



Chairman's Statement



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Mr. Wu Junguang *Chairman of the Board*

Dear Shareholders,

I am pleased to present the audited operating results of the Company and its subsidiaries for the year ended December 31, 2004.

OPERATING RESULTS

In 2004, due to the continuing and stable economic growth in the PRC, including in the Guangdong Province, and Hong Kong Special Administrative Region ("Hong Kong"), the ongoing implementation of the Closer Economic Partnership Arrangement between Hong Kong and Chinese Mainland ("CEPA"), as well as the implementation of the "Relaxed Individual Travel" program to Hong Kong and Macau Special Administrative Region ("Macau"), the Company benefited from strong demand in the passenger and freight transportation market. The Company took advantage of the opportunities brought about by the economic growth, improved its operation and management, enhanced marketing and intensely developed its passenger and freight transportation core businesses, hence, the operating results for the full year achieved overall growth from 2003.

For the year ended December 31, 2004, the total revenues of the Company and its subsidiaries were RMB3,038.1 million, profit attributable to shareholders was RMB567.5 million, and earnings per share were RMB0.13.

Passenger transportation business is the most important business of the Company. In 2004, the Company continued to enhance the operation of the Guangzhou-Shenzhen High Speed Passenger Trains and The Canton-Kowloon Through Trains, improved transportation capacity, increased the operation of standby trains during holidays, increased the frequency of stopping at intermediary stations, carried out timely and efficient refurbishment on passenger stations for the convenience of passengers, and enhanced service quality to attract more passengers. In 2004, the total number of passengers of the Company was 46.012 million, representing an increase of 21.5% when compared to 2003; passenger transportation revenues were RMB2,259.7 million, representing an increase of 26.2% from 2003.

During 2004, due to substantial increase in demand for fuel and raw materials as a result of significant growth in the PRC economy, increase in demand in the transportation market, the Chinese government's large-scale crackdown on oversize and overloaded trucks on highways, the implementation of the New Road Traffic Safety Law, the increased marketing of freight transportation, and the increase in the transportation capacity of the Company, the Company's freight transportation business achieved overall growth. The Company transported a total of 34.199 million tonnes of freight, representing an increase of 24.0% from that of last year. The freight transportation revenues in 2004 were RMB611.8 million, representing an increase of 16.2% when compared to that of 2003.

Revenues from other businesses of the Company were RMB166.7 million in 2004, representing an increase of 9.9% from that of last year.

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CORPORATE GOVERNANCE

In 2004, in order to regulate the management of economic contracts, the Company drew up and implemented "The Measures of Contract Management" (《合同管理辦法》). Pursuant to the amendments to the Rules Governing the Listing of Securities on the Hong Kong Exchange (the "Listing Rules") and the relevant requirements in the Sarbanes-Oxley Act, the Company amended its Terms of Reference of the Audit Committee. To regulate the corporate actions and professional ethics of the senior management, the Company formulated a "Code of Ethics for the Senior Management of the Company" (《公司高級管理人員職業道德準則》). To meet applicable securities regulations in the PRC relating to the Company's proposed application for the issuance of A shares, the Company amended certain articles in the Articles of Association (《章程》), and formulated the "Working Regulations for Independent Directors" (《獨立董事工作制度》), the "Decision Making System Concerning Connected Transactions" (《關聯交易決策制度》), and the "System for Shareholders' General Meeting System" (《股東大會制度》). Such amendments and systems will take effect if the Company completes the issue and listing of its A shares.

FUTURE PROSPECTS

2005 is an important year for the Company to expand, to grow and to implement the Great-leap-forward development strategies. The Company will adhere to its goal of "safety, quality, efficiency, development and stability", actively enhance its capital operation, vigorously expand its scope of development and strengthen its core passenger and freight transportation businesses. It will also accelerate its railway capacity expansion projects and construction of infrastructure and enhance its transportation capacity. The Company will also promote innovations on management, systems and technology continuously in order to enhance the Company's efficiency, technology and management. It plans to implement the following development projects in 2005:

- Proposed issuance of A shares to acquire the railway transportation assets of Yangcheng Railway Company. To enlarge the operation scale and to strengthen and reinforce the Company's predominant position in the railway transportation industry in the Pearl River Delta, the Company proposes to issue not more than 2.75 billion Renminbi-denominated ordinary shares to raise funds for the proposed acquisition of the railway transportation business between Guangzhou and Pingshi of Guangzhou Railway Group Yangcheng Railway Company and all assets and liabilities relating to such business. The Company believes that the acquisition will help improve the Company's competitiveness and overall performance, optimize distribution of the Company's transportation resources, improve the image of the Company in capital markets and propel the "Great-leap-forward" development plan of the Company.
- Continuously increase the transportation capacity of Guangshen Railway. To satisfy the requirement of additional long-distance passenger trains in Shenzhen, to solve the shortage of passenger transportation capacity in Shenzhen Station, to accommodate future transportation growth and market competition and to promote the growth of its core business of passenger and freight transportation, the Company plans to increase the transportation capacity of Guangshen Railway in all aspects, including the continuous construction of the fourth line between Guangzhou and Shenzhen.

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- In relation to its passenger transportation business, the Company plans to (1) further improve the operation of Guangshen high-speed passenger trains and the Canton-Kowloon Through Trains and appropriately adjust the stops at intermediary stations to attract more passengers along the routes and increase the Company's market share; (2) focus on the research on the introduction of advanced electric trains from international markets to further increase transportation capacity of its "As-frequent-as-buses" Train Project for the Guangzhou-Shenzhen high-speed passenger trains; (3) continue the integrated refurbishment of its stations, improve its passenger service facilities and enhance its service quality for the convenience of passengers in buying tickets and waiting for trains; (4) implement booking tickets business through telephone, or internet, improve the computerized ticket sale system for the "As-frequency-as-buses" Train Project, research on the introduction of the IC Card Ticketing System to provide the passengers with more convenience.
- In relation to its freight transportation business, the Company will: (1) take full advantage of railway transportation and strive for commencing operation of freight through trains to improve the competitive capacity of the Company; (2) enhance cooperation with key ports, mines, factories and corporate entities to maintain existing demand and capture new freight transportation business, and in particular emphasize on the transportation of coal and ore; (3) improve the organization and efficiency of freight transportation to attract more sources of freight; and (4) appropriately adjust freight transportation resources, increase the investment in freight transportation facilities to enhance the service quality and provide the consignors with better and faster transportation service.

In 2004, the Company achieved good operating results. The achievements were attributable to the enthusiasm and diligence of our employees as well as to the support and confidence of the shareholders of the Company. I would like to take this opportunity to express my highest regards and my sincere gratitude to all of them. In 2005, the Chinese economy is expected to experience a continuous and fast growth. With the strengthening economic cooperation of the Pan Pearl River Delta, the further implementation of "Relaxed Individual Travel" to Hong Kong and Macau, the commencement of operation of the Shenzhen Subway, and the opening of Hong Kong Disneyland in September this year, the Company expects that demand in the passenger and freight transportation market in the Company's service region to further increase. I believe that the Company will continue to strive for better results for its shareholders in the new year.

Wu Junguang
Chairman of the Board

Shenzhen, the PRC
March 17, 2005