



REPORT OF DIRECTORS



REPORT OF DIRECTORS



The Board is pleased to present the Report of Directors together with the audited financial statements of the Company and its subsidiaries for the year ended December 31, 2003.

PRINCIPAL ACTIVITIES AND FINANCIAL RESULTS

The Company and its subsidiaries are mainly engaged in railway passenger and freight transportation between Guangzhou and Shenzhen and certain long-distance passenger transportation services, passenger transportation service of Hong Kong through-trains operated together with KCR in Hong Kong, other businesses such as provision of railway facilities and technical services, and sales of food, beverages and merchandise in railway stations and on trains.

The consolidated operating results of the Company and its subsidiaries for the year ended December 31, 2003 and the financial positions of the Company and its subsidiaries as of December 31, 2003 are set out in the consolidated income statement and balance sheets prepared in accordance with International Financial Reporting Standards (“IFRS”) as set out on page 52 and page 53 of this annual report, respectively.

PROPOSED PROFIT APPROPRIATION

For the year ended December 31, 2003, the appropriations of profit as dividends and reserves proposed by the Board are set out in Note 32 and Note 24 to the financial statements, respectively.

DIVIDENDS

The Company did not declare any interim dividend for the six months ended June 30, 2003.

On April 20, 2004, the Board proposed a distribution of final dividend of RMB0.105 per share to the shareholders of the Company for the year ended December 31, 2003.

Shareholders whose names appear on the Register of Members on May 11, 2004 will qualify for the final dividend for the year ended December 31, 2003. The Register of Members for H shares will be closed from May 11, 2004 to June 10, 2004, both days inclusive.

Holders of H shares who wish to qualify for entitlement to the final dividend must lodge all transfer forms, together with the relevant share certificates, with the Company’s share registrars, Hong Kong Registrars Limited, at Rooms 1712-1716 on 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:00 p.m. on May 10, 2004, the last trading day before the Register of Members is closed.

Details concerning the final dividend payments to holders of H shares are to be announced subject to the approval of the shareholders at the 2003 annual general meeting, which is to be held on June 10, 2004. The specific date and procedure for the payment of the final dividends will be announced separately.

REPORT OF DIRECTORS

In accordance with the articles of association of the Company (the “Articles of Association”), the dividend for domestic shares will be paid in RMB while the dividend for H Shares will be calculated in RMB and paid in Hong Kong dollars. The exchange rate will be based on the average of the closing exchange rates for RMB to Hong Kong dollars as announced by the People’s Bank of China during the calendar week preceding the date on which the dividend is to be distributed.



TRUST DEPOSITS

As of December 31, 2003, the Company did not have any trust deposits placed with any financial institutions in the PRC.

BANK BORROWINGS

As of December 31, 2003, the Company had no bank loans or borrowings.

CHARGE ON ASSETS AND GUARANTEE

As of December 31, 2003, there were no outstanding charges against any of the Company’s assets and the Company did not have any guarantee outstanding.

INTEREST CAPITALIZED

There was no interest capitalized in the construction-in-progress or fixed assets of the Company and its subsidiaries during 2003.

FIXED ASSETS

Changes in fixed assets of the Company and its subsidiaries during 2003 are set out in Note 10 to the financial statements.

REPORT OF DIRECTORS

TAXATION

As the Company was registered and established in the Shenzhen Special Economic Zone of the PRC, it is subject to income tax at a rate of 15%. The rate is 18 percentage points lower than that of the standard income tax rate of 33% applicable to PRC companies.

On May 16, 2003, 深圳市地方稅務局 (Shenzhen Local Taxation Bureau) issued 《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) (Shendishuifa [2003]406). According to the Notice, the Company enjoyed the following preferential taxation policies: (1) during the period from May 1, 2003 to September 30, 2003, the business tax levied on the revenues of the Company generated from its passenger transportation business, city construction tax and education sub-charge will be reduced by half; and (2) upon the application by the Company, the real estate tax for the Company's real estate used in the operation of its transportation business will be reduced by half during the period from April 1, 2003 to September 30, 2003.



On December 22, 2003, 深圳市地方稅務局 (Shenzhen Local Taxation Bureau) issued 《深圳市地方稅務局轉發財政部、國家稅務總局關於防治“非典”工作有關稅收政策問題的通知》 (Notice Concerning Taxation Policies for Promoting the Prevention and Cure of Atypical Pneumonia Forwarded by Shenzhen Local Taxation Bureau to Bureau of Finance and State Administration of Taxation) (Shendishuifa [2003]1103). According to the Notice, the Company was exempted from paying the business tax levied on the revenues of the Company generated from its passenger transportation business, city construction tax and education sub-charge for the period from May 1, 2003 to September 30, 2003. 50% of each of the business tax on the Company's revenues generated from its passenger transportation business, city construction tax and education sub-charge levied according to the Notice (Shendishuifa [2003]406) were refunded.

