Notes to the Financial Statements

December 31, 2004

(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 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 operates 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.

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 adjustments have been made to the Group's statutory accounts to conform with IFRS. Differences arising from the adjustments 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;
- Reversal of amortisation of deferred renovation expenses;
- Difference in depreciation charges on fixed assets resulting from reclassification;
- Recognition of government grants by deducting the carrying value of fixed assets; and
- Recording of the share issuance costs to the reserves.

The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain fixed assets are stated at valuation less accumulated depreciation and impairment losses.

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

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

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 events and actions, actual results ultimately may differ from those estimates.

In 2003, there was a change of accounting estimate in respect of the useful lives of certain fixed assets. The financial effects of the change of accounting estimate were reported in the previous year's consolidated financial statements.

(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 stand alone 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.

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

(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.

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 recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

In the Company's stand alone 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.

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.

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 not more than 4% of cost, of each asset over its estimated useful life. 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.

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

(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 ready for use.

(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 using the straight-line method.

(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.

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

(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.

(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 lower of cost and net realisable value. 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 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.

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

(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 amortised 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.

(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's 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.

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

(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 amount of the fixed assets and are credited to the income statement on a straight-line basis over the useful lives of the fixed assets.

(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.

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

(v) Revenue recognition *(Cont'd)*

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis, taking into account 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.

(w) Dividends

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

(x) Segments

Business segments: for management purposes the Group is 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.

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

(y) Comparatives

Certain amounts reported in previous years have been reclassified to conform with current year presentation.

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)*.

An analysis by business segment is as follows:

	Railroad businesses		Other businesses		Unallocated		Elimination		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenues										
— External	2,871,478	2,316,586	166,671	151,596	—	—	—	—	3,038,149	2,468,182
— Inter-segment	—	—	58,727	52,172	—	—	(58,727)	(52,172)	—	—
	2,871,478	2,316,586	225,398	203,768	—	—	(58,727)	(52,172)	3,038,149	2,468,182
Segment results	629,657	560,731	516	1,982	—	—	—	—	630,173	562,713
Other income	47,025	46,158	1,168	1,183	—	—	—	—	48,193	47,341
Including:										
Interest income	41,850	29,349	534	406	—	—	—	—	42,384	29,755
Finance costs	—	—	—	—	(1,136)	(2,468)	—	—	(1,136)	(2,468)
Share of losses of associates before tax	(12,070)	(2,417)	—	—	—	—	—	—	(12,070)	(2,417)
Income tax expense									(98,422)	(93,439)
Minority interests									746	32
Profit attributable to shareholders									567,484	511,762

3. SEGMENT INFORMATION *(Cont'd)*

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

	Railroad businesses		Other businesses		Unallocated		Elimination		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other information										
Segment assets	11,046,722	10,082,637	215,577	844,668	—	—	—	—	11,262,299	10,927,305
Deferred tax assets	—	—	—	—	18,406	6,154	—	—	18,406	6,154
Interests in associates	128,346	140,494	—	—	—	—	—	—	128,346	140,494
Total assets									11,409,051	11,073,953
Segment liabilities	757,510	429,123	103,477	220,620	—	—	—	—	860,987	649,743
Taxes payable	—	—	—	—	75,878	49,494	—	—	75,878	49,494
Total liabilities									936,865	699,237
Capital expenditure	315,035	298,890	11,477	7,103	—	—	—	—	326,512	305,993
Non-cash expenses										
— Depreciation	334,501	290,014	1,588	1,639	—	—	—	—	336,089	291,653
— Amortisation of leasehold land payments	15,704	15,602	—	—	—	—	—	—	15,704	15,602
— Provision for doubtful accounts	18,668	123	82	49	—	—	—	—	18,750	172
— Amortisation of deferred staff costs	15,092	15,092	—	—	—	—	—	—	15,092	15,092

(b) Geographical segments

For the year ended December 31, 2004, 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:

	2004	2003
	RMB'000	*RMB'000*
Interest income (included in other income)	(42,384)	(29,755)
Investment income (included in other income)	(3,273)	(7,897)
Finance costs		
— Interest expenses for balances with related parties wholly repayable within five years	1,030	2,359
— Bank charges	106	109
Staff costs		
— Salaries and wages	282,980	214,502
— Provision for staff welfare and bonus	255,644	163,006
— Retirement benefits	42,950	39,999
— Employee benefits*	57,710	18,779
— 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	218,102	173,950
Depreciation of fixed assets		
— Included in railroad businesses	334,501	290,014
— Included in other businesses	1,588	1,639
Loss on disposal of fixed assets	234	16,935
Cost of materials and supplies		
— Included in railroad businesses	245,534	216,993
— Included in other businesses	95,637	112,677
Repair costs, excluding materials and supplies	216,294	89,640
Provision for doubtful accounts	18,750	172
Auditors' remuneration	3,200	3,300
Amortisation of leasehold land payments	15,704	15,602

* Increase of employee benefits in 2004 was mainly due to the one-off payment for medical insurance premium in accordance with government policies as a result of reform of the medical insurance system.

