NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

(All amounts expressed in Renminbi ("RMB") unless otherwise stated)

1. ORGANISATION AND OPERATIONS

Guangshen Railway Company Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on March 6, 1996 to take over and operate certain railroad and other businesses (the "Businesses").

Prior to the formation of the Company, the Businesses were carried on by the Company's predecessor, Guangshen Railway Company (the "Predecessor"), and certain of its subsidiaries, and in certain cases, by Guangzhou Railway (Group) Company (the "Parent Company") and certain of its subsidiaries, which were all under the common control and jurisdiction of the PRC Ministry of Railways (the "MOR"). The Predecessor was controlled by and under the administration of the Parent Company. Pursuant to a restructuring agreement entered into among the Parent Company, the Predecessor and the Company on March 8, 1996 and with effect from March 6, 1996 (the "Restructuring Agreement"), the Company issued to the Parent Company 100% of its equity interest in the form of 2,904,250,000 shares of ordinary shares (the "State-owned Domestic Shares") in exchange for the assets and liabilities of the Businesses (the "Restructuring").

In May 1996, the Company issued 1,431,300,000 shares, represented by 217,812,000 H Shares ("H Shares") and 24,269,760 American Depositary Shares ("ADSs", one ADS represents 50 H Shares) in a global public offering for cash of approximately RMB4,214,000,000 to finance the capital expenditures and working capital requirements of the Company and its subsidiaries (the "Group").

The principal activities of the Group are railroad passenger and freight transportation. The Group also operate certain other businesses, principally services in the stations and sales of food, beverages and merchandise aboard the trains and in the stations.

The directors of the Company considered Guangzhou Railway (Group) Company, a state-owned enterprise established in the PRC, to be the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

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

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

- Additional depreciation charges on fixed assets;
- Write-down of reclaimed rails to realisable value;
- Difference in the recognition policy on housing benefits to the employees;
- Recording of deferred tax impact according to IFRS;
- Reversal of amortisation of deferred renovation expenses;
- Difference in depreciation charges on fixed assets resulting from reclassification; and
- Recognition of government grants by deducting the carrying value of fixed assets.

The financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at valuation less accumulated depreciation and impairment losses.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(a) Basis of presentation *(cont'd)*

During the year, there is a change of accounting estimate in respect of the useful lives of certain fixed assets. Details of such change are set out in Note 2(g) and Note 10.

(b) Group accounting

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

All significant intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated on consolidation; unrealised losses are also eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Subsidiaries

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

In the Company's financial statements, the Company's share of the post-acquisition profits or losses of subsidiaries is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(d) Associates

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(d) Associates *(cont'd)*

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

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

In the Company's financial statements, interests in associates are carried at cost less provision for impairment in value. An assessment of interests in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(e) Foreign currency transactions

The Group maintains its books and records in RMB.

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

The Group did not enter into any hedge contracts during any of the periods presented.

No foreign currency exchange gains or losses were capitalised for any periods presented.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(f) Financial instruments

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

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

(g) Fixed assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(g) Fixed assets *(cont'd)*

Depreciation is calculated using the straight-line method to write off the cost or revalued amount, after taking into account the estimated residual value of 4% to 10% of cost, of each asset over its estimated useful life. Effective from January 1, 2003, the Group changed the estimated useful lives of track, bridges and service roads from 44 years to a range from 55 years to 100 years and changed the useful lives of locomotives and rolling stock from 16 years to 20 years. Effect of such change of accounting estimates to the consolidated income statement for the year ended December 31, 2003 is set out in Note 10. The estimated useful lives are as follows:

Buildings	25 to 40 years
Leasehold improvements	over the lease terms
Track, bridges and service roads	55 to 100 years
Locomotives and rolling stock	20 years
Communications and signalling systems	8 to 20 years
Other machinery and equipment	7 to 25 years

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

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

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

(h) Construction-in-progress

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(i) Leasehold land payments

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

(j) Impairment of long lived assets

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

(k) Available-for-sale investments

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

(l) Deferred staff costs

The Group have finalised a scheme for selling staff quarters to its staff in 2000. Under the scheme, the Group sold certain staff quarters to their employees at preferential prices as housing benefits to the employees. The total housing benefits, which represented the difference between the net book value of the staff quarters sold and the proceeds collected from the employees, are expected to benefit the Group over 15 years, which is the estimated remaining average service lives of the employees participating in the scheme. Upon the sales of staff quarters to the employees, the housing benefits incurred are recorded as deferred staff costs and amortised over the remaining average service lives of the employees participating in the scheme.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(m) Operating leases

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

(n) Materials and supplies

Materials and supplies consist mainly of items for repair and maintenance of track, and are stated at weighted average cost. Materials and supplies are expensed when used.

(o) Receivables

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

(p) Temporary cash investments

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

(q) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(r) Income tax expense

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

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

(s) Employee benefits

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group' local staff are to be made monthly to a government agency based on 26% of the standard salary set by the provincial government, of which 18% is borne by the Company or its subsidiaries and the remainder 8% is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis and charges the related contributions to income in the year to which the contributions relate.

(t) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of fixed assets are deducted against the carrying value of the fixe assets and are credited to the income statement on a straight-line basis over the useful lives of the fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(u) Provisions

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

(v) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenues and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Rendering of services and sales of goods

Railroad revenues are recognised when services are performed. Revenues from other businesses include sales aboard the trains and in the stations of food, beverages and other merchandise and revenues from operating restaurants in major stations. Revenues from operating restaurants are recognised when services are rendered.

Sales aboard the trains and in the stations of food, beverages and merchandise are recognised upon delivery, when the significant risks and rewards of ownership of these goods have been transferred to the buyers.

Revenues are net of turnover tax.

(ii) Interest income

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

(iii) Dividend income

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

(w) Dividends

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

(x) Segments

Business segments: for management purposes the Group are organised into railroad transportation and other business operations. The divisions are the basis upon which the Group reports their primary segment information. Financial information on business segments is presented in Note 3.