Details regarding taxation of the Company and its subsidiaries are set out in Note 6 to the financial statement.

RESERVES

Changes in the reserves of the Company and its subsidiaries during the year are set out in Note 24 to the financial statements.

REPORT OF DIRECTORS

STATUTORY PUBLIC WELFARE FUND

Details of the Company's statutory common welfare fund are set out in Note 24 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of December 31, 2003 are set out in Note 13 to the financial statements.

EQUIPMENT AND MAINTENANCE

The Company owned 12 diesel high-speed locomotives, 5 high-speed electric locomotives, 18 shunting locomotives, 1 high-speed electric passenger train, 84 quasi-high-speed passenger coaches, 41 regular-speed passenger coaches and 112 long-distance express train passenger coaches. It also leases eight high-speed electric trains from Guangzhou China Railway Rolling Stock Sales and Service Company Limited. The freight cars used by the Company are all leased from the MOR, to which the Company paid rental fees and depreciation based on the uniform rate set by the MOR.

INFORMATION RELATING TO THE ORIGINAL ISSUE AND LISTING

20,536,760 ADSs (each ADS represents 50 H Shares) of the Company were listed on the New York Stock Exchange on May 13, 1996 (New York time) and 217,812,000 H Shares were listed on the Hong Kong Exchange on May 14, 1996 (Beijing time). Upon the exercise of the over-allotment options by the underwriters, the Company issued 186,650,000 H Shares in the form of ADSs on May 24, 1996. The aggregate number of issued H Shares was therefore increased to 1,431,300,000. Each share has a par value of RMB1.00.

	H Shares listed in Hong Kong (HK\$/share)	ADSs listed in New York (US\$/ADS)
Issue price	2.91	19.00
Highest trading price during 2003	2.25	14.84
Lowest trading price during 2003	1.26	8.20
Opening price on the first trading day of 2003	1.32	8.63
Closing price on the last trading day of 2003	2.20	14.52
Total number of turnover in 2003	2,293,562,905	8,571,200



REPORT OF DIRECTORS

SHARE CAPITAL STRUCTURE

As of December 31, 2003, the share capital of the Company consisted of:

Type of share capital	Number of shares ('000)	Percentage of share (%)
State-owned Domestic Shares	2,904,250	66.99
H Shares	1,431,300	33.01
Total	4,335,550	100.00

There was no change in the share capital of the Company during the year.

SHAREHOLDERS

So far as the Directors are aware, as at December 31, 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	Capacity	Type of interest	Percentage of class of shares (%)	Percentage of total share capital (%)
Guangzhou Railway (Group) Company	Domestic shares	2,904,250,000 (<i>L</i>)	Beneficial owner	Corporate	100.00	66.99
Marathon Asset Management Ltd.	H Shares	115,706,000 (<i>L</i>)	Beneficial owner	Corporate	8.08	2.67
Sumitomo Life Insurance Company (<i>Note</i>)	H Shares	71,692,000 (<i>L</i>)	Interest of controlled corporation	Corporate	5.00	1.65
Sumitomo Mitsui Asset Management Company, Limited	H Shares	71,692,000 (<i>L</i>)	Beneficial owner	Corporate	5.00	1.65

Note: As at December 31, 2003, Sumitomo Life Insurance Company was deemed to be interested in 71,692,000 H Shares (representing 5.00% of the total H Shares of the Company or 1.65% of the total share capital of the Company) held by Sumitomo Mitsui Asset Management Company, Limited, a controlled corporation of Sumitomo Life Insurance Company.

The letter "L" denotes a long position.

REPORT OF DIRECTORS

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended December 31, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the shares of the Company.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive right under the Articles of Association and the laws of the PRC.