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

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

	2004	2003
	RMB'000	*RMB'000*
Fees for executive directors	**692**	371
Fees for independent non-executive directors	**297**	309
Fees for supervisors	**—**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**46**	59
— Bonus	**—**	—
— Retirement benefits	**10**	12
Other emoluments for independent non-executive directors	**63**	69
Other emoluments for supervisors	**627**	321
Emoluments for senior executives		
— Basic salaries and allowances	**199**	198
— Bonus	**805**	360
— Retirement benefits	**19**	18
	2,758	1,717

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

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

	2004	2003
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)	**6**	4

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:

	2004	2003
	RMB'000	*RMB'000*
Fees for directors	**648**	461
Basic salaries and allowances	**104**	81
Bonus	**420**	73
Retirement benefits	**16**	9
	1,188	624

	2004	2003
Number of directors	**3**	4
Number of supervisors	**2**	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:

	2004	2003
Nil to HK$1,000,000 (equivalent to RMB1,060,000)	**5**	5

During the year, no emolument (2003: 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.

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 income tax 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, 2004 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:

	2004 *RMB'000*	2003 *RMB'000*
Provision for PRC income tax	110,625	91,925
Deferred tax benefits resulting from recognition of bad debts aging over three years	(9,404)	—
Deferred tax (income)/loss resulting from provision for doubtful accounts	(2,813)	316
Deferred tax (income)/loss resulting from loss on disposal of fixed assets	(35)	1,107
Share of tax of associates	49	91
	98,422	93,439

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 the Company as follows:

	2004 *RMB'000*	2003 *RMB'000*
Accounting profit	**665,160**	605,169
Income tax rate of 15% (2003:15%)	**99,774**	90,775
Tax effect of expenses that are not deductible in determining taxable profit:		
— Amortisation of deferred staff costs	**2,264**	2,264
— Share of loss of associate	**1,860**	—
— Entertainment expenses over deductible limits	**1,805**	—
— Effect of different tax rates for certain subsidiaries	**2,123**	400
Deferred tax benefits resulting from recognition of bad debts aging over three years	**(9,404)**	—
Income tax expense	**98,422**	93,439

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

In the consolidated profit attributable to shareholders for the year, approximately RMB581,032,000 (2003: approximately RMB503,108,000) 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 RMB567,484,000 (2003: RMB511,762,000), divided by the weighted average number of ordinary shares outstanding during the year of 4,335,550,000 shares (2003: 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

	2004 *RMB'000*	2003 *RMB'000*
Final, proposed, of RMB0.11 (2003: RMB0.105) per ordinary share	**476,911**	455,233

At a meeting held on March 17, 2005, the directors proposed a final dividend of RMB0.11 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending December 31, 2005.

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 January 1, 2004	1,887,368	38,500	4,315,705	1,042,892	300,078	1,969,338	9,553,881
Additions	22,644	—	—	15,232	3,379	355	41,610
Transfer from construction-in-progress	229,261	—	26,851	—	17,905	55,965	329,982
Reclassification*	171,753	—	(21,878)	—	21,992	(171,867)	—
Disposals	(15,216)	—	(3,600)	—	(1,260)	(18,311)	(38,387)
At December 31, 2004	2,295,810	38,500	4,317,078	1,058,124	342,094	1,835,480	9,887,086
Representing:							
At cost	457,122	38,500	187,339	37,781	68,116	325,136	1,113,994
At 2002 professional valuation	1,838,688	—	4,129,739	1,020,343	273,978	1,510,344	8,773,092
	2,295,810	38,500	4,317,078	1,058,124	342,094	1,835,480	9,887,086
Accumulated depreciation							
At January 1, 2004	429,670	21,175	1,064,797	313,808	208,687	562,866	2,601,003
Charges for the year	75,363	7,700	51,103	44,126	35,609	122,188	336,089
Reclassification*	9,226	—	77	—	777	(10,080)	—
Disposals	(1,915)	—	(3,240)	—	(1,248)	(16,882)	(23,285)
At December 31, 2004	512,344	28,875	1,112,737	357,934	243,825	658,092	2,913,807
Net book value							
At December 31, 2004	1,783,466	9,625	3,204,341	700,190	98,269	1,177,388	6,973,279
At January 1, 2004	1,457,698	17,325	3,250,908	729,084	91,391	1,406,472	6,952,878