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

3. SEGMENT INFORMATION

(a) Business segments

The Group conducts the majority of its business activities in railroad and other business operations (see Note 1). These segments are determined primarily because the senior management makes key operating decisions and assesses performance of the segments separately. The accounting policies of the Group's segments are the same as those described in the principal accounting policies in Note 2. The Group evaluates performance based on profit from operations. Segment assets consist primarily of fixed assets, materials and supplies, receivables and operating cash, and mainly exclude deferred tax assets and interests in associates. Segment liabilities comprise operating liabilities and exclude taxes payable. Capital expenditure comprises additions to fixed assets (see Note 10) and construction-in-progress (see Note 11).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

3. SEGMENT INFORMATION *(cont'd)*

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

An analysis by business segment is as follows:

	Railroad businesses		Other businesses		Unallocated		Elimination		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	**2,269,017**	2,360,635	**144,370**	156,893	**—**	—	**—**	—	**2,413,387**	2,517,528
— Inter-segment	**—**	—	**52,172**	75,188	**—**	—	**(52,172)**	(75,188)	**—**	—
	2,269,017	2,360,635	**196,542**	232,081	**—**	—	**(52,172)**	(75,188)	**2,413,387**	2,517,528
Segment results	**560,731**	625,343	**1,982**	(2,846)	**—**	—	**—**	—	**562,713**	622,497
Other income	**46,158**	37,692	**1,183**	5,803	**—**	—	**—**	—	**47,341**	43,495
Including:										
Interest income	**29,349**	36,281	**406**	639	**—**	—	**—**	—	**29,755**	36,920
Finance costs	**—**	—	**—**	—	**(2,468)**	(4,208)	**—**	—	**(2,468)**	(4,208)
Share of losses of associates before tax	**(2,417)**	(197)	**—**	—	**—**	—	**—**	—	**(2,417)**	(197)
Income tax expense									**(93,439)**	(104,391)
Minority interests									**32**	(113)
Profit attributable to shareholders									**511,762**	557,083
Other information										
Segment assets	**10,082,637**	10,147,098	**844,668**	962,077	**—**	—	**—**	—	**10,927,305**	11,109,175
Deferred tax assets	**—**	—	**—**	—	**6,154**	7,577	**—**	—	**6,154**	7,577
Interests in associates	**140,494**	139,972	**—**	870	**—**	—	**—**	—	**140,494**	140,842
Total assets									**11,073,953**	11,257,594
Segment liabilities	**429,123**	678,303	**220,620**	251,719	**—**	—	**—**	—	**649,743**	930,022
Taxes payable	**—**	—	**—**	—	**49,494**	71,844	**—**	—	**49,494**	71,844
Total liabilities									**699,237**	1,001,866
Capital expenditure	**298,890**	526,700	**7,103**	8,330	**—**	—	**—**	—	**305,993**	535,030
Non-cash expenses										
— Depreciation	**290,014**	335,508	**1,639**	2,289	**—**	—	**—**	—	**291,653**	337,797
— Amortisation of leasehold land payments	**15,602**	15,131	**—**	—	**—**	—	**—**	—	**15,602**	15,131
— Provision for doubtful accounts	**123**	4,257	**49**	341	**—**	—	**—**	—	**172**	4,598
— Amortisation of deferred staff costs	**15,092**	15,092	**—**	—	**—**	—	**—**	—	**15,092**	15,092

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

3. SEGMENT INFORMATION *(cont'd)*

(b) Geographical segments

For the year ended December 31, 2003, all of the Group's business operations are conducted in the PRC.

4. PROFIT BEFORE TAX

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

	2003	2002
	RMB'000	*RMB'000*
Interest income (included in other income)	**(29,755)**	(36,920)
Investment income (included in other income)	**(7,897)**	(2,400)
Finance costs		
— Interest expenses for balances with related parties wholly repayable within five years	**2,359**	4,064
— Bank charges	**109**	144
Staff costs		
— Salaries and wages	**214,502**	231,720
— Provision for staff welfare and bonus	**163,006**	174,807
— Retirement benefits	**39,999**	31,858
— Employee benefits	**18,779**	17,864
— Amortisation of deferred staff costs (included in general and administrative expenses of railroad businesses)	**15,092**	15,092
Operating lease rentals of locomotive, machinery and equipment	**173,950**	211,896
Depreciation of fixed assets		
— Included in railroad businesses	**290,014**	335,508
— Included in other businesses	**1,639**	2,289
Loss on disposal of fixed assets	**16,935**	29,339
Cost of materials and supplies		
— Included in railroad businesses	**216,993**	192,141
— Included in other businesses	**112,677**	124,602
Repair costs, excluding materials and supplies	**89,640**	102,377
Provision for doubtful accounts	**172**	4,598
Auditors' remuneration	**3,300**	3,300
Amortisation of leasehold land payments	**15,602**	15,131

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

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

	2003	2002
	RMB'000	*RMB'000*
Fees for executive directors	**371**	461
Fees for non-executive directors	**309**	255
Fees for supervisors	**—**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**59**	64
— Bonus	**—**	—
— Retirement benefits	**12**	14
Other emoluments for non-executive directors	**69**	46
Other emoluments for supervisors	**321**	397
Emoluments for senior executives		
— Basic salaries and allowances	**198**	124
— Bonus	**360**	276
— Retirement benefits	**18**	12
	1,717	1,649

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

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

	2003	2002
Executive directors		
— Nil to HK$1,000,000 (equivalent to RMB1,060,000)	**5**	5
Non-executive directors		
— Nil to HK$1,000,000 (equivalent to RMB1,060,000)	**4**	4

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

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

	2003	2002
	RMB'000	*RMB'000*
Fees for directors	**461**	618
Basic salaries and allowances	**81**	62
Bonus	**73**	—
Retirement benefits	**9**	11
	624	691

	2003	2002
Number of directors	**4**	5
Number of supervisors	**1**	—
	5	5

(d) Analysis of emoluments paid to the five highest paid individuals (including directors and supervisors) by number of individuals and emolument ranges was as follows:

	2003	2002
Nil to HK$1,000,000 (equivalent to RMB1,060,000)	**5**	5

During the year, no emolument (2002: Nil) were paid to the five highest paid individuals (including directors and supervisors) as inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

6. INCOME TAX EXPENSE

Enterprises established in Shenzhen Special Economic Zone are subject to income tax at a reduced rate of 15% as compared with the standard rate for PRC companies of 33%. The Shenzhen Municipal Tax Bureau confirmed in 1996 that the Company is subject to a reduced income tax rate of 15% starting from the same year. The income tax rate of the Company for the year ended December 31, 2003 is 15%.