CONFIRMATION BY INDEPENDENT NON-EXECUTIVE DIRECTORS OF CONNECTED TRANSACTIONS

The independent non-executive directors of the Company confirmed that the connected transactions (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”)) entered into by the Company during 2003 were entered into in the ordinary and usual course of its business on normal commercial terms or on terms that were fair and reasonable so far as the shareholders were concerned, or in accordance with the terms of an agreement governing such transactions or, where there was no such agreement, on terms no less favourable than those offered to (or from) independent third parties.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Information relating to the directors, supervisors and senior management of the Company as of April 20, 2004 is as follows:

Name	Age	Position	Nationality
Directors:			
Wu Junguang	55	Chairman of the Board	Chinese
Feng Qifu	55	Director and General Manager	Chinese
Hu Lingling	40	Director	Chinese
Wu Houhui	55	Director	Chinese
Wen Weiming	41	Director	Chinese
Li Qingyun	40	Director and Deputy General Manager	Chinese
Li Peng	57	Director and Chairman of the Trade Union	Chinese
*Chang Loong Cheong	58	Director	Hong Kong, the PRC
*Deborah Kong	44	Director	Australian

REPORT OF DIRECTORS



Name	Age	Position	Nationality
Supervisors:			
Gu Hongxi	57	Chairman of the Supervisory Committee	Chinese
Yao Muming	50	Supervisor	Chinese
Zhao Genrong	58	Supervisor	Chinese
Chen Yongbao	52	Supervisor	Chinese
Chen Yunzhong	51	Supervisor	Chinese
Yang Rongjiu	56	Supervisor	Chinese

Name	Age	Position	Nationality
Other Senior Management:			
Luo Qingming	47	Deputy General Manager & Chief Engineer	Chinese
Shao Huaping	46	Deputy General Manager	Chinese
Wu Weimin	46	Deputy General Manager	Chinese
Li Ruizhi	48	Chief Accountant	Chinese
Guo Xiangdong	38	Company Secretary	Chinese

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

From June 28, 2002 to June 10, 2003, Mr. Jiang Linyang was the chairman of the Board of the Company.

On May 8, 2003, resolutions were passed at the fourth meeting of the third session of the Board of the Company to terminate the engagement of Mr. Wu Yiquan as General Manager and to appoint Mr. Feng Qifu as General Manager of the Company.

On June 10, 2003, the Company convened the annual general meeting of the Company. Resolutions were passed at the annual general meeting to terminate the engagement of each of Mr. Jiang Linyang, Mr. Li Daihua, Mr. Wu Yiquan and Mr. Shen Jun as directors of the third session of the Board of the Company and to appoint Mr. Wu Janguang, Mr. Feng Qifu, Mr. Hu Lingling and Mr. Wen Weiming as directors of the third session of the Board of the Company.

On June 10, 2003, resolutions were passed at the fifth meeting of the third session of the Board of the Company to appoint Mr. Wu Janguang as chairman of the Board of the Company.

On August 12, 2003, resolutions were passed at the sixth meeting of the third session of the Board of the Company to terminate the engagement of Mr. Ma Kaiming as Deputy General Manager.

REPORT OF DIRECTORS

On January 6, 2004, resolutions were passed at the seventh meeting of the third session of the Board of the Company to terminate the engagement of Mr. Yan Ping as Deputy General Manager and the engagement of Mr. Yao Xiacong as Chief Accountant and Company Secretary. Resolutions were also passed at the same meeting to appoint each of Mr. Shao Huaping and Mr. Wu Weimin as Deputy General Manager, Ms. Li Ruizhi as Chief Accountant and Mr. Guo Xiangdong as Company Secretary.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Wu Junguang, age 55, is the Chairman of the Board of the Company and the Chairman of the Board of Directors and the General Manager of Guangzhou Railway (Group) Company. Mr. Wu graduated from South China Normal University (華南師範大學). Since 1964, he has served in various managerial positions in various railway departments. He had served as the Stationmaster of Guangzhou Station, the General Manager of Yangcheng Railway Company and in other positions.

Feng Qifu, age 55, is a Director and the General Manager of the Company. He graduated from Guangdong Provincial School of the Party Committee (廣東省委黨校). Since 1969, Mr. Feng has served in various technical and managerial positions in various railway departments. He had served as the General Manager of Changsha Railway Company, the Deputy General Manager of Guangzhou Railway (Group) Company and in other positions.

Hu Lingling, age 40, is a Director of the Company. He graduated from Changsha Railway Institute (長沙鐵道學院) and is an engineer. Since 1985, Mr. Hu has served in various technical and managerial positions in various railway departments. He had served as the Deputy General Manager of Yangcheng Railway Company and the Director of Transportation Department of Guangzhou Railway (Group) Company. Mr. Hu is currently the Deputy General Manager of Guangzhou Railway (Group) Company.