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts at December 31, 2004 would have been:

Cost	1,595,705	38,500	3,667,016	1,038,319	316,272	1,739,089	8,394,901
Accumulated depreciation	265,812	28,875	736,830	314,177	222,916	582,978	2,151,588
	1,329,893	9,625	2,930,186	724,142	93,356	1,156,111	6,243,313

Notes to the Financial Statements

December 31, 2004

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 January 1, 2004	1,732,904	38,500	4,285,117	1,042,892	299,994	1,921,143	9,320,550
Additions	18,218	—	—	15,232	3,379	315	37,144
Transfer from construction-in-progress	225,075	—	26,851	—	17,905	55,612	325,443
Reclassification*	171,753	—	(21,878)	—	21,992	(171,867)	—
Disposals	(14,176)	—	(3,600)	—	(1,234)	(20,898)	(39,908)
At December 31, 2004	2,133,774	38,500	4,286,490	1,058,124	342,036	1,784,305	9,643,229
Representing:							
At cost	446,073	38,500	187,339	37,781	68,142	314,828	1,092,663
At 2002 professional valuation	1,687,701	—	4,099,151	1,020,343	273,894	1,469,477	8,550,566
	2,133,774	38,500	4,286,490	1,058,124	342,036	1,784,305	9,643,229
Accumulated depreciation							
At January 1, 2004	359,834	21,175	1,046,456	313,808	208,659	530,774	2,480,706
Charges for the year	70,875	7,700	50,435	44,126	35,606	120,493	329,235
Reclassification*	9,226	—	77	—	777	(10,080)	—
Disposals	(1,691)	—	(3,240)	—	(1,234)	(16,881)	(23,046)
At December 31, 2004	438,244	28,875	1,093,728	357,934	243,808	624,306	2,786,895
Net book value							
At December 31, 2004	1,695,530	9,625	3,192,762	700,190	98,228	1,159,999	6,856,334
At January 1, 2004	1,373,070	17,325	3,238,661	729,084	91,335	1,390,369	6,839,844

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts at December 31, 2004 would have been:

Cost	1,433,669	38,500	3,636,428	1,038,319	316,214	1,687,914	8,151,044
Accumulated depreciation	221,886	28,875	717,821	314,177	222,899	549,192	2,054,850
	1,211,783	9,625	2,918,607	724,142	93,315	1,138,722	6,096,194

Notes to the Financial Statements

December 31, 2004

10. FIXED ASSETS *(Cont'd)*

* During the year ended December 31, 2004, 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 RMB 5,318,202,000. 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, 2004 approximated to their fair values.

11. CONSTRUCTION-IN-PROGRESS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At January 1	**390,393**	672,827	**380,543**	664,679
Additions	**284,902**	250,315	**284,623**	246,484
Transfer to fixed assets	**(329,982)**	(532,749)	**(325,443)**	(530,620)
At December 31	**345,313**	390,393	**339,723**	380,543

As of December 31, 2004, there was no interest capitalised in the construction-in-progress as the Group had no bank borrowings.

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December 31, 2004

12. LEASEHOLD LAND PAYMENTS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
At January 1	**770,774**	760,087	**755,760**	755,760
Additions	**—**	10,687	**—**	—
Disposals*	**—**	—	**(5,050)**	—
At December 31	**770,774**	770,774	**750,710**	755,760
Accumulated amortisation				
At January 1	**118,691**	103,089	**118,380**	103,264
Amortisation charge	**15,704**	15,602	**15,058**	15,116
Disposals*	**—**	—	**(286)**	—
At December 31	**134,395**	118,691	**133,152**	118,380
Net book amount				
At December 31	**636,379**	652,083	**617,558**	637,380
At January 1	**652,083**	656,998	**637,380**	652,496

* The disposal of leasehold land payments in the Company's stand alone accounts represented certain leasehold land payments transferred from the Company to a subsidiary.