According to the relevant income tax laws, other businesses of the Group are subject to income tax rates of 15% or 33%, depending mainly on their places of incorporation/establishment. Furthermore, certain subsidiaries engaged in other businesses are Sino-foreign joint ventures which are entitled to full exemption from the PRC income tax for two years and a 50% reduction in the next three years starting from the first profit-making year, after offsetting available tax losses carried forward from prior years.

Save as described above, the directors of the Company are not being informed of any change in the enterprise income tax treatment applicable to the Group.

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

	2003	2002
	RMB'000	*RMB'000*
Provision for PRC income tax	**91,925**	106,649
Deferred tax loss/(income) resulting from provision for doubtful accounts	**316**	(1,173)
Deferred tax loss/(income) resulting from loss on the disposal of fixed assets	**1,107**	(1,211)
Share of tax of associates	**91**	126
	93,439	104,391

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

6. INCOME TAX EXPENSE *(cont'd)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rate of of the Company as follows:

	2003	2002
	RMB'000	*RMB'000*
Accounting profit	**605,169**	661,587
Income tax at the statutory tax rate of 15% (2002:15%)	**90,775**	99,238
Tax effect of expenses that are not deductible in determining taxable profit:		
— Amortisation of deferred staff costs	**2,264**	2,264
Effect of different tax rates for certain subsidiaries	**400**	2,889
Income tax expense	**93,439**	104,391

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

In the consolidated profit attributable to shareholders for the year, approximately RMB503,108,000 (2002: approximately RMB565,795,000) was dealt with in the financial statements of the Company.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year attributable to ordinary shareholders of RMB511,762,000 (2002: RMB557,083,000), divided by the weighted average number of ordinary shares outstanding during the year of 4,335,550,000 shares (2002: 4,335,550,000 shares). No diluted earnings per share was presented as there were no dilutive potential ordinary shares as of year end.

9. DIVIDENDS

In 2003, the directors have recommended and declared a final dividend of RMB0.10 (2002: RMB0.10) per share in respect of the financial year ended December 31, 2002, totalling RMB433,555,000 (2002: RMB433,555,000).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

10. FIXED ASSETS

	Group						
	Buildings	Leasehold improvements	Tracks, bridges and service roads	Locomotives and rolling stock	Communications and signalling systems	Other machinery and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation							
At beginning of year	1,941,156	38,500	4,245,546	1,026,205	297,106	1,585,712	9,134,225
Additions	260	—	—	21,679	916	32,823	55,678
Transfer from construction-in-progress	209,479	—	123,832	—	720	198,718	532,749
Government grants	(17,000)	—	—	—	—	—	(17,000)
Reclassification*	(154,024)	—	(37,113)	—	5,936	185,201	—
Disposals	(92,503)	—	(16,560)	(4,992)	(4,600)	(33,116)	(151,771)
At end of year	1,887,368	38,500	4,315,705	1,042,892	300,078	1,969,338	9,553,881
Representing:							
At cost	220,433	38,500	164,088	22,549	48,092	287,127	780,789
At 2002 professional valuation	1,666,935	—	4,151,617	1,020,343	251,986	1,682,211	8,773,092
	1,887,368	38,500	4,315,705	1,042,892	300,078	1,969,338	9,553,881
Accumulated depreciation							
At beginning of year	376,192	13,475	1,037,553	271,152	178,397	459,176	2,335,945
Charges for the year	54,399	7,700	46,476	47,648	34,144	101,286	291,653
Reclassification*	—	—	(16,682)	—	563	16,119	—
Disposals	(921)	—	(2,550)	(4,992)	(4,417)	(13,715)	(26,595)
At end of year	429,670	21,175	1,064,797	313,808	208,687	562,866	2,601,003
Net book value							
At end of year	1,457,698	17,325	3,250,908	729,084	91,391	1,406,472	6,952,878
At beginning of year	1,564,964	25,025	3,207,993	755,053	118,709	1,126,536	6,798,280

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts at December 31, 2003 would have been:

Cost	1,048,829	38,500	3,537,104	1,019,170	269,152	1,853,887	7,766,642
Accumulated depreciation	214,612	21,175	696,853	256,906	189,263	513,581	1,892,390
	834,217	17,325	2,840,251	762,264	79,889	1,340,306	5,874,252