Wu Houhui, age 55, is a Director of the Company. He graduated from Dalian Railway College (大連鐵道學院) and is a senior economist. Mr. Wu served in various managerial positions in Guangzhou Railway (Group) Company from 1984 to 2003. He is currently the Chief Economist of Guangzhou Railway (Group) Company.



REPORT OF DIRECTORS

Wen Weiming, age 41, is a Director of the Company. Mr. Wen graduated from Workers University of Guangzhou Railway Bureau (廣州鐵路局職工大學) and School of the Central Party Committee (中央黨校) and is a senior accountant. He has many years of experience in financial field. He had served as the Director of the Finance Sub-section of Yangcheng Railway Company and the Director of Finance Department of Guangzhou Railway (Group) Company. Mr. Wen is currently the Deputy Chief Accountant of Guangzhou Railway (Group) Company.

Li Qingyun, age 40, is a Director and Deputy General Manager of the Company. Mr. Li graduated and obtained a master degree from North Jiaotong University (北方交通大學) with major in railway transportation and organization in 1989. He served in managerial positions in technical and transportation departments of Guangzhou Railway (Group) Company from 1989 to August 1999. He joined the Company in September 1999.

Li Peng, age 57, is a Director and the Chairman of the Trade Union of the Company. Mr. Li graduated from the East China Civil Engineering Institute (華東工程學院). He had served in various executive and labour administration positions in Yangcheng Railway Company since 1977. He was the Deputy General Manager of the predecessor of the Company, Guangshen Railway Company, and Guangshen Railway Enterprise Development Company from 1992 to 1997. Mr. Li joined the Company in December 1997.

Chang Loong Cheong, age 58, is an independent Director of the Company. Mr. Chang holds a management certificate from the Hong Kong Management Association. He is also a director of Shanghai Xinhua Iron & Steel Company Limited and Orient International (Shanghai) Limited. Mr. Chang had been a manager of Cathay Restaurant in Lagos, Nigeria, a member of the senior management of Island Navigation Corporation International Limited in West Africa and Orient Overseas Container Line Limited, and the General Manager and a director of Noble Ascent Company Limited.

Deborah Kong, age 44, is an independent Director of the Company. Ms. Kong is currently an executive director of Centennial Resources Company Limited. Ms. Kong holds a Bachelor of Arts degree from Sydney University and has attended a one-year master degree course of finance offered by Macquarie University in Australia. She is a member of the People's Political Consultative Standing Committee of Shandong Province in the PRC.



REPORT OF DIRECTORS

Supervisors

Gu Hongxi, age 57, is the Chairman of the Supervisory Committee of the Company. He graduated from Zhejiang University (浙江大學). Mr. Gu joined the railway department in 1974 and had served as the Deputy Director of Changsha Railway Sub-administration, the Director of the Welfare and Education Departments and the Chief Economist of Guangzhou Railway (Group) Company. Since June 2003, Mr. Gu has been a member of the senior management of Guangzhou Railway Rolling Stock Factory.

Yao Muming, age 50, is a Supervisor of the Company. Mr. Yao graduated from South China Normal University (華南師範大學) and had served as the Deputy Director of the Guangzhou and Zhuhai Animal and Plant Quarantine Bureaus. From 1997 to 2003, he was a member of the senior management of the Company. Since July 2003, Mr. Yao has been a member of the senior management of Guangzhou Railway (Group) Company.

Zhao Genrong, age 58, is a Supervisor of the Company. Mr. Zhao graduated from North Jiaotong University (北方交通大學). He served various finance positions in Hengyang Railway Sub-administration from 1968. Since 1983, Mr. Zhao had served as the Deputy Director and the Director of the Finance Department of Guangzhou Railway (Group) Company. Since August 1999, Mr. Zhao has been the Director of the Audit Department of Guangzhou Railway (Group) Company.

Chen Yongbao, age 52, is a Supervisor of the Company. Mr. Chen graduated from Zhuzhou Railway Mechanical Secondary Technical School (株洲鐵路機械學校). Since 1975, he had served in various managerial positions in Guangzhou Railway Sub-administration and Yangcheng Railway Company. From 1997 to 2001, Mr. Chen served in the administration supervisory position of Guangzhou Railway (Group) Company. Since May 2001, Mr. Chen has been the chief of the Supervision Department of Guangzhou Railway (Group) Company.