Notes to the Financial Statements

December 31, 2004

13. INTERESTS IN SUBSIDIARIES

In the balance sheet of the Company, interests in subsidiaries as of December 31, 2004 comprised the following:

	Company	
	2004	2003
	RMB'000	*RMB'000*
Unlisted shares, at cost	**167,555**	178,789
Share of net assets	**175,152**	185,232
Due from subsidiaries	**18,525**	30,571
	193,677	215,803

Analysis of the share of net assets of subsidiaries is as follow:

	Company	
	2004	2003
	RMB'000	*RMB'000*
At January 1	**185,232**	118,892
(Decrease)/increase in investment in subsidiaries	**(11,234)**	62,419
Increase in share of net assets	**1,154**	3,921
At December 31,	**175,152**	185,232

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, 2004.

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

As of December 31, 2004, 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
Shenzhen Jian Kai Trade Company	December 6, 1993	100%	RMB2,000,000	Construction materials trading
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

Notes to the Financial Statements

December 31, 2004

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)*				
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
Indirectly held by the Company				
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
Shenzhen Guangshen Railway Economic and Trade Enterprise Company	March 7, 2002	100%	RMB2,000,000	Culinary management

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 *(Cont'd)*				
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.

* Pursuant to a board resolution dated March 1, 2005, the directors approved the disposal of Shenzhen Guangshen Railway Electric Section Service Limited. The disposal is expected to start and complete in 2005. The directors consider the impact of such disposal is not material to the consolidated financial statements as a whole.

Notes to the Financial Statements

December 31, 2004

14. INTERESTS IN ASSOCIATES

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**134,263**	134,263
Share of net assets	**121,947**	134,066	**—**	—
Due from associates	**48,402**	48,437	**47,664**	48,036
Due to associates	**(2)**	(8)	**—**	(5)
	170,347	182,495	**181,927**	182,294
Less: Provision for impairment in value	**(29,689)**	(29,689)	**(29,689)**	(29,689)
Provision for doubtful accounts	**(12,312)**	(12,312)	**(12,312)**	(12,312)
	128,346	140,494	**139,926**	140,293

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

	Group	
	2004	2003
	RMB'000	*RMB'000*
At January 1	**134,066**	136,574
Share of losses before tax	**(12,070)**	(2,417)
Share of taxation	**(49)**	(91)
At December 31	**121,947**	134,066

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

Notes to the Financial Statements

December 31, 2004

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

As of December 31, 2004, 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

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2004	2003
Name of the investee company	RMB'000	RMB'000
China Railway Communication Company Limited ("China Railcom")*	121,854	121,854
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	167,962

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.

* China Railcom has confirmed in writing that the Company is entitled to the 0.69% equity interest in China Railcom as of December 31, 2003. The relevant legal registration procedures have not been completed in 2004. Taking into account of a legal opinion, the directors believe that as at December 31, 2004, the Company's equity investment in China Railcom is valid.

Pursuant to Tiezhengfa (2004) No. 6 jointly issued by MOR and State-owned Assets Supervision and Administration Commissions, the Company is required to dispose its investment in China Railcom. For fulfilling such requirement, the Company has been negotiating with the Parent Company, which would buy the Company's investment in China Railcom. The management expected that the consideration will be no less than the carrying book value of the Company's investment in China Railcom as at December 31, 2004.

16. DEFERRED TAX ASSETS

	Group and Company		
	2004		
	Provision for doubtful accounts	Loss on disposal of fixed assets	Total
	RMB'000	*RMB'000*	*RMB'000*
At January 1	2,699	3,455	6,154
Credited to income statement	12,217	35	12,252
At December 31	14,916	3,490	18,406

The amounts shown in the balance sheet include the following:

	Group and Company	
	2004	2003
	RMB'000	*RMB'000*
Deferred tax assets to be recovered after more than 12 months	14,916	2,699

17. DEFERRED STAFF COSTS

	Group and Company	
	2004	2003
	RMB'000	*RMB'000*
Cost, at January 1 and December 31	**226,369**	226,369
Accumulated amortisation		
At January 1	**(60,366)**	(45,274)
Charges for the year	**(15,092)**	(15,092)
At December 31	**(75,458)**	(60,366)
Net book amount		
At December 31	**150,911**	166,003
At January 1	**166,003**	181,095