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

10. FIXED ASSETS *(cont'd)*

	Company						
	Buildings	Leasehold improvements	Tracks, bridges and service roads	Locomotives and rolling stock	Communications and signalling systems	Other machinery and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation							
At beginning of year	1,831,523	38,500	4,171,001	1,026,205	297,021	1,541,068	8,905,318
Additions	—	—	—	21,679	917	28,357	50,953
Transfer from construction-in-progress	208,568	—	123,833	—	720	197,499	530,620
Government grants	(17,000)	—	—	—	—	—	(17,000)
Reclassification*	(197,980)	—	6,843	—	5,936	185,201	—
Disposals	(92,207)	—	(16,560)	(4,992)	(4,600)	(30,982)	(149,341)
At end of year	1,732,904	38,500	4,285,117	1,042,892	299,994	1,921,143	9,320,550
Representing:							
At cost	216,956	38,500	164,088	22,549	48,092	279,799	769,984
At 2002 professional valuation	1,515,948	—	4,121,029	1,020,343	251,902	1,641,344	8,550,566
	1,732,904	38,500	4,285,117	1,042,892	299,994	1,921,143	9,320,550
Accumulated depreciation							
At beginning of year	326,986	13,475	1,002,182	271,152	178,371	428,465	2,220,631
Charges for the year	50,308	7,700	46,746	47,648	34,142	98,137	284,681
Reclassification*	(16,760)	—	78	—	563	16,119	—
Disposals	(700)	—	(2,550)	(4,992)	(4,417)	(11,947)	(24,606)
At end of year	359,834	21,175	1,046,456	313,808	208,659	530,774	2,480,706
Net book value							
At end of year	1,373,070	17,325	3,238,661	729,084	91,335	1,390,369	6,839,844
At beginning of year	1,504,537	25,025	3,168,819	755,053	118,650	1,112,603	6,684,687

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts at December 31, 2003 would have been:

Cost	894,365	38,500	3,506,516	1,019,171	269,067	1,805,692	7,533,311
Accumulated depreciation	147,663	21,175	678,512	271,190	189,241	483,352	1,791,133
	746,702	17,325	2,828,004	747,981	79,826	1,322,340	5,742,178

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December 31, 2003

10. FIXED ASSETS *(cont'd)*

* During the year ended December 31, 2003, based on the construction completion reports, the directors reclassified certain fixed assets to appropriate categories. Accordingly, the carrying amounts of the aforesaid fixed assets are depreciated over their remaining useful lives under the respective categories.

On March 6, 1996, the fixed assets of the Group were revalued by Vigers Hong Kong Limited (the "Valuer"), a qualified independent valuer in Hong Kong, using a replacement cost approach and open market value approach. The replacement cost approach considers the cost to replace in new condition the assets appraised for similar assets, and includes purchase price, delivery charge and installation cost. The purchase price is based on the open market value. The Valuer assumed that the assets will be used for the purposes for which they are presently used and did not consider alternative uses. The total revalued amount based on the aforesaid 1996 revaluation was RMB5,318,202,000. The revaluation surplus of fixed assets amounting to approximately RMB1,492,185,000 was recorded by the Group as of March 6, 1996, and depreciation on the increment to fixed assets commenced on that date. Upon the Restructuring, the revaluation surplus was converted to shares allotted to the Parent Company.

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

The directors of the Company are of the opinion that the carrying values of fixed assets as of December 31, 2003 approximated to their fair values.

With reference to "Cai Jian Han (2002) No. 42" and "Cai Jian Han (2002) No. 349" issued by Ministry of Finance ("MOF") and "Ban Cai Fa (2003) No. 10" issued by MOR and to further comply with international practice in railway industry, the management reassessed the estimated useful lives and depreciation rates of fixed assets. The assessment is based on the experience and maintenance program established by the management and the engineering personnel. Effective from January 1, 2003, the Group changed the estimated useful lives of track, bridges and service roads from 44 years to a range from 55 years to 100 years and changed the useful lives of locomotives and rolling stock from 16 years to 20 years. This change in accounting estimates resulted in a decrease in depreciation expenses and an increase in profit attributable to shareholders for the year ended December 31, 2003 by approximately RMB 63,610,000.

NOTES TO THE FINANCIAL STATEMENTS

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11. CONSTRUCTION-IN-PROGRESS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**672,827**	446,399	**664,679**	438,732
Additions	**250,315**	382,918	**246,484**	376,775
Disposals	**—**	(10,204)	**—**	(5,102)
Transfer to fixed assets	**(532,749)**	(146,286)	**(530,620)**	(145,726)
At end of year	**390,393**	672,827	**380,543**	664,679

As of December 31, 2003, there was no interest capitalised in the construction-in-progress as the Group had no bank borrowings.

Disposals in 2002 mainly represented injection in available-for-sale investments (see Note 15).

12. LEASEHOLD LAND PAYMENTS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
At beginning of year	**760,087**	762,087	**755,760**	755,760
Additions	**10,687**	—	**—**	—
Disposals	**—**	(2,000)	**—**	—
At end of year	**770,774**	760,087	**755,760**	755,760
Accumulated amortisation				
At beginning of year	**103,089**	88,341	**103,264**	88,237
Amortisation charge	**15,602**	15,131	**15,116**	15,027
Disposals	**—**	(383)	**—**	—
At end of year	**118,691**	103,089	**118,380**	103,264
Net book amount				
At end of year	**652,083**	656,998	**637,380**	652,496
At beginning of year	**656,998**	673,746	**652,496**	667,523

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December 31, 2003

13. INTERESTS IN SUBSIDIARIES

In the balance sheet of the Company, interests in subsidiaries as of December 31, 2003 comprised the following:

	Company	
	2003	2002
	RMB'000	*RMB'000*
Unlisted shares, at cost	**185,232**	118,892
Due from subsidiaries	**30,571**	61,344
	215,803	180,236

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

The Company's directors are of the opinion that the recoverable amount of its investments in its subsidiaries was not less than the Company's carrying value of the subsidiaries as of December 31, 2003.