Chen Yunzhong, age 51, is a Supervisor of the Company. Mr. Chen graduated from Guangzhou Railway Driver's School (廣州鐵路司機學校), Guangdong Jinan University (廣東暨南大學) and School of the Central Party Committee (中央黨校). He was a member of the senior management of Hainan Railway Company. Mr. Chen joined the Company in May 2000 and is currently a member of the senior management of the Company.

Yang Rongjiu, age 56, is a Supervisor of the Company. Mr. Yang graduated from Cadres Refresh Class (幹部進修班) in Guangzhou Zhongshan University (廣州中山大學). He had served in various railway departments since 1964 and was the Stationmaster of Shenzhen Railway Station. Since May 2001, Mr. Yang has been the Deputy Chairman of the Trade Union of the Company.

REPORT OF DIRECTORS

Other Senior Management

Luo Qingming, age 47, is a Deputy General Manager and the Chief Engineer of the Company. In 1982, Mr. Luo graduated from Changsha Railway Institute (長沙鐵道學院) with major in railway engineering. He is a senior engineer and had served as an engineer, the Chief Engineer, a Deputy Section Chief and the Section Chief of Guangshen Engineering Section of the Company. He received a government allowance awarded by the State Council of the PRC in 1999.

Shao Huaping, age 46, is a Deputy General Manager of the Company. Mr. Shao graduated from the Huazhong University of Science and Technology (華中理工大學) with a Master's degree in Engineering and is a senior engineer. Since 1979, he had served in various managerial positions of Wuhan Railway Sub-administration and Shenzhen Pingyan Railway Company. From August 1998 to September 2001, he had served as the Deputy Section Chief of Shenzhen Power Section of the Company. Mr. Shao was the Deputy Director of Locomotive Department of Guangzhou Railway (Group) Company before joining the Company as a Deputy General Manager in January 2004.

Wu Weimin, age 46, is a Deputy General Manager of the Company. Mr. Wu graduated from Guangdong Radio & TV University (廣東廣播電視大學) and is an engineer. Since 1984, he had served in various managerial positions in the Material and Equipment Department, the Planning and Statistic Department and the Labour and Wage Department of Yangcheng Railway Company. He also had served as an engineer in the Material and Equipment Section, the Deputy Director and the Director of the Planning and Statistic Sub-department of Yangcheng Railway Company. Mr. Wu was the Director of Labour Sub-department and Director of Social Insurance Centre of Yangcheng Railway Company before joining the Company as a Deputy General Manager in January 2004.

Li Ruizhi, age 48, is the Chief Accountant of the Company. Ms. Li graduated from Economy and Management Department of School of the Central Party Committee (中央黨校) and is an accountant. Since 1984, she has served in finance and accounting positions in various railway departments. She has 20 years of experience in finance and accounting areas. Ms. Li had served as the deputy section-chief of the Finance Department and the Deputy Director of Guangzhou Railway Settlement Centre of Guangzhou Railway (Group) Company before joining the Company in January 2004.

Guo Xiangdong, age 38, is the Company Secretary and the Director of Secretariat of the Board of Directors. Mr. Guo graduated from the Central China Normal University (華中師範大學) with a Bachelor of Laws degree and is a economist. He joined the Company in 1991, and had served as the Deputy Section Chief, Deputy Director and the Director of Secretariat of the Board of Directors of the Company. Mr. Guo has been as the Company Secretary since January 2004.

REPORT OF DIRECTORS



INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT IN THE SHARE CAPITAL OF THE COMPANY

As of December 31, 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 Hong Kong Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules. The Company has not granted to any of the Company's directors or supervisors or their spouses or children under the age of 18 any right to subscribe for any shares or debentures of the Company.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the directors of the Company has entered into a service agreement with the Company. Save as disclosed above, no other service contract has been entered between the Company or any of its subsidiaries and any of the directors or supervisors. Save as disclosed above, the Company has not entered into any service contract with any director or supervisor that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CONTRACTS ENTERED INTO BY THE DIRECTORS AND SUPERVISORS

No director or supervisor of the Company has any direct or indirect material interests in any contract of significance subsisting during or at the end of the year to which the Company or any of its subsidiaries was a party.

REMUNERATION OF THE DIRECTORS AND SUPERVISORS

The remuneration of the directors and supervisors and senior management of the Company are set out in Note 5 to the financial statements of this annual report.