18. TRADE RECEIVABLES, NET

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**122,075**	96,037	**38,706**	39,772
Less: Provision for doubtful accounts	**(15,423)**	(15,423)	**(13,023)**	(13,820)
	106,652	80,614	**25,683**	25,952

Notes to the Financial Statements

December 31, 2004

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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**99,297**	75,674	**21,409**	21,233
Over 1 year but within 2 years	**7,332**	4,719	**4,251**	4,719
Over 2 years but within 3 years	**23**	221	**23**	—
	106,652	80,614	**25,683**	25,952

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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables	**211,068**	183,187	**178,945**	170,605
Less: Provision for doubtful accounts	**(57,038)**	(38,288)	**(55,504)**	(38,288)
Other receivables, net	**154,030**	144,899	**123,441**	132,317
Prepayments	**62,543**	104,061	**55,892**	71,197
	216,573	248,960	**179,333**	203,514

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

Other receivables mainly represented miscellaneous deposits and receivables derived from services other than railway transportation provided by the Company. Prepayment mainly represented the amount paid in advance to the suppliers for utilities, locomotive rental and other expenses of the Company.

As of December 31, 2004 and 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. In 2002, the Company reclassified such amount from temporary cash investment and accounted for 50% provision pursuant to management's estimates. As of the date of this report, the fixed deposit has not yet been collected. Based on the current management's estimates, the Company accounted for full provision in 2004.

20. TEMPORARY CASH INVESTMENTS

		Group and Company	
		2004	2003
	Note	RMB'000	RMB'000
Time deposits with maturities over three months in banks	(a)	1,211,309	459,440
Time deposits with maturities over three months in the MOR's Railway Deposit-taking Centre	(b)	168,000	168,000
		1,379,309	627,440

(a) Time deposits with maturities over three months in banks consist of short-term deposits denominated in RMB, Hong Kong dollars ("HK$"), and US dollars ("USD") (2003: RMB and USD) with original maturities ranging from six months to one year, placed with banks in the PRC. The annual interest rate of RMB deposits ranged from 1.71% to 2.07% in 2004 (2003: 1.98%), the annual interest rate of HK$ deposit was 1.2% (2003:1.13%), and the annual interest rates of USD deposits were LIBOR plus a floating rate ranged from -0.2% to 0% (2003: LIBOR plus a floating rate ranged from -0.2% to 0%). Total interest earned from such deposits amounted to approximately RMB15,015,000 for the year (2003: approximately RMB11,868,000).

(b) Time deposits with maturities over three months in the MOR's Railroad Deposit-taking Center consist of short-term deposits denominated in RMB (2003: RMB) with original maturities of one year (2003: one year). The annual interest rate of RMB deposits was 1.98% in 2004 (2003: 1.98%). Total interest earned from such deposits amounted to approximately RMB3,098,000 (2003: approximately RMB3,326,000) for the year *(see Note 27(b))*.

21. TRADE PAYABLES

The aging analysis of trade payables was as follows:

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	55,638	32,356	48,683	21,978
Over 1 year but within 2 years	333	1,726	7	1,661
Over 2 years but within 3 years	301	543	167	50
	56,272	34,625	48,857	23,689

22. ACCRUED EXPENSES AND OTHER PAYABLES

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**127,411**	89,840	**102,249**	67,204
Accrued expenses	**74,173**	24,000	**74,173**	23,785
Salary and welfare payables	**24,257**	15,138	**23,000**	14,946
Other payables	**217,089**	179,815	**210,345**	174,373
	442,930	308,793	**409,767**	280,308

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

Pursuant to Caishui [2004] No.36 and Caishui [2003] No.149 issued by MOF and State Administration of Taxation, the Group is exempted from certain real estate taxes amounting to approximately RMB14,000,000 for the year ended December 31, 2004 (2003: approximately RMB12,000,000). 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, 2004, the authorised capital of the Company consisted of ordinary shares of par value RMB1.00 per share:

	Number of shares '000	Nominal value RMB'000	Percentage of share capital
Authorised, issued and fully paid:			
State-owned 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.

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.

Notes to the Financial Statements

December 31, 2004

24. RESERVES *(Cont'd)*

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:

	2004		2003	
	Percentage	***RMB'000***	Percentage	*RMB'000*
The Company				
Statutory surplus reserve	**10%**	**59,071**	10%	53,384
Statutory public welfare fund	**5%**	**29,535**	5%	26,692
Discretionary surplus reserve	**—**	**—**	—	—
	15%	**88,606**	15%	80,076
Subsidiaries				
Statutory surplus reserve		**700**		781
Statutory public welfare fund		**365**		400
		1,065		1,181
		89,671		81,257

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, 2004, the reserve of the Company available for distribution was approximately RMB694,086,000 (2003: approximately RMB656,893,000).