As of December 31, 2003, the Company had direct or indirect interests in the following principal subsidiaries which were incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Directly held by the Company				
Shenzhen Guangshen Railway Civil Engineering Company	March 1, 1984	100%	RMB55,000,000	Construction of railroad properties
Shenzhen Fu Yuan Enterprise Development Company	November 1, 1991	100%	RMB18,500,000	Hotel management
Shenzhen Guangshen Railway Travel Service Ltd.	August 16, 1995	100%	RMB2,400,000	Travel agency
Shenzhen Jing Ming Industrial & Commercial Company Limited	January 18, 1994	100%	RMB2,110,000	Maintenance of water and electrical equipment

NOTES TO THE FINANCIAL STATEMENTS

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

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Directly held by the Company *(cont'd)*				
Shenzhen Jian Kai Trade Company	December 6, 1993	100%	RMB2,000,000	Construction materials trading
Shenzhen Xiang Qun Enterprise Company	June 30, 1994	100%	RMB2,000,000	Sales of merchandise
Shenzhen Railway Station Passenger Services Company	December 18, 1986	100%	RMB1,500,000	Food services and sale of merchandise
Shenzhen Guangshen Railway Electric Section Service Limited	August 31, 1999	100%	RMB1,040,000	Repair and maintenance of railroad communications systems
Guangzhou East Station Dongqun Trade and Commerce Service Company	November 23, 1992	100%	RMB1,020,000	Sale of merchandise
Shenzhen Railway Station Travel Service Company	January 1, 1990	75%	RMB2,129,400	Food services and sales of merchandise
Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company	September 11, 1993	55%	RMB10,000,000	Cargo loading and unloading, warehousing, freight transportation
Dongguan Changsheng Enterprise Company	May 22, 1992	51%	RMB38,000,000	Warehousing

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Indirectly held by the Company				
Shenzhen North Station Loading and Unloading Transportation Company	September 20, 1993	100%	RMB3,750,000	Cargo loading and unloading, freight transportation
Shenzhen North Station Auto Repair Plant	April 19, 1993	100%	RMB3,500,000	Repair and maintenance of vehicles
Shenzhen Railway Property Management Company Limited	November 13, 2001	100%	RMB3,000,000	Property management
Shenzhen Nantie Construction Supervision Company	May 8, 1995	100%	RMB2,000,000	Supervision of construction projects
Shenzheu Guangshen Railway Economic and Trade Enterprise Company	March 7, 2002	100%	RMB2,000,000	Culinary management
Shenzhen North Station Railway Industry Technology Development Company	March 10, 1993	100%	RMB1,640,000	Maintenance of equipment
Shenzhen Yuezheng Enterprise Company Limited	June 24, 1996	100%	RMB1,000,000	Freight transport agency, cargo loading and unloading, warehousing
Shenzhen Road Multi-modal Transportation Company Limited	March 17, 1994	60%	RMB1,000,000	Freight transportation

All the above subsidiaries are limited liability companies.

NOTES TO THE FINANCIAL STATEMENTS

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14. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**134,263**	135,306
Share of net assets	**134,066**	136,574	**—**	—
Due from associates	**48,437**	48,095	**48,036**	48,095
Due to associates	**(8)**	(40)	**(5)**	(40)
	182,495	184,629	**182,294**	183,361
Less: Provision for impairment in value	**(29,689)**	(29,689)	**(29,689)**	(29,689)
Provision for doubtful accounts	**(12,312)**	(14,098)	**(12,312)**	(14,098)
	140,494	140,842	**140,293**	139,574

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

	Group	
	2003	2002
	RMB'000	*RMB'000*
At beginning of year	**136,574**	117,477
Addition	**—**	19,420
Share of losses before tax	**(2,417)**	(197)
Share of taxation	**(91)**	(126)
At end of year	**134,066**	136,574

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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

As of December 31, 2003, the Company had direct or indirect interests in the following companies which were incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-up capital	Principal activities
Directly held by the Company				
Guangzhou Tiecheng Enterprise Company Limited	May 2, 1995	49%	RMB245,000,000	Properties management and trading of merchandise
Zengcheng Lihua Stock Company Limited	July 30, 1992	27%	RMB100,000,000	Real estate, warehousing, cargo loading and unloading
Indirectly held by the Company				
Guangzhou Tielian Economy Development Company Limited	December 27, 1994	34%	RMB1,000,000	Warehousing and freight transport agency
Guangzhou Huangpu Yuehua Freight Transportation Joint Venture Company Limited	July 20, 1990	33.3%	RMB6,610,000	Cargo loading and unloading, warehousing, freight transport agency

NOTES TO THE FINANCIAL STATEMENTS

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15. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2003	2002
Name of the investee company	***RMB'000***	*RMB'000*
China Railway Communication Company Limited ("China Railcom") *	**121,854**	120,587
Shenzhen Innovation Technology Investment Company Limited	**30,000**	30,000
China Railway Express Company Limited	**13,608**	13,608
Shenzhen Huatie Enterprise Company Limited	**2,000**	2,000
Zhongtie Information Company Limited	**500**	500
	167,962	166,695

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

* In 2003, the Company invested in China Railcom by injecting certain communication and signalling systems with their respective carrying value of approximately RMB1,267,000 (in 2002 the Company invested in China Railcom by injecting certain communication and signalling systems and construction-in progress with carrying value of approximately RMB120,587,000). China Railcom has confirmed in writing that the Group is entitled to the 0.69% equity interest in China Railcom as of December 31, 2003 (2002: 0.85%). The relevant legal registration procedures are still in progress.

16. DEFERRED TAX ASSETS

	2003		
	Provision for doubtful accounts	**Loss on disposal of fixed assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	3,015	4,562	7,577
Charged to profit attributable to shareholders	(316)	(1,107)	(1,423)
At end of year	2,699	3,455	6,154

NOTES TO THE FINANCIAL STATEMENTS

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16. DEFERRED TAX ASSETS *(cont'd)*

The amounts shown in the balance sheets include the following:

	Group and Company	
	2003	2002
	RMB'000	*RMB'000*
Deferred tax assets to be recovered after more than 12 months	**2,699**	6,154

17. DEFERRED STAFF COSTS

	Group and Company	
	2003	2002
	RMB'000	*RMB'000*
Cost, at beginning and end of year	**226,369**	226,369
Accumulated amortisation		
At beginning of year	**(45,274)**	(30,182)
Charges for the year	**(15,092)**	(15,092)
At end of year	**(60,366)**	(45,274)
Net book amount		
At end of year	**166,003**	181,095
At beginning of year	**181,095**	196,187