REPORT OF DIRECTORS



IMPACT OF THE RECENT ECONOMIC DEVELOPMENTS ON THE COMPANY

In the first half of 2003, the outbreak of SARS in some provinces in the PRC and Hong Kong had significant negative impact on the transportation business of the Company. As the PRC Government had implemented a series of measures to support economic development, the economy of the PRC quickly recovered its strong momentum in growth after the fading of the SARS epidemic. Following the signing of CEPA, the economic interaction between Guangdong Province and Hong Kong increased; providing a favorable environment for the Company to increase its transportation volume during the second half of the year to compensate for its decreased business.

ADJUSTMENT OF PRICE

In 2003, the Company made the following adjustments to the price for its passenger and freight transportation: (1) during the Spring Festival, the Company made different adjustments to passenger fares of different classes of long-distance domestic trains; (2) with the approval of the MOR or Guangzhou Railway (Group) Limited, the Company continued to offer reduced prices for certain goods in order to improve its competitiveness in the freight transportation services; (3) during the New Year holidays, the Spring Festival and the National Day holidays, the Company increased the fare of the high-speed passenger trains and the regular-speed passenger trains between Guangzhou and Shenzhen by RMB5 per trip; (4) in October 8, 2003, the Company increased the fare of hardseat of the high-speed passenger trains between Guangzhou and Shenzhen from RMB60 to RMB65 per trip.

MATERIAL LITIGATION

The Company and its subsidiaries were not involved in any material litigation or dispute in 2003.

AUDITORS

On June 10, 2003, resolutions were passed at the annual general meeting of the Company to appoint PricewaterhouseCoopers (certified public accountants in Hong Kong) as the international auditors of the Company for 2003 and to appoint Pan-China (Schinda) Certified Public Accountants as its PRC auditor for 2003. Resolutions to re-appoint these two firms as the international and PRC auditors of the Company for 2004 will be proposed at the annual general meeting of the Company to be held on June 10, 2004.

PricewaterhouseCoopers was the international auditors of the Company for 2002 and Arthur Andersen was the international auditors of the Company for 2001.

REPORT OF DIRECTORS

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

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 net book value and the proceeds from the sales of staff quarters to the employees was not more than RMB226.4 million as of December 31, 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 against statutory public welfare fund, statutory surplus reserve, discretionary surplus reserve and capital surplus reserve upon the approval of the Board. Such treatment conforms with the accounting principles and regulations applicable to the Company and its subsidiaries in the PRC.

In the financial statements of the Company for the year ended December 31, 2003 prepared in accordance with IFRS, the Company accounted for the losses arising from housing scheme as follows: losses from the sale of completed staff quarters to employees, or from the sale of premises under construction of 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 employees of 15 years from the time of such sales. During the year ended December 31, 2003, the amortization charged to the deferred labour costs of the consolidated income statement was RMB15.09 million and the accumulated amortization amounted to 60.37 million.

As of December 31, 2003, the unamortized deferred losses, which were recorded as deferred staff costs in the balance sheet of the Company and its subsidiaries, were RMB166.0 million.

MAJOR SUPPLIERS AND CUSTOMERS

Most of the locomotives, passenger coaches and major railway supplies and equipment of the Company are supplied directly or indirectly by the MOR. The Company may also purchase some of its equipment from oversea or domestic suppliers. The five largest customers of the Company accounted for less than 30% of the revenue of the Company and the five largest suppliers of the Company accounted for less than 30% of the purchases of the Company.

CONNECTED TRANSACTIONS

As of December 31, 2003, the connected transactions of the Company in relation to railway transport have been carried out on normal terms according to the conditions and waiver granted by The Stock Exchange of Hong Kong Limited and the contracts entered into by the contracting parties. There has been no new connected transaction.

REPORT OF DIRECTORS



AUDIT COMMITTEE

The Audit Committee consists of two independent non-executive directors of the Company. Its main duties include review and supervision of the financial reporting process and internal controls of the Company. The audited annual financial statements for the year ended December 31, 2003 have been reviewed by the Audit Committee.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company and its directors hereby state that, to the best of their knowledge, the Company has, throughout the financial year ended December 31, 2003, complied with the Code of Best Practice set out in old Appendix 14 of the Listing Rules.

U.S. SARBANES-OXLEY ACT 2002

This legislation which seeks to enhance the transparency and accountability of companies in the areas of corporate governance and financial reporting, was signed into law by the President of the United States on 30 July 2002. As the Company is a U.S. Securities and Commission reporting company, it is generally bound by this new legislation. The Company has been, and will continue its process of reviewing its internal systems and practices and implementing new requirements under this legislation in line with applicable compliance dates.

By Order of the Board

Wu Janguang

Chairman

Shenzhen, the PRC

April 20, 2004