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.

Starting from April 2002, the ultimate pension liability is under the management of local government authority. For administrative purposes, during the transition period from April 2002 to November 2004, the Group continued to pay such contributions to the Parent Company, which in turn paid such amounts to the relevant government authority. Since November 2004, the Group has paid all such contributions directly to the relevant government authority.

As of December 31, 2004, payable for pension obligations due to the Parent Company was nil (2003: nil).

26. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

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

	2004	2003
	RMB'000	*RMB'000*
Profit attributable to shareholders	**567,484**	511,762
Adjustments for:		
Minority interests	**(746)**	(32)
Income tax expense	**98,422**	93,439
Depreciation	**336,089**	291,653
Amortisation of leasehold land payments	**15,704**	15,602
Loss on disposal of fixed assets	**234**	16,935
Amortisation of deferred staff costs	**15,092**	15,092
Share of losses of associates	**12,070**	2,417
Provision for doubtful accounts	**18,750**	172
Interest expenses	**1,030**	2,359
Interest income	**(42,384)**	(29,755)
Operating profit before working capital changes	**1,021,745**	919,644
Increase in trade receivables	**(26,038)**	(28,621)
Increase in materials and supplies	**(21,910)**	(4,587)
Decrease in prepayments and other current assets	**3,998**	17,320
Decrease in due from related parties	**143,857**	66,179
Decrease in due from associates	**29**	—
Increase/(decrease) in trade payables	**21,647**	(7,109)
Decrease in due to Parent Company	**(12,613)**	(13,821)
Increase/(decrease) in due to related parties	**51,516**	(37,594)
Increase/(decrease) in accrued expenses and other payables	**139,619**	(10,924)
Cash generated from operations	**1,321,850**	900,487

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

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

	2004	2003
	RMB'000	*RMB'000*
Cash at bank and in hand	1,084,766	580,226
Short term time deposits	84,489	822,133
Cash and deposits	1,169,255	1,402,359

Cash at bank and in hand include a deposit of approximately RMB862,508,000 (2003: RMB321,985,000) with the MOR's Railway Deposit-taking Centre at an annual interest rate of 0.72% (2003: 0.72%), as normally granted by banks.

Short term time deposits with maturities no more than three months consist of deposits denominated in RMB and USD (2003: RMB, USD and HK$). The effective interest rate of RMB deposits was 1.71% (2003: 1.71%), the effective interest rates of USD deposits was 2.73% (2003: 0.94% to 1.88%), the effective interest rates of HK$ deposits in 2003 ranged from 0.90% to 0.96%. These deposits have an average maturity of 90 days.

(c) Non-cash transactions

During the year ended December 31, 2004, the Group disposed certain staff quarters of approximately RMB11 million (2003: approximately RMB92 million) to their employees pursuant to its housing benefit scheme.

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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.

(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/or 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:

	2004	2003
	RMB'000	*RMB'000*
Lease of locomotives and related services from Guangzhou Railway Group Yang Cheng Railway Company, a subsidiary of the Parent Company *(i)*	**48,179**	40,882
Provision of trains and related services from Guangmeishan Railway Company Limited, a subsidiary of the Parent Company *(ii)*	**6,066**	5,305
Purchases of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of the Parent Company *(iii)*	**65,998**	50,687
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) *(ii)*	**94,246**	68,079

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December 31, 2004

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)*

	2004	2003
	RMB'000	*RMB'000*
Operating lease rentals paid to the MOR *(i)*	**65,485**	58,904
Provision of trains and related services through MOR *(i)*	**209,503**	201,870
Provision of trains usage and related services from Guangzhou Railway (Group) Passenger Transportation Company, a subsidiary of the Parent Company *(i)*	**—**	2,207
Interest expenses paid to the Parent Company, net *(iv)*	**553**	2,037
Interest received from the MOR's Railroad Deposit-taking Centre *(see Note 20 (b) and 26(b))*	**6,111**	3,516
Interest received from Pingnan Railway Company Limited, an associate of the Parent Company *(iv)*	**527**	827
Interest received from Guangmeishan Railway Company Limited *(iv)*	**109**	901

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

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

Non-recurring transactions

	2004 RMB'000	2003 RMB'000
Provision of repair and maintenance services from Guangzhou Railway Engineer Construction Enterprise Development Company, a subsidiary of the Parent Company *(i)*	46,588	—
Provision of repair and maintenance services from Guangzhou Guangtie Huake Technology Service Company, a subsidiary of the Parent Company *(i)*	12,320	—
Provision of management services for construction of fixed assets from the Parent Company *(v)*	5,300	—

(i) The services are based on the pricing scheme set by the MOR.