18. TRADE RECEIVABLES, NET

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**96,037**	67,416	**39,772**	36,588
Less: Provision for doubtful accounts	**(15,423)**	(15,959)	**(13,820)**	(14,678)
	80,614	51,457	**25,952**	21,910

NOTES TO THE FINANCIAL STATEMENTS

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18. TRADE RECEIVABLES, NET *(cont'd)*

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

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**75,674**	44,986	**21,233**	18,379
Over 1 year but within 2 years	**4,719**	3,490	**4,719**	3,490
Over 2 years but within 3 years	**221**	1,652	**—**	41
Over 3 years	**—**	1,329	**—**	—
	80,614	51,457	**25,952**	21,910

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

19. PREPAYMENTS AND OTHER RECEIVABLES, NET

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables	**183,187**	168,236	**170,605**	149,167
Less: Provision for doubtful accounts	**(38,288)**	(39,898)	**(38,288)**	(39,898)
Other receivables, net	**144,899**	128,338	**132,317**	109,269
Prepayments	**104,061**	131,737	**71,197**	105,462
	248,960	260,075	**203,514**	214,731

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19. PREPAYMENTS AND OTHER RECEIVABLES, NET *(cont'd)*

As of December 31, 2003, the Company had fixed deposit with the principal amount of approximately RMB31.365 million in Zeng Cheng City Li Cheng Credit Cooperative ("Li Cheng"). The Company had not been able to recover the principal from Li Cheng upon the expiry of the fixed deposit term . In March 1999, the Company instituted legal proceedings against Li Cheng to recover the deposit and the related interest. According to the court verdict dated October 12, 1999, Li Cheng was required to repay the deposit principal and the related interest to the Company. As Li Cheng failed to execute the court ruling, the Company further applied to the court for compulsory enforcement of the court order. In July 2000, Li Cheng filed a petition to the court for winding up. On November 9, 2000, the court ordered the suspension of execution of the court ruling dated October 12, 1999, while Li Cheng was undergoing a winding-up. On November 23, 2000, the Company applied to the Guangdong Provincial Government for allocation of special funds by the government to Li Cheng for repayment of the Company's deposit principal. The provincial government accepted the petition and requested the municipal government to follow up on the case. As of the date of this report, the fixed deposit has not yet been collected. Accordingly, the Company reclassified such amount from temporary cash investments to other receivables and accounted for provision for doubtful accounts pursuant to management's estimates.

20. TEMPORARY CASH INVESTMENTS

		Group		**Company**	
		2003	2002	**2003**	2002
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Time deposits with maturities over three months in banks	*(a)*	**459,440**	399,339	**459,440**	394,033
Time deposits with maturities over three months in the MOR's Railway Deposit-taking Centre	*(b)*	**168,000**	168,000	**168,000**	168,000
		627,440	567,339	**627,440**	562,033

(a) Time deposits with maturities over three months in banks consist of short-term deposits denominated in RMB and United States dollars ("USD") (2002: RMB, Hong Kong dollars "HK$", and USD) with original maturities ranging from six months to one year, placed with banks in the PRC. The annual interest rates of RMB deposits was 1.98% in 2003 (2002: 1.98%), the annual interest rate of HK$ deposit was 1.13% in 2002, and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0% (2002: from -0.2% to 0.1%). Total interest earned from such deposits amounted to approximately RMB11,868,000 for the year (2002: approximately RMB15,121,000).

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20. TEMPORARY CASH INVESTMENTS *(cont'd)*

(b) Time deposits with maturities over three months in the MOR's Railroad Deposit-taking Center consist of short-term deposits denominated in RMB (in 2002 included both RMB and USD) with original maturities of one year (2002: ranging from six months to one year). The annual interest rates of RMB deposits was 1.98% in 2003 (2002: 1.98%) and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0.1% in 2002. Total interest earned from such deposits amounted to approximately RMB3,326,000 (2002: approximately RMB3,239,000) for the year (see Note 27).

21. TRADE PAYABLES

The aging analysis of trade payables was as follows:

	Group		**Company**	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**32,356**	40,677	**21,978**	30,638
Over 1 year but within 2 years	**1,726**	850	**1,661**	369
Over 2 years but within 3 years	**543**	207	**50**	73
	34,625	41,734	**23,689**	31,080

22. ACCRUED EXPENSES AND OTHER PAYABLES

	Group		**Company**	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**89,840**	143,388	**67,204**	78,659
Accrued expenses	**24,000**	79,790	**23,785**	79,790
Salary and welfare payables	**15,138**	21,260	**14,946**	20,767
Other payables	**179,815**	213,515	**174,373**	210,548
	308,793	457,953	**280,308**	389,764

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

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22. ACCRUED EXPENSES AND OTHER PAYABLES *(cont'd)*

Pursuant to Caishui [2004] No.36 and Caishui [2003] No.149 issued by MOF and State Administration of Taxation, the Group exempt from certain real estate taxes amounting to approximately RMB12,000,000 during the year ended December 31, 2003. The grant of such exemption is subject to the acknowledgement of relevant authorities that the Company is a transportation company under the MOR. The directors believe that the Group is qualified for such exemption and is in the process of seeking the acknowledgement from the relevant authorities. Accordingly, such real estate taxes have not been accrued for in the accompanying financial statements.

23. SHARE CAPITAL

As of December 31, 2003, the authorised capital of the Company consisted of ordinary shares of par value RMB1.00 per share:

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

24. RESERVES

According to the articles of association of the Company, when distributing profit attributable to shareholders of each year, the Company shall set aside 10% of its profit attributable to shareholders after tax based on the Company's local statutory accounts for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered share capital) and 5% to 10% for the statutory public welfare fund at a percentage determined by the directors. The Company may make appropriation from its profit attributable to shareholders to the discretionary surplus reserve provided it is approved by a resolution of a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without prior approval from a shareholders' general meeting under certain conditions.

