from RMB104.4 million in 2002, mainly due to the decline in the Company's profits before tax.

### 5. ANALYSIS OF FINANCIAL POSITION

#### Assets, Liabilities and Shareholders' Equity

Set out below are the assets, liabilities and shareholders' equity of the Company and its subsidiaries as at December 31, 2003 compared with that as at December 31, 2002:

*Unit: RMB thousands*

	2003	2002	Change in 2003 compared to 2002 Increase/ (Decrease)
Current assets	2,597,986	2,633,280	(35,294)
Non-current assets	8,475,967	8,624,314	(148,347)
<b>Total assets</b>	<b>11,073,953</b>	11,257,594	(183,641)
Current liabilities	699,237	1,001,866	(302,629)
Non-current liabilities	—	—	—
<b>Total liabilities</b>	<b>699,237</b>	1,001,866	(302,629)
Minority interests	52,358	11,577	40,781
<b>Net assets</b>	<b>10,322,358</b>	10,244,151	78,207
Share capital	4,335,550	4,335,550	—
Reserves	5,986,808	5,908,601	78,207
<b>Total shareholders' equity</b>	<b>10,322,358</b>	10,244,151	78,207

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As of December 31, 2003, total assets of the Company were RMB11,074.0 million, representing a decrease of RMB183.6 million from RMB11,257.6 million as of December 31, 2002.

As of December 31, 2003, current assets of the Company were RMB2,598.0 million, representing a decrease of RMB35.29 million from RMB2,633.3 million as of December 31, 2002. This was due to the decline in cash and cash equivalent, prepayments and other receivables and receivables due from Guangzhou Railway (Group) Company and related parties in the amount of RMB129.1 million. Increase in short-term currency investments deposited in bank and account receivables in the amount of RMB89.26 million partly offset the decline of current assets.

As of December 31, 2003, non-current assets of the Company were RMB8,476.0 million, representing a decrease of RMB148.3 million from RMB8,624.3 million as of December 31, 2002. This was primarily due to a decrease in construction-in-progress in the amount of RMB282.4 million and a decrease in amortized staff costs in the amount of RMB15.09 million in 2003. However, the Company's fixed asset net book value increased by RMB154.6 million this year, which partly offset the decrease of non-current assets.



In 2003, all the liabilities of the Company were current liabilities. As of December 31, 2003, the total liabilities of the Company were RMB699.2 million, representing a decrease of RMB302.6 million or 30.2% from RMB1,001.9 million in 2002. This was mainly due to a decrease of most of the payables of the Company to different extents, including the substantial decline of RMB149.2 million for accrued expenses and other payables. Such expenses and payables declined because most of the benefit housing for staff quarters were sold in 2003. Most of the pre-payments and accrued losses relating to sales of benefit housing were offset or transferred.

As of December 31, 2003, the shareholders' equity of the Company were RMB10,322.4 million, representing an increase of RMB78.21 million from RMB10,244.2 million as of December 31, 2002. This was mainly due to the increase in reserves of RMB78.21 million when compared with that of 2002, which was the balance of net profits of RMB511.8 million in 2003 after deducting dividends of RMB433.6 million declared in 2002.

As of December 31, 2003, the gearing of the Company was 6.3%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As of December 31, 2003, the Company had no charge on any of its assets and had not provided any guarantees.

### Liquidity and Capital Resources

The principal source of capital of the Company was revenues generated from operations. In 2003, the net cash flow from the Company's operations were RMB798.4 million, representing a decrease of RMB358.7 million from RMB1,157.2 million in 2002. The decrease in net cash flow from the Company's operations was mainly due to the decrease in the Company's total revenues, the increase in receivables and reduction in payables in its day-to-day operations when compared to those of 2002.

The Company's capital was mainly used for capital and operating expenses and payment of taxes and dividends. In 2003, the Company expended RMB339.2 million on the purchase of fixed assets and construction-in-progress. It also paid RMB99.68 million for income tax and RMB433.6 million for dividends.

The table below sets forth the major items in the consolidated cash flow statements of 2003 and 2002.