(ii) The services are based on the contractual prices determined at cost plus reasonable margin.

(iii) The prices of materials and supplies are based on market price.

(iv) The interest arose 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.

(v) In 2004, the Company entered into certain management agreements and supplementary agreements (collectively, the "Management Agreements") with the Parent Company. Pursuant to the Management Agreements, the Parent Company, on behalf of the Company, provided monitoring and supervision to the sub-contractors, who are responsible for construction of certain railway and stations to the Company. The management service fees are based on the pricing scheme set by MOR.

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

(b) As of December 31, 2004, the Group and the Company had the following material balances with related parties:

	Group		Company	
	2004	2003	**2004**	2003
	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))*	**862,508**	321,985	**820,595**	286,793
Due to Parent Company *(vi)*	**(24,617)**	(37,230)	**(25,818)**	(40,140)
Due from related parties	**56,064**	199,921	**53,914**	193,730
— Trading balance *(vii)*	**36,531**	10,608	**36,531**	10,608
— Non-trading balance *(vi)*	**19,533**	189,313	**17,383**	183,122
Due to related parties	**(172,121)**	(120,605)	**(170,865)**	(112,104)
— Trading balance *(vii)*	**(83,492)**	(60,128)	**(83,492)**	(59,827)
— Non-trading balance *(viii)*	**(88,629)**	(60,477)	**(87,373)**	(52,277)

(vi) As of December 31, 2004, the balance with the Parent Company, which is non-trading in nature, and the non-trading balance due from related parties mainly represented the Company's payment on behalf of related parties, who were required to make settlements to the Parent Company in respect of their provision of long-distance transportation services. Interest arose from the balance due from the related parties is disclosed in Note 27 (a) (iv).

(vii) The balances with related parties, which are of trading in nature, all aged within one year.

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

(viii) As of December 31, 2004, the non-trading balance due to related parties mainly represented the Company's collection of railroad revenue on behalf of the related parties.

As of December 31, 2004, 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). The trading balances are resulted from transactions carried out by the Group with related parties in the ordinary course of business, and/or in accordance with the bases as set out in Note 27(a) (i)-(iii).

28. CONTINGENCY

As of December 31, 2004, the Company's interest in an associated company, Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng"), amounted to approximately RMB140,000,000. In 1996, Tiecheng entered into an agreement with a Hong Kong incorporated company to establish Guangzhou Guantian Real Estate Company ("Guangzhou Guantian"), a sino-foreign contractual joint venture to develop certain properties near a railway station operated by the Group.

On October 27, 2000, Guangzhou Guantian together with Guangzhou Guanhua Real Estate Company Limited ("Guangzhou Guanhua") and Guangzhou Guanyi Real Estate Company Limited ("Guangzhou Guanyi") agreed to act as joint guarantors (the "Guarantors") of certain payables of Guangdong Guancheng Real Estate Company Limited ("Guangdong Guancheng") to an independent third party.

Guangzhou Guantian, Guangzhou Guanhua, Guangzhou Guanyi and Guangdong Guancheng were related companies with a common chairman. As Guangdong Guancheng failed to repay the payables, according to a court verdict on November 4, 2001, Guangzhou Guantian, Guangzhou Guanhua and Guangzhou Guanyi were liable to the independent third party to recover an amount of approximately RMB257,000,000 plus interest from Guangdong Guancheng.

As stated above, if Guangzhou Guantian were held responsible for the guarantee, the Company may need to provide for impairment on its interests in Tiecheng. Having consulted with a PRC lawyer, the directors are of the opinion that the guarantee arrangement should be invalid according to the relevant PRC rules and regulations. Tiecheng is now in the process to apply to the court for discharging the obligation of Guangzhou Guangtian in relation to the guarantee. 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 has been made in the financial statements.

To avoid the possible loss resulting from the litigation, the Company has obtained a letter of undertaking issued by the Parent Company. The Parent Company undertakes to resolve through relevant channels or to take up the responsibilities so that the equity interest of the Company in Tiecheng will not be affected by the litigation.