When the statutory surplus reserve is not sufficient to make good for any losses of the Company from previous years, current year profit attributable to shareholders shall be used to make good the losses before allocations are set aside for the statutory surplus reserve or the statutory public welfare fund.

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24. RESERVES *(cont'd)*

The statutory public welfare fund is used to build or acquire capital items, such as dormitories and other facilities for the Company's employees and cannot be used to pay for welfare expenses. Title of these capital items will remain with the Company.

The statutory surplus reserve, the discretionary surplus reserve and the share premium may be converted into share capital provided it is approved by a resolution at a shareholders' general meeting and the balance of the statutory surplus reserve does not fall below 25% of the registered share capital. The Company may either distribute new shares in proportion to the number of shares held by shareholders, or increase the par value of each share.

The directors proposed the following appropriations to reserves:

	2003		2002	
	Percentage	***RMB'000***	Percentage	*RMB'000*
The Company				
Statutory surplus reserve	**10%**	**53,384**	10%	57,613
Statutory public welfare fund	**5%**	**26,692**	5%	28,806
Discretionary surplus reserve	**—**	**—**	—	—
	15%	**80,076**	15%	86,419
Subsidiaries				
Statutory surplus reserve		**781**		1,688
Statutory public welfare fund		**400**		928
		1,181		2,616
		81,257		89,035

In accordance with the articles of association of the Company, dividends are determined based on the least of retained earnings determined in accordance with (a) PRC GAAP, (b) IFRS and (c) the accounting standards of the countries in which its shares are listed. As the statutory accounts have been prepared in accordance with PRC GAAP, the retained earnings as reported in the statutory accounts may be different from the amount reported in the accompanying statement of changes in shareholders' equity.

As of December 31, 2003, the reserve of the Company available for distribution was approximately RMB656,893,000 (2002: approximately RMB667,416,000).

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25. RETIREMENT BENEFITS

All the full-time staff of the Group are covered by a defined-contribution pension scheme. Pursuant to a circular dated October 24, 1995 issued by the Parent Company, the Company is required to pay to the Parent Company an amount equivalent to 19% of the salary and certain amount of bonus of the staff for pension benefits, and the Parent Company is responsible for the ultimate pension liability to the staff. Starting from December 2000, the percentage borne by the Company changed to 18% pursuant to another circular dated December 21, 2000 issued by the Parent Company. As of December 31, 2003, payable for pension obligations was nil (2002: nil).

26. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

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

	2003	2002
	RMB'000	*RMB'000*
Profit attributable to shareholders	**511,762**	557,083
Adjustments for:		
Minority interests	**(32)**	113
Income tax expense	**93,439**	104,391
Depreciation	**291,653**	337,797
Amortisation of leasehold land payments	**15,602**	15,131
Loss on disposal of fixed assets	**16,935**	29,339
Amortisation of deferred staff costs	**15,092**	15,092
Share of losses of associates	**2,417**	197
Provision for doubtful accounts	**172**	4,598
Interest expense	**2,359**	4,064
Interest income	**(29,755)**	(36,920)
Operating profit before working capital changes	**919,644**	1,030,885
(Increase)/decrease in trade receivables	**(28,621)**	24,064
(Increase)/decrease in materials and supplies	**(4,587)**	86
Decrease in prepayments and other current assets	**17,320**	87,676
Increase in due from Parent Company	**—**	(9,875)
Decrease in due from related parties	**66,179**	8,128
Decrease in trade payables	**(7,109)**	(27,314)
Decrease in due to Parent Company	**(13,821)**	—
(Decrease)/increase in due to related parties	**(37,594)**	99,549
(Decrease)/increase in accrued expenses and other payables	**(10,924)**	48,529
Cash generated from operations	**900,487**	1,261,728

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26. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT *(cont'd)*

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

	2003	2002
	RMB'000	*RMB'000*
Cash at bank and in hand	**580,226**	842,549
Short term time deposits	**822,133**	570,496
Cash and deposits	**1,402,359**	1,413,045

Short term time deposits with maturities no more than three months consist of deposits denominated in RMB, USD and HK$ (in 2002: USD and HK$). The effective interest rate of RMB deposits was 1.71%. The effective interest rates of USD deposits ranged from 0.94% to 1.88% (2002: 1.22% to 1.64%), the effective interest rates of HK$ deposits ranged from 0.90% to 0.96% (2002: 1.34% to 1.70%). These deposits have an average maturity of 90 days.

Cash and bank deposits include a deposit of approximately RMB321,985,000 (2002: RMB206,452,000) with the MOR's Railway Deposit-taking Centre at an annual interest rate normally granted by banks.

(c) Non-cash transactions

(i) During the year ended December 31, 2003, the Group disposed certain staff quarters of approximately RMB92 million (2002: approximately RMB63 million) to their employees pursuant to its housing benefit scheme.

(ii) During the year ended December 31, 2003, the Company and the minority shareholder increased their investments in a subsidiary by capitalising approximately RMB42 million and RMB41 million due from that subsidiary respectively.

(iii) During the year ended December 31, 2003, the Company invested of approximately RMB1,267,000 (2002: approximately RMB120,587,000) in China Railcom by injecting certain communication and signalling systems *(see Note 15)*.

27. RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Recurring transactions

A significant portion of transactions undertaken by the Group during the year was with related PRC state-owned enterprises and on such terms as determined by the relevant PRC authorities and stipulated in the related agreements entered into with these parties. The following is a summary of significant recurring transactions carried out in the ordinary course of business by the Group with its related parties during the year:

	2003	2002
	RMB'000	*RMB'000*
Lease of locomotives and related services from Yang Cheng Railway Company, a subsidiary of the Parent Company *(i)*	**40,882**	42,047
Provision of trains and related services from Guangmeishan Railway Company Limited, a subsidiary of the Parent Company	**5,305**	4,864
Purchases of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of the Parent Company	**50,687**	33,074
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the Parent Company and related parties (including Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company)	**68,079**	66,744
Operating lease rentals paid to the MOR *(i)*	**58,904**	57,298
Provision of trains and related services through MOR	**201,870**	211,667
Provision of trains usage and related services from Guangzhou Railway (Group) Passenger Transportation Company, a subsidiary of the Parent Company	**2,207**	6,681
Interest expenses paid to the Parent Company *(ii)*	**2,037**	2,443
Interest received from the MOR's Railroad Deposit-taking Centre *(see Note 20 (b) and 26(b))*	**3,516**	3,239
Interest received from Pingnan Railway Company Limited, an associate of the Parent Company *(ii)*	**827**	806
Interest received from Guangmeishan Railway Company Limited *(ii)*	**901**	1,884

NOTES TO THE FINANCIAL STATEMENTS

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

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

Recurring transactions *(cont'd)*

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

(ii) The interest was resulted from the long-distance transportation services, which was calculated based on the average balances due from/to related parties on a quarterly basis, at the prevailing interest rates of six-month bank loans.

(b) As of December 31, 2003, the Group and the Company had the following material balances with related parties:

	Group		**Company**	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Temporary cash investments in the MOR's Railroad Deposit-taking Centre *(see Note 20(b))*	**168,000**	168,000	**168,000**	168,000
Bank deposits in the MOR's railroad Deposit-taking Centre *(see Note 26 (b))*	**321,985**	206,452	**286,793**	206,452
Due from Parent Company	**—**	39,374	**—**	37,575
Due to Parent Company	**(37,230)**	—	**(40,140)**	—
Due from related parties	**199,921**	267,885	**193,730**	263,873
— Trading balance	**10,608**	54,425	**10,608**	52,255
— Non-trading balance	**189,313**	213,460	**183,122**	211,618
Due to related parties	**(120,605)**	(158,199)	**(112,104)**	(156,909)
— Trading balance	**(60,128)**	(125,847)	**(59,827)**	(124,557)
— Non-trading balance	**(60,477)**	(32,352)	**(52,277)**	(32,352)

As of December 31, 2003, the balances with the MOR, the Parent Company and related parties are unsecured, non-interest bearing and repayable on demand, except for those disclosed in Notes 20(b), 26(b) and 27(a). These balances resulted from transactions carried out by the Group with related parties in the ordinary course of business. The balances with the Parent Company are all non-trading in nature. The balances with related parties, which are of trading in nature, all aged within one year.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

28. CONTINGENCY

As of December 31, 2003, the Company's interest in an associated company, Guangzhou Tiecheng Enterprise Company Limted ("Tiecheng"), amounted to approximately RMB140,000,000. In 1996, Tiecheng entered into an agreement with a Hong Kong incorporated company to establish Guangzhou Guantian Real Estate Company ("Guangzhou Guantian"), a sino-foreign contractual joint venture to develop certain properties near a railway station operated by the Group.

On 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 Novermeber 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 such, if Guangzhou Guantian were held responsible for the guarantee, the Company may need to provide for impairment on its interests 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.

29. FINANCIAL INSTRUMENTS

The carrying amounts of the cash and cash equivalents, temporary cash investments and accounts receivable and payables of the Group approximate their fair values because of the short maturity of those instruments. Cash and cash equivalents and temporary cash investments denominated in foreign currencies have been translated at the applicable market exchange rates prevailing at the balance sheet date. The Company has not had and does not believe it will have any difficulty in exchanging its foreign currency cash and cash equivalents for RMB.

NOTES TO THE FINANCIAL STATEMENTS

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29. FINANCIAL INSTRUMENTS *(cont'd)*

As of December 31, 2003, cash and cash equivalents and temporary cash investments were mainly maintained with commercial banks in the PRC and the MOR's Railroad Deposit-taking Centre.

As of December 31, 2003, balances denominated in USD and HK$ have been translated into RMB at the applicable market exchange rates as of that date.

30. CONCENTRATION OF RISKS

(a) Credit risk

The carrying amount of cash and cash equivalents, accounts receivable and other receivables, and due from related parties and other current assets except for prepayments and deferred tax assets, represent the Group' maximum exposure to credit risk in relation to financial assets.

The majority of the Group' accounts receivable relate to the rendering of services or sales of products to third party customers. The Group perform ongoing credit evaluations of their customers' financial condition and generally do not require collateral on accounts receivable. The Group maintain a provision for doubtful accounts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

(b) Interest rate risk

The directors of the Group believe that the exposure to interest rate risk of financial assets and liabilities as of December 31, 2003 was minimum since their deviation from their respective fair values was not significant.

(c) Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On January 1, 1994, the Mainland China government abolished the dual rate system and introduced single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply free convertibility of Renminbi into foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institution requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

NOTES TO THE FINANCIAL STATEMENTS

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31. COMMITMENTS

(a) Capital commitments

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

	2003	2002
	RMB'000	*RMB'000*
Authorised and contracted for	**—**	10,158

(b) Operating lease commitments

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

	2003	2002
	RMB'000	*RMB'000*
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

32. POST BALANCE SHEET EVENTS

Pursuant to a board resolution dated April 20, 2004, the directors recommended the payment of a final dividend of RMB0.105 per share, totalling RMB455,232,750.

33. FOREIGN CURRENCY EXCHANGE

The books and records of the Group are maintained in RMB, their functional currency. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the banks and other institutions authorised by the People's Bank of China ("PBOC") to buy and sell foreign exchange. The applicable market exchange rates used for the transactions are administered by the PBOC. Enterprises can deal with an approved bank for foreign exchange on recurring items and approved capital items.

34. APPROVAL OF ACCOUNTS

The financial statements were approved by the Board of Directors on April 20, 2004.