*Unit: RMB thousands*

<b>Principal items in cash flow statement</b>	<b>2003</b>	2002	Change in 2003 compared to 2002 Increase/ (Decrease)
Net cash inflows from operating activities	<b>798,449</b>	1,157,177	(358,728)
Net cash (outflows) inflows from investing activities	<b>(375,469)</b>	251,003	(626,472)
Net cash (outflows) from financing activities	<b>(433,666)</b>	(360,643)	(73,023)
<b>Net cash and cash equivalents (outflows) inflow</b>	<b>(10,686)</b>	1,047,537	(1,058,223)

The Company has sufficient cash flow and has no commercial loans. The Company has a credit facility of RMB3 billion from China Development Bank, which has not been utilized so far. The Company believes it has sufficient working capital to meet its operation and development requirements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 6. COMMITMENTS

#### (a) Capital commitments

As of December 31, 2003, the Company had the following capital commitments of which all are authorized and contracted for:

	<b>2003</b>	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised and contracted for	—	10,158

#### (b) Operating lease commitments

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

	<b>2003</b>	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Machinery and equipment		
— not more than one year	108,000	108,000
— more than one year but not more than five years	183,375	291,375
	291,375	399,375

The above said operating lease commitments were for leasing eight AC-driving electric passenger trains ("Blue Arrow") with a speed up to 200 kilometres per hour.

### 7. FOREIGN EXCHANGE RISK AND HEDGING

The Company currently holds a certain amount of United States dollars and Hong Kong dollars ("HK dollars") deposits. It also earns revenues in HK dollars from its railway transportation businesses. Dividends to the shareholders of H shares and ADRs are paid in foreign currencies. Some of the Company's contracts, particularly with respect to the high-speed passenger train project, are payable by the Company in foreign currencies. If the exchange rate of RMB to the relative foreign currencies fluctuates, the operating results of the Company will be affected. The Company has not entered into any contract for the purpose of hedging.

## MANAGEMENT'S DISCUSSION AND ANALYSIS



### 8. INTEREST RATE RISK

Funds that are not needed for immediate use are placed as temporary cash deposits or time deposits in commercial banks and in the Railway Deposit-taking Centre of the MOR. The Company does not hold any market risk-sensitive instruments for trading purposes. As of December 31, 2003, the Company had no commercial bank loans outstanding. Accordingly, the Company is not exposed to any material interest rate risks.

### 9. CONTINGENCY

As of December 31, 2003, the Company's interest 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 develop certain properties 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") of certain payables of Guangdong Guangcheng 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 million plus interest from Guangdong Guancheng. As such, if Guangzhou Guantian were held responsible for the guarantee, the Company may need to provide for impairment on its interest in Tiecheng.

On December 15, 2003, the High People's Court of Guangdong Province ("the Court") received the Guangzhou Guantian's application for discharging the aforesaid guarantee. As a necessary procedure for the Court to decide to reassess the previous court verdict, a hearing was held on March 18, 2004. In this respect, Guangzhou Guantian appointed an independent lawyer to represent on its behalf to attend the hearing. Up to the date of this report, the Court is yet to finish the necessary procedures before making decision to reassess the previous court verdict. However, having consulted that independent lawyer, the directors are of the opinion that the guarantee arrangement should be invalid according to the relevant PRC rules and regulations. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS



### 10. OVERDUE TIME DEPOSITS

As of December 31, 2003 the Company had approximately RMB31.365 million overdue time deposits placed with Zengcheng Lihua Urban Credit Cooperative. The Company had initiated legal proceedings and obtained judgment in its favour regarding the unpaid time deposits. However, as the judgment debtor was undergoing restructuring, the Court ordered a stay of execution of the judgment obtained by the Company. The said overdue time deposit accounts for approximately 0.3% of the net assets and 1.2% of the total current assets of the Company and had 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 a provision in its financial statements for such overdue deposit.

Except for such overdue time deposit, the Company has no other overdue time deposit that has not been repaid. The Company has not encountered any difficulty in withdrawing deposits. The Company has placed its deposits with other commercial banks in the PRC and the Railway Deposit-taking Centre of the MOR.

### 11. EMPLOYEES, SALARY DISTRIBUTION POLICY AND TRAINING PLANS

As of December 31, 2003, the Company had in total 9,029 employees.

The Company implemented a salary policy which closely links with operating results, labour efficiency and individual performance. Employees' salaries distribution is subject to macro-control and is based on their post scores and performance reviews. The Company paid approximately RMB347.6 million in total for salary and benefits on its railroad businesses in 2003.

Pursuant to applicable state policies and regulations, the employees of the Company 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 for the year 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 schemes.

During 2003, the Company provided 388 employees with training on post standardization and 4,294 employees with training on adaptability and knowledge about prevention of SARS. The training plan of 2003 was fully implemented and the total expenses for these training programmes in 2003 was approximately RMB2.46 million.