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.

As of December 31, 2004, 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, 2004, 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's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's 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, 2004 was minimum since their deviation from their respective fair values was not significant.

30. CONCENTRATION OF RISKS *(Cont'd)*

(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 ("PBOC"). 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 PBOC or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institution requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

31. COMMITMENTS

(a) Capital commitments

As of December 31, 2004, the Group had the following capital commitments which are authorized but not contracted for and contracted but not provided for:

	2004 ***RMB'000***	2003 *RMB'000*
Authorised but not contracted for	**451,500**	—
Contracted but not provided for	**693,828**	—

(b) Operating lease commitments

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

	2004 ***RMB'000***	2003 *RMB'000*
Machinery and equipment		
— not more than one year	**108,000**	108,000
— more than one year but not more than five years	**75,375**	183,375
	183,375	291,375

31. COMMITMENTS *(Cont'd)*

(c) Commitments under a conditional acquisition agreement

See Note 32.

32. PROPOSED ACQUISITION OF A RAILWAY BUSINESS

On November 15, 2004 the Company and Guangzhou Railway Group Yangcheng Railway Company (The "Vendor"), a wholly owned subsidiary of the Parent Company, have entered into an agreement for the acquisition of the railway transportation business between Guangzhou and Pingshi (currently operated by the Vendor) and the assets and liabilities relating to such business (the "Acquisition Agreement") . The consideration for the Acquisition was determined to be RMB 10,264,120,700, subject to confirmation from the relevant PRC authorities and certain adjustments to be made as per the Acquisition Agreement.

The Company intends to finance the payment of the Consideration with the proceeds of an A share issue with any shortfall being financed by internal resources/bank borrowings etc. These shares will be listed on the Shanghai Stock Exchange.

In this regard, the Company has applied to the relevant authorities in China for the issue and allotment of not more than 2.75 billion A shares. The Company submitted its application proposal relating to the A Share Issue to the China Securities Regulatory Commission (the "CSRC") on December 31, 2004.

Pursuant to the requirements of the Listing Rules of Hong Kong, the proposed Acquisition will be deemed to be a very substantial acquisition by the Company. As the vendor is a wholly-owned subsidiary of the Parent Company, the controlling shareholder of the Company, the proposed Acquisition will also be considered a connected transaction of the Company.

In addition to the Acquisition Agreement, the Company has entered into various agreements in respect of leasing agreement and services agreement with the parent company or the vendor. Such agreements shall take effect upon the completion of the Acquisition and shall replace all existing connected transaction agreements relating to the same categories of transactions.

On December 5, 2004, the Company issued a circular to its shareholder's in respect of the proposed A share issue, the proposed very substantial acquisition and ongoing connected transaction, and the proposed ongoing connected transactions. On December 30, 2004, the Company held its domestic shareholders' class meeting, H shares shareholders' class meeting and extraordinary general meetings that approved the proposed A share issue, the proposed acquisition and the proposed ongoing connected transactions.

32. PROPOSED ACQUISITION OF A RAILWAY BUSINESS *(Cont'd)*

The Acquisition Agreement is conditional upon the fulfillment of, among other things, the following remaining conditions: (1) the formal approval of the relevant authorities or bodies in relation to the A Share Issue being obtained; (2) the A Share Issue having completed and raised an amount of not less than 65% of the consideration; (3) the approval of the relevant government bodies responsible for the supervision and management of state owned assets in relation to the vendor's proposal on disposal of state-owned assets being obtained; and (4) the approval of the National Development and Reform Committee in relation to the price determination for passenger and freight railway transportation services between Guangzhou and Pingshi being obtained. As of the date of this report, none of the conditions are fulfilled.

Save for condition (2) which can be waived by the Company, none of the above conditions can be waived. If the above conditions are not fulfilled within 2 years from the date of signing of the Acquisition Agreement, November 15, 2004, the Acquisition Agreement shall lapse and no party shall have any liability thereunder. In the event that any party rescinds the Acquisition Agreement for whatever reason after the A Share Issue has been completed, it is expected that the Company will retain the proceeds from the A Share Issue as general working capital.

The Company believes that the A Share Issue will be completed by the end of second quarter of 2005, subject to the market conditions and policies of the CSRC.

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 PBOC to buy and sell foreign currencies. 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 March 17, 